PEYTO

Energy Trust

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Interim Report
for the nine months ended September 30, 2006

	3 Months Ended Sep 30		%	9 Months Ended Sep 30		%
	2006	2005	Change	**2006**	2005	Change
Operations						
Production						
Natural gas (mcf/d)	**115,304**	108,460	*6%*	**112,905**	106,143	*6%*
Oil & NGLs (bbl/d)	**4,205**	4,569	*(8)%*	**4,164**	4,520	*(8)%*
Barrels of oil equivalent (boe/d @ 6:1)	**23,422**	22,646	*3%*	**22,982**	22,211	*3%*
Product prices						
Natural gas ($/mcf)	**7.81**	8.67	*(10)%*	**8.33**	8.17	*2%*
Oil & NGLs ($/bbl)	**64.50**	57.22	*13%*	**62.89**	54.56	*15%*
Operating expenses ($/boe)	**1.90**	1.70	*12%*	**1.99**	1.41	*41%*
Transportation ($/boe)	**0.58**	0.66	*(12)%*	**0.60**	0.67	*(10)%*
Field netback ($/boe)	**36.58**	38.39	*(5)%*	**38.72**	35.98	*8%*
General & administrative expenses ($/boe)	**0.55**	0.13	*323%*	**0.35**	0.10	*250%*
Interest expense ($/boe)	**2.52**	1.16	*117%*	**1.97**	1.13	*74%*
Financial ($000, except per unit)						
Revenue	**107,844**	110,566	*(2)%*	**328,313**	304,062	*8%*
Royalties (net of ARTC)	**23,680**	25,654	*(8)%*	**69,175**	73,280	*(6)%*
Funds from operations	**72,360**	77,179	*(6)%*	**228,485**	210,363	*9%*
Funds from operations per unit	**0.69**	0.78	*(12)%*	**2.17**	2.16	*0%*
Total distributions	**44,111**	35,505	*24%*	**129,549**	99,875	*30%*
Total distributions per unit	**0.42**	0.36	*17%*	**1.24**	1.025	*21%*
Payout ratio	**61**	46	*35%*	**57**	47	*21%*
Cash distributions (net of DRIP)	**41,019**	32,318	*27%*	**113,999**	93,323	*22%*
Payout ratio	**57**	42	*33%*	**50**	44	*14%*
Earnings	**46,155**	37,702	*22%*	**148,216**	100,823	*47%*
Earnings per diluted unit	**0.44**	0.38	*16%*	**1.42**	1.04	*37%*
Capital expenditures	**71,223**	93,001	*(23)%*	**283,513**	250,806	*13%*
Weighted average trust units outstanding	**104,924,702**	98,584,597	*6%*	**104,554,325**	97,372,966	*7%*
As at September 30						
Net debt (before future compensation expense)				**431,097**	207,225	*108%*
Unitholders' equity				**481,863**	362,858	*33%*
Total assets				**1,110,547**	885,464	*25%*

	3 Months Ended Sep 30		9 Months Ended Sep 30	
	2006	2005	**2006**	2005
Net Earnings	**46,155**	37,702	**148,216**	100,823
Items not requiring cash:				
Non-cash provision for (recovery of) performance based compensation	**(2,005)**	14,143	**192**	39,188
Future income tax expense	**7,821**	11,056	**19,376**	28,786
Depletion, depreciation and accretion	**20,389**	14,278	**60,701**	41,566
Funds from operations [1]	**72,360**	77,179	**228,485**	210,363

1) Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. We believe that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Funds from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, funds from operations, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that funds from operations should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations cannot be assured and future distributions may vary.

Report from the president

Peyto Energy Trust ("Peyto") is pleased to present the operating and financial results for the third quarter of the 2006 fiscal year. Peyto has a solid foundation made up of high quality, long life, natural gas assets, and a business with an eight year track record of successfully achieving premium returns on the capital we invest. We continue to design, drill and build our own assets in Alberta's premier gas exploration area, the Deep Basin.

The following summarizes the Trust's foundation.

- Long reserve life - Proved 13.6 years, Proved Plus Probable 18.9 years at the end of 2005
- Low operating costs - $1.90/boe, three months ending September 30, 2006
- Low base general and administrative costs - $0.55/boe, three months ending September 30, 2006
- High revenue per boe - $43.90/boe ($7.32/mcfe) before hedging, $50.05/boe ($8.34/mcfe) after hedging, three months ending September 30, 2006
- High field netback – $36.58/boe, three months ending September 30, 2006
- High operatorship – we operate over 95% of our production
- Low cash distribution payout ratio – cash distributions were 57% of funds from operations for the three months ended September 30, 2006 and 50% for the nine months year to date.
- Low debt to funds from operations ratio – 1.5 (net debt, before provision for future compensation, divided by annualized third quarter 2006 funds from operations)
- Distribution growth – distributions have been increased 5 times and are now 87% higher than when the trust was formed in July 2003
- Since inception, Peyto has raised a total of $398 million issuing units from treasury, accumulated earnings of $484 million, and distributed $401 million to unitholders
- Transparent capital structure - no convertible debentures, no exchangeable shares, no stock options, no warrants

The following summarizes performance highlights of the business for the third quarter of 2006.

- Production growth - production increased 3% from 22,646 boe/d in the third quarter of 2005 to 23,422 boe/d in the third quarter of 2006
- Production per unit - decreased 9% per trust unit from the third quarter of 2005, after adjusting for debt and future unrealized performance based compensation
- Per unit funds from operations – decreased 12% from the previous year to $0.69/unit
- Hedging – we had a $13.2 million gain for the three months ending September 30, 2006
- Capital expenditures – $71.2 million was invested into finding and developing new natural gas reserves
- Distributions per unit increased by 17% from the third quarter of 2005 while the cash payout ratio remained low at 57% compared to 42% in the third quarter of 2005. A total of $44.1 million or $0.42 per unit was distributed to unitholders in the third quarter of 2006.

Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl).

Quarterly Review

During the third quarter, Peyto invested $71.2 million into designing, drilling and building new producing gas assets in the deep basin. Drilling and completions accounted for $51.5 million while wellsite equipment, pipelines and gas plants accounted for $18.3 million. Acquisition of new land and seismic made up the balance or $1.4 million. So far in 2006, we have now invested $24.7 million building new gas plants in the Wildhay and Nosehill areas. These plants have added 40 mmcf/d of processing capacity.

In the third quarter, the company drilled and cased 19 gross (14.9 net) gas wells and completed 41 gross (37.6 net) gas zones. Average production increased 530 boe/d from 22,892 boe/d in the second quarter to 23,422 boe/d in the third quarter as 37 gross (31.3 net) new gas zones were tied in and brought on production. Our operating costs were $1.90/boe for the third quarter and $1.99/boe for the year to date. We continue to be one of the lowest cost producers of natural gas in North America. Royalties for the period were 22% or $10.99/boe.

Peyto's marketing strategy continues to provide significant short term price security. For the third quarter the average gas price was $7.81/mcf and the average liquids price was $64.50/bbl. The combination of our high quality production and our low operating costs yielded very strong field netbacks of $36.58/boe.

Marketing for the third quarter of 2006 resulted in a gain of $13.2 million and increased the combined gas and liquids price by $6.14/boe. For the first nine months of 2006, Peyto's marketing strategy has resulted in a gain of $18.5 million as compared to the $17.2 million loss for the prior period, therefore achieving our objective of smoothing out short term fluctuations in the price of both natural gas and natural gas liquids.

Activity Update

To date in 2006, Peyto has drilled 78 gross (61 net) wells and brought on production 124 gross (105.4 net) gas zones. Current production is 22,850 boe/d and continues to stabilize as our production base matures. We have significantly reduced our activity level reflecting our plan to fund our opportunities with cash flow after distributions. We plan to utilize between one and two drilling rigs throughout the fourth quarter.

Marketing

Short term gas prices have softened due to record storage levels and the lack of any meaningful weather events. The October AECO monthly gas price reached a four year low of $4.22/GJ. Although the forecast for this winter's gas price has softened, the long term price for natural gas has remained resilient. The future price for the period November 2009 to December 2010 has actually improved 9% from $6.73/GJ a year ago to $7.31/GJ. Peyto's long life reserves position the trust to capture this long term strength in gas prices.

Consistent with our marketing strategy, Peyto has commitment to forward sell 255,800 barrels of crude oil at an average price of $83.29 per barrel and 15,640,000 gigajoules (GJ) of natural gas at an average price of $9.20 per GJ or $10.77 per mcf. If we realize the market's estimate for future commodity prices, as at September 30, 2006, this forward sale represents a 38% price premium. For this winter's heating season, Peyto has forward sold approximately two thirds of our net of royalty gas volume at $9.61/GJ or $11.24/mcf.

Proposed Tax Legislation

On October 31, 2006, the Federal Government announced tax proposals pertaining to taxation of distributions paid by Trusts and the personal tax treatment of Trust distributions. Currently, Peyto does not pay tax on distributions as tax is paid by the unitholders. The proposals would result in a two-tiered tax structure similar to that of corporations whereby distributions would be subject to a 31.5 per cent tax at the Trust level and tax equivalent to that of a taxable dividend at the individual level. At present, Canadian Pension Funds, Registered Retirement Savings Plans and Registered Retirement Income Funds ("Canadian Tax Exempt Entities") are not subject to tax on Trust distributions. Under the proposals, those Canadian Tax Exempt Entities would be subject to tax as a result of the tax imposed at the Trust level. The proposals would also increase the tax for non-resident unitholders due to the tax imposed at the Trust level. If enacted, the proposed plan would apply to Peyto effective January 1, 2011. We are currently assessing the proposals and the potential implications to the Trust.

On behalf of our unitholders, Peyto is disappointed with the proposed changes to the Canadian government's treatment of income trusts. However, we know the Trust is well positioned to handle whatever changes do occur. Peyto is and always has been a finder and developer of gas assets. A high portion of our cash flow is re-invested into this ongoing enterprise and therefore generates Canadian Exploration and Development Expense that can be used to offset tax on income. Our Trust model provides the flexibility to fund this business strategy with cash flow, bank lines or equity depending on which is most efficient for our unitholders.

Outlook

Earlier in the year we established a strategy to "live within our means" with the expectation that it would result in improved capital efficiencies and allow our total production base to stabilize faster as we slow down the pace at which we add new production. This strategy is working. These two factors mean we will require less capital to maintain our production and grow our reserves. The current distribution is well balanced with our business needs and there are no plans to decrease our distribution in the foreseeable future. Peyto's technical team continues to generate drilling opportunities that yield high return on capital invested and our superior assets continue to internally fund those investment ideas. Visit the Peyto website at www.peyto.com where you will find a wealth of information designed to inform and educate investors.

Don T. Gray- Chief Executive Officer   Darren Gee- President
November 8, 2006

Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited interim consolidated financial statements for the period ended September 30, 2006 and the audited consolidated financial statements of Peyto Energy Trust ("Peyto" or the "Trust") for the year ended December 31, 2005. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A was prepared using information that is current as of November 7, 2006. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com.

As further described in Note 1 to the Consolidated Interim Financial Statements, the Trust has determined that certain adjustments are required to restate the Consolidated Interim Statement of Cash Flows for the three month period ended March 31, 2006. The Trust has determined that it incorrectly classified the reduction in accounts payable attributable to the payment of the market based and reserves based performance based compensation in cash flows from investing activities instead of cash flows from operating activities. The restatement decreased net cash provided by operating activities and decreased net cash used in investing activities by $56.2 million. The correction of the error did not impact the Consolidated Interim Balance Sheets or the Consolidated Interim Statements of Earnings and Accumulated Earnings for the three months ended March 31, 2006 and the three and six months ended June 30, 2006 or the Consolidated Interim Statement of Cash Flows for the three months ended June 30, 2006.

Certain information set forth in this Management's Discussion and Analysis, including management's assessment of the Trust's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive there from. Peyto disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. We believe that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Funds from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, funds from operations, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that funds from operations should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations cannot be assured and future distributions may vary.

All references are to Canadian dollars unless otherwise indicated. Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl).

To the best of our knowledge, Peyto's foreign ownership level currently stands at approximately 22 percent, well below the level that would jeopardize Peyto's status as a mutual fund trust under current legislation.

Proposed Tax Legislation

On October 31, 2006, the Federal Government announced tax proposals pertaining to taxation of distributions paid by Trusts and the personal tax treatment of Trust distributions. Currently, Peyto does not pay tax on distributions as tax is paid by the unitholders. The proposals would result in a two-tiered tax structure similar to that of corporations whereby distributions would be subject to a 31.5 per cent tax at the Trust level and tax equivalent to that of a taxable dividend at the individual level. At present, Canadian

Pension Funds, Registered Retirement Savings Plans and Registered Retirement Income Funds ("Canadian Tax Exempt Entities") are not subject to tax on Trust distributions. Under the proposals, those Canadian Tax Exempt Entities would be subject to tax as a result of the tax imposed at the Trust level. The proposals would also increase the tax for non-resident unitholders due to the tax imposed at the Trust level. If enacted, the proposed plan would apply to Peyto effective January 1, 2011. We are currently assessing the proposals and the potential implications to the Trust.

OVERVIEW

Peyto is a Canadian energy trust involved in the development and production of natural gas in Alberta's deep basin. As at December 31, 2005, we had total proved plus probable reserves of 153.4 million barrels of oil equivalent with a reserve life of 18.9 years as evaluated by our independent petroleum engineers. Our production is weighted as to approximately 83% natural gas and 17% natural gas liquids and oil.

The Peyto model is designed to deliver growth in its assets, production and income, all on a per unit basis. The model is built around three key principles:

- Using our technical expertise to achieve the best return on capital employed, through the development of internally generated drilling projects.
- A low payout ratio designed to efficiently fund our growing inventory of drilling projects.
- Having an asset base which is made up of high quality long life natural gas reserves.

Operating results over the last seven years indicate that we have successfully implemented these principles. Our business model makes Peyto a truly unique energy trust.

QUARTERLY FINANCIAL INFORMATION

	2006			2005				2004
($000 except per unit amounts)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue (net of royalties)	**84,164**	88,515	86,459	94,111	84,912	73,473	72,397	66,024
Funds from operations	**72,360**	77,507	78,617	86,607	77,179	66,548	66,636	60,334
Per unit – basic*	**0.69**	0.74	0.76	0.85	0.78	0.69	0.69	0.65
Per unit – diluted*	**0.69**	0.74	0.76	0.85	0.78	0.69	0.69	0.65
Earnings (loss)	**46,155**	56,768	45,293	60,745	37,702	25,690	37,431	(2,558)
Per unit – basic*	**0.44**	0.54	0.44	0.60	0.38	0.27	0.39	(0.03)
Per unit – diluted*	**0.44**	0.54	0.44	0.60	0.38	0.27	0.39	(0.03)

*Note: prior periods restated for 2 for 1 split of trust units completed May 31, 2005.

RESULTS OF OPERATIONS

Production

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
Natural gas (mmcf/d)	**115.3**	108.5	**112.9**	106.1
Oil & natural gas liquids (bbl/d)	**4,205**	4,569	**4,164**	4,520
Barrels of oil equivalent (boe/d)	**23,422**	22,646	**22,982**	22,211

Natural gas production averaged 115.3 mmcf/d in the third quarter of 2006, 6 percent higher than the 108.5 mmcf/d reported for the same period in 2005. Oil and natural gas liquids production averaged 4,205 bbl/d, a decrease of 8 percent from 4,569 bbl/d reported in the prior year. Year to date production increased 3 percent from 22,211 boe/d to 22,982 boe/d. The overall production increases are directly attributable to Peyto's ongoing drilling program offsetting natural production declines.

Commodity Prices

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
Natural gas ($/mcf)	**6.53**	10.00	**7.64**	8.60
Hedging – gas ($/mcf)	**1.28**	(1.33)	**0.69**	(0.43)
Natural gas – after hedging ($/mcf)	**7.81**	8.67	**8.33**	8.17

Oil and natural gas liquids($/bbl)	**65.29**	62.73	**65.38**	58.48
Hedging – oil ($/bbl)	**(0.79)**	(5.51)	**(2.49)**	(3.92)
Oil and natural gas liquids – after hedging ($/bbl)	**64.50**	57.22	**62.89**	54.56
Total Hedging ($/boe)	**6.14**	(7.47)	**2.95**	(2.84)

Our natural gas price before hedging averaged $6.53/mcf during the third quarter of 2006, a decrease of 35 percent from $10.00/mcf reported for the equivalent period in 2005. Oil and natural gas liquids prices averaged $65.29/bbl up 4 percent from $62.73/bbl a year earlier. Hedging activity for the third quarter of 2006 accounted for $6.14/boe of Peyto's price achieved.

Revenue

	Three Months ended Sep 30		Nine Months ended Sep 30	
($000)	**2006**	2005	**2006**	2005
Natural gas	**69,347**	99,769	**235,500**	249,099
Oil and natural gas liquids	**25,259**	26,370	**74,324**	72,173
Hedging gain (loss)	**13,238**	(15,573)	**18,489**	(17,210)
Total revenue	**107,844**	110,566	**328,313**	304,062

For the three months ended September 30, 2006, gross revenue decreased 2 percent to $107.8 million from $110.6 million for the same period in 2005. The decrease in revenue for the period was a result of weaker commodity prices for gas and decreased production volumes for oil and NGL. These declines were offset by increased production volumes for gas and increased commodity prices for liquids, as detailed in the following table.

	Three Months ended Sep 30			Nine Months ended Sep 30		
	2006	2005	**$million**	2006	2005	**$million**
Total Revenue, Sep 30, 2005			**110.6**			**304.1**
Revenue change due to:						
Natural gas						
Volume (mmcf)	10,608.0	9,978.3	**5.4**	30,823	28,977	**15.1**
Price ($/mcf)	$7.81	$8.67	**(9.1)**	$8.33	$8.17	**4.9**
Oil & NGL						
Volume (mbbl)	387	420	**(1.9)**	1,137	1,234	**(5.3)**
Price ($/bbl)	$64.50	$57.22	**2.8**	$62.89	$54.56	**9.5**
Total Revenue, Sep 30, 2006			**107.8**			**328.3**

Royalties

We pay royalties to the owners of the mineral rights with whom we hold leases, including the provincial government of Alberta. Alberta gas crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances.

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
Royalties, net of ARTC ($000)	**23,680**	25,654	**69,175**	73,280
% of sales	**22**	23	**21**	24
$/boe	**10.99**	12.31	**11.03**	12.09

For the third quarter of 2006, royalties averaged $10.99/boe or approximately 22 percent of Peyto's total petroleum and natural gas sales. The royalty rate expressed as a percentage of sales, will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices obtained by the Trust. It is management's expectation that royalties as a percentage of sales for future periods will remain at or near current levels.

Operating Costs & Transportation

The Trust's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering income related to joint venture and third party gas reduces operating expenses.

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
Operating costs ($000)				
Field expenses	**6,245**	5,192	**18,404**	13,250
Processing and gathering income	**(2,161)**	(1,655)	**(5,939)**	(4,697)
Total operating costs	**4,084**	3,537	**12,465**	8,553
$/boe	**1.90**	1.70	**1.99**	1.41
Transportation	**1,256**	1,384	**3,767**	4,087
$/boe	**0.58**	0.66	**0.60**	0.67

Operating costs were $4.1 million in the third quarter of 2006 compared to $3.5 million during the same period a year earlier. On a unit-of-production basis, operating costs averaged $1.90/boe in the third quarter of 2006 compared to $1.70/boe for the third quarter of 2005. The increased cost is attributable to year-over-year inflationary effects. Transportation expense remained constant and was lower on a per boe basis.

Netbacks

Operating netbacks represent the profit margin associated with the production and sale of petroleum and natural gas. The primary factors that produce Peyto's strong netbacks are a low cost structure and the high heat content of our natural gas that results in higher commodity prices.

	Three Months ended Sep 30		Nine Months ended Sep 30	
($/boe)	**2006**	2005	**2006**	2005
Sale Price	**50.05**	53.06	**52.34**	50.15
Less:				
Royalties	**10.99**	12.31	**11.03**	12.09
Operating costs	**1.90**	1.70	**1.99**	1.41
Transportation	**0.58**	0.66	**0.60**	0.67
Operating netback	**36.58**	38.39	**38.72**	35.98
General and administrative	**0.55**	0.13	**0.35**	0.10
Interest on long-term debt	**2.52**	1.16	**1.97**	1.13
Capital tax	**-**	0.06	**-**	0.06
Cash netback	**33.51**	37.04	**36.40**	34.69

General and Administrative Expenses

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
G&A expenses ($000)	**2,556**	1,620	**6,971**	4,560
Overhead recoveries	**(1,362)**	(1,356)	**(4,762)**	(3,976)
Net G&A expenses	**1,194**	264	**2,209**	584
$/boe	**0.55**	0.13	**0.35**	0.10

General and administrative expenses before overhead recoveries increased to $2.6 million in the third quarter of 2006, as compared to $1.6 million for the same period in 2005 primarily due to staffing increases required to manage our active drilling program and increasing property base. Net of overhead recoveries associated with our capital expenditures program, general and administrative costs increased to $0.55 per boe. Peyto has decreased reliance on third party consulting and replaced these services with staff positions resulting in increased general and administrative costs. This strategy has resulted in an over-all cost decrease to the Trust.

Interest Expense

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
Interest expense ($000)	**5,432**	2,422	**12,374**	6,845
$/boe	**2.52**	1.16	**1.97**	1.13

Third quarter 2006 interest expense was $5.4 million or $2.52/boe compared to $2.4 million or $1.16/boe a year earlier. During 2006, average debt levels have increased to partially fund Peyto's capital expenditure program and interest rates on our long debt have increased year over year. Interest rates continue to be favourable and are not expected to increase substantially in the short-term.

Depletion, Depreciation and Accretion

The 2006 third quarter provision for depletion, depreciation and accretion totaled $20.4 million as compared to $14.3 million in 2005. On a unit-of-production basis, depletion, depreciation and accretion costs averaged $9.46/boe as compared to $6.85/boe in the third quarter of 2005. Year to date depletion, depreciation and accretion totaled $60.7 million in 2006 compared to $41.6 million in 2005 or $9.67/boe compared to $6.86/boe. The increase in the provision for depletion, depreciation and accretion costs is attributable to the increased cost of finding and developing new reserves.

Income Taxes

The current provision for future income tax decreased to $19.3 million for the first three quarters of 2006 from $28.8 million for the same period in 2005. This decrease is primarily due to increased capital activity year over year generating higher tax pools and a reduction in federal and provincial income tax rates being phased in over the next four years. At September 30, 2006 the Trust has tax pools of approximately $672.6 million (December 31, 2005 - $582.4 million) available for deduction against future income.

MARKETING

Commodity Price Risk Management

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these contracts with well established counter-parties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. During the third quarter of 2006, we recorded a hedging gain of $13.2 million as compared to a hedging loss of $15.6 million in the third quarter of 2005. As set out under the section "Critical Accounting Estimates", we adopted, effective January 1, 2004, the CICA Accounting Guideline 13 with respect to Hedging Relationships. A summary of contracts outstanding in respect of the hedging activities are as follows:

Crude Oil Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
October 1 to December 31, 2006	Fixed price	200 bbl	$69.40/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$71.10/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$79.00/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$81.10/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$87.10/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$87.13/bbl
January 1 to March 31, 2007	Fixed price	200 bbl	$82.82/bbl
January 1 to March 31, 2007	Fixed price	200 bbl	$87.35/bbl
January 1 to March 31, 2007	Fixed price	200 bbl	$88.00/bbl
April 1 to June 30, 2007	Fixed price	200 bbl	$82.39/bbl
April 1 to June 30, 2007	Fixed price	200 bbl	$87.10/bbl
April 1 to June 30, 2007	Fixed price	200 bbl	$88.05/bbl
July 1 to September 30, 2007	Fixed price	200 bbl	$87.61/bbl
July 1 to September 30, 2007	Fixed price	200 bbl	$88.20/bbl

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.10/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.20/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.30/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.35/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.45/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.61/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.75/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$9.30/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$10.60/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$10.60/GJ
April 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.27/GJ
July 1 to October 31, 2006	Fixed price	5,000 GJ	$6.53/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$8.71/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.00/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.05/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$10.06/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$10.28/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$11.40/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$11.60/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.65/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$10.25/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.00/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$8.65/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.23/GJ
Nov. 1, 2006 to Nov 30, 2006	Fixed price	5,000 GJ	$5.76/GJ
Dec. 1, 2006 to Dec 31, 2006	Fixed price	5,000 GJ	$7.28/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$8.60/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.25/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.51/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.50/GJ
April 1, 2007 to March 31, 2008	Fixed price	5,000 GJ	$8.90/GJ

Commodity Price Sensitivity

Our low operating costs, low distribution ratio, marketing program and long reserve life reduce the degree to which we are sensitive to changes in commodity prices.

Currency Risk Management

The Trust is exposed to fluctuations in the Canadian/US dollar exchange ratio since our natural gas and oil sales are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of our commodity hedging strategy as we hedge in Canadian currency. Over the long term, the Canadian dollar tends to rise as oil prices rise. There is a similar correlation between oil and gas prices. Currently we have not entered into any agreements to further manage this specific risk.

Interest Rate Risk Management

The Trust is exposed to interest rate risk in relation to interest expense on its revolving demand facility. Currently we have not entered into any agreements to manage this risk. At September 30, 2006, the increase or decrease in earnings for each 100 bps change in interest rate paid on the outstanding revolving demand loan amounts to approximately $3.4 million per annum.

LIQUIDITY AND CAPITAL RESOURCES

Funds from Operations

	Three Months ended Sep 30		Nine Months ended Sep 30	
($000)	**2006**	2005	**2006**	2005
Net earnings	**46,155**	37,702	**148,216**	100,823
Items not requiring cash:				
Non-cash provision for performance based compensation	**(2,005)**	14,143	**192**	39,188
Future income tax expense	**7,821**	11,056	**19,376**	28,786
Depletion, depreciation & accretion	**20,389**	14,278	**60,701**	41,566
Funds from operations	**72,360**	77,179	**228,485**	210,363

For the three months ended September 30, 2006, funds from operations totaled $72.4 million or $0.69 per unit, representing a 6 percent decrease from the $77.2 million, or $0.78 per unit during the same period in 2005. Peyto's policy is to distribute approximately 50% of funds from operations to unitholders while retaining the balance to fund its growth oriented capital expenditures program. Our earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond our control. Current volatility in commodity prices creates uncertainty as to our funds from operations and capital expenditure budget. Accordingly, we assess results throughout the year and revise our operational plans as necessary to reflect the most current information.

Our revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for natural gas and crude oil and the exchange rate of the Canadian dollar relative to the US dollar.

Bank Debt

We have an extendible revolving term credit facility with a syndicate of financial institutions in the amount of $450 million which includes a $430 million revolving facility and a $20 million operating facility. Available borrowings are limited by a borrowing base, which is based on the value of petroleum and natural gas assets as determined by the lenders. The loan is reviewed annually and may be extended at the option of the lender for an additional 364 day period. If not extended, the revolving facility will automatically convert to a one year and one day non-revolving term loan. The loan has therefore been classified as long-term on the balance sheet. The average borrowing rate for the third quarter of 2006 was 4.84% (2005 – 4.04%).

At September 30, 2006, $400 million was drawn under the facility. Working capital liquidity is maintained by drawing from and repaying the unutilized credit facility as needed. At September 30, 2006, we had a working capital deficit of $41.4 million.

We believe that funds generated from our operations, together with borrowings under our credit facility will be sufficient to finance our current operations and planned capital expenditure program. The total amount of capital we ultimately invest in 2006 will be driven by the number and quality of projects we generate. Capital will only be invested if it meets the long term objectives of the trust. The majority of our capital program will involve drilling, completion and tie-in of low risk development gas wells. Peyto has the flexibility to match planned capital expenditures to actual available cash flow.

Capital

Peyto implemented a Distribution Reinvestment Plan ("DRIP") effective with the March 2005 distribution whereby eligible unitholders may elect to reinvest their monthly cash distributions in additional trust units at a 5% discount to market price. On November 21, 2005 the DRIP plan was amended to incorporate an Optional Trust Unit Purchase Plan ("OTUPP") which provides unitholders enrolled in the DRIP with the opportunity to purchase additional trust units from treasury using the same pricing as the DRIP. Both the DRIP and the OTUPP were suspended effective August 31, 2006. At this time the Board is not considering issuing any equity under current market conditions.

Authorized: Unlimited number of voting trust units
Issued and Outstanding:

Trust Units (no par value)	Number of Shares/Units	Amount $
Balance, December 31, 2004	47,725,272	138,953,026
Trust units issued by private placement	670,000	31,586,375
Trust unit issue costs	-	(103,010)
Trust units issued pursuant to DRIP	28,645	1,356,148
Trust units issued pursuant to 2 for 1 split	48,423,917	-
Trust units issued by public offering	5,000,000	152,750,000
Trust unit issue costs	-	(8,054,775)
Trust units issued pursuant to DRIP	279,561	7,448,146
Trust units issued pursuant to OTUPP	206,452	4,800,000
Balance, December 31, 2005	102,333,847	328,735,910
Trust units issued by private placement	1,393,940	34,378,613
Trust units issued pursuant to DRIP	690,387	16,300,613
Trust units issued pursuant to OTUPP	833,220	19,018,693
Balance, September 30, 2006	**105,251,394**	**398,433,829**

Performance Based Compensation

The Trust awards performance based compensation to employees and key consultants annually. The performance based compensation is comprised of market and reserve value based components.

The reserve value based component is 3% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity and distributions, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. This methodology can generate interim results which vary significantly from the final compensation paid as final compensation is based on third party year end reserve data. A provision for the reserve value based component of $1.1 million was recorded for the first nine months of 2006.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of trust units outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated distributions of a trust unit for that period. A tax factor of 1.333 is then applied to determine the amount to be paid.

Based on the five day weighted average trading price of the trust units for the period ended September 30, 2006, compensation costs recovered related to 4.3 million non-vested rights, with an average grant price of $22.71, total $0.9 million. The Trust records a non-cash provision for future compensation expense over the life of the rights. The cumulative provision totals $9.2 million of which a recovery of $3.1 million was recorded in the three months ending September 30, 2006.

Capital Expenditures

Net capital expenditures for the third quarter of 2006 totaled $71.2 million. Exploration and development related activity represented $52.9 million or 74% of the total, while expenditures on facilities, gathering systems and equipment totaled $18.3 million or 26% of the total. The following table summarizes capital expenditures for the quarter.

	Three Months ended Sep 30		Nine Months ended Sep 30	
($000)	**2006**	2005	**2006**	2005
Land	**575**	3,300	**13,253**	8,592
Seismic	**790**	5,749	**8,361**	8,251
Drilling – Exploratory & Development	**51,489**	70,274	**204,808**	190,171
Production Equipment, Facilities & Pipelines	**18,351**	13,483	**56,925**	43,576

Acquisitions & Dispositions	**-**	-	**-**	-
Office Equipment	**18**	195	**166**	216
Total Capital Expenditures	**71,223**	93,001	**283,513**	250,806

Distributions

	Three Months ended Sep 30		Nine Months ended Sep 30	
	2006	2005	**2006**	2005
Funds from operations ($000)	**72,360**	77,179	**227,485**	210,363
Total distributions ($000)	**44,111**	35,505	**129,549**	99,875
Total distributions per unit ($)*	**0.42**	0.36	**1.24**	1.025
Payout ratio (%)	**61**	46	**57**	47
Cash distributions ($000) (net of DRIP)	**41,019**	32,318	**113,999**	93,323
Payout ratio (%)	**57**	42	**50**	44

Peyto's strategy is to distribute approximately 50 percent of funds from operations to our unitholders on a monthly basis with the balance being withheld to fund capital expenditures. As participation in the DRIP was optional and fluctuates monthly, the payout ratio of 50 percent is based on total distributions including those settled in units pursuant to the DRIP. The Board is prepared to adjust the payout levels to balance desired distributions with our requirement to maintain an appropriate capital structure. For Canadian income tax purposes distributions made are considered a combination of income and return of capital. The portion that is return of capital reduces the adjusted cost base of the units.

Contractual Obligations

The Trust is committed to payments under operating leases for office space as follows:

	$
2006	238,371
2007	953,484
2008	1,096,641
2009	1,096,641
2010	1,096,641
2011	1,096,641
	5,578,419

GUARANTEES/OFF-BALANCE SHEET ARRANGEMENTS

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts as discussed further in the Hedging section.

RELATED PARTY TRANSACTIONS

During the first quarter of 2006, the Trust participated in a joint venture capital project with a company whose director was also a Peyto director until May 16, 2006. The Trust's participation in this joint venture amounted to $620,218. Costs associated with this joint venture capital project are billed and paid in accordance with normal business operations.

An officer of the Trust is a partner of a law firm that provides legal services to the Trust. The fees charged are based on standard rates and time spent on matters pertaining to the Trust and its subsidiaries. For the first nine months of 2006, the accrued and actual legal fees due to the law firm totaled $439,485.

INCOME TAXES

The following sets out a general discussion of the Canadian and US tax consequences of holding Peyto units as capital property. The summary is not exhaustive in nature and is not intended to provide legal or tax advice. Unitholders or potential Unitholders should consult their own legal or tax advisors as to their particular tax consequences.

Canadian Taxpayers

The Trust qualifies as a mutual fund trust under the *Income Tax Act* (Canada) and, accordingly, Trust units are qualified investments for RRSPs, RRIFs, RESPs and DPSPs. Each year, the Trust is required to file an income tax return and any taxable income of the Trust is allocated to unitholders.

Unitholders are required to include in computing income their pro-rata share of any taxable income earned by the Trust in that year. An investor's adjusted cost base (ACB) in a trust unit equals the purchase price of the unit less any non-taxable cash distributions received from the date of acquisition. To the extent the unitholders' ACB is reduced below zero, such amount will be deemed to be a capital gain to the unitholder and the unitholders' ACB will be brought to nil.

During the first nine months of 2006, the Trust paid distributions to the unitholders in the amount of $129.5 million (2005 - $99.9 million) in accordance with the following schedule:

Production Period	Record Date	Distribution Date	Per Unit
January 2006	January 31, 2006	February 15, 2006	$0.12
February 2006	February 28, 2006	March 15, 2006	$0.14
March 2006	March 31, 2006	April 13, 2006	$0.14
April 2006	April 30, 2006	May 15, 2006	$0.14
May 2006	May 31, 2006	June 15, 2006	$0.14
June 2006	June 30, 2006	July 14, 2006	$0.14
July 2006	July 31, 2006	August 15, 2006	$0.14
August 2006	August 31, 2006	September 15, 2006	$0.14
September 2006	September 30, 2006	October 13, 2006	$0.14

US Taxpayers

US unitholders who receive cash distributions are subject to a 15 percent Canadian withholding tax, applied to the taxable portion of the distributions as computed under Canadian tax law. US taxpayers may be eligible for a foreign tax credit with respect to Canadian withholding taxes paid.

The taxable portion of the cash distributions, if any, is determined by the Trust in relation to its current and accumulated earnings and profit using US tax principles. The taxable portion so determined, is considered to be a dividend for US tax purposes.

The non-taxable portion of the cash distributions is a return of the cost (or other basis). The cost (or other basis) is reduced by this amount for computing any gain or loss from disposition. However, if the full amount of the cost (or other basis) has been recovered, any further non-taxable distributions should be reported as a gain.

US unitholders are advised to seek legal or tax advice from their professional advisors.

RISK MANAGEMENT

Investors who purchase our units are participating in the net funds from operations from a portfolio of western Canadian crude oil and natural gas producing properties. As such, the funds from operations paid to investors and the value of the units are subject to numerous risks inherent in the oil and natural gas industry.

Our expected funds from operations depends largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price we receive for our oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price we receive for our natural gas production is primarily dependent on current Alberta market prices. Peyto’s marketing strategy is designed to smooth out short term fluctuations in the price of both natural gas and natural gas liquids through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although our focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on our assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect distributions to unitholders and the value of the units. We employ experienced staff on our team and perform appropriate levels of due diligence on our analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the unitholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, we employ experienced staff to evaluate and operate wells and utilize appropriate technology in our operations. In addition, we use prudent work practices and procedures, safety programs and risk management principles, including insurance coverage against certain potential losses.

The value of our Trust units is based on among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on our oil and gas property investments. In order to mitigate this risk, our proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Our access to markets may be restricted at times by pipeline or processing capacity. We minimize these risks by controlling as much of our processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost efficient counter-parties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. We have no control over the level of government intervention or taxation in the petroleum and natural gas industry. However, we operate in such a manner to ensure, to the best of our knowledge that we are in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. We have reviewed our environmental risks and are, to the best of our knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on our operations.

We are subject to financial market risk. In order to maintain substantial rates of growth, we must continue reinvesting in, drilling for or acquiring petroleum and natural gas. Our capital expenditure program is funded primarily through funds from operations, debt and equity.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and Vice President, Finance ("VPF"), on a timely basis so that appropriate decisions can be made regarding public disclosure.

As of the end of the period covered by this report, Peyto's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, under the supervision of, and with the participation of the CEO and VPF. Based on this evaluation, the CEO and VPF have concluded that Peyto's disclosure controls and procedures, as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers Annual and Interim Filings are effective to ensure that material information relating to Peyto is made known to management on a timely basis and is included in this report.

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Trust's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to the Trust's reserves will likely vary from estimates, and such variances may be material.

The Trust's estimated quantities of proved and probable reserves at December 31, 2005 were audited by independent petroleum engineers Paddock Lindstrom & Associates Ltd. Paddock has been evaluating reserves in this area for Peyto for 7 consecutive years.

Depletion and Depreciation Estimate

We follow the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Such costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing properties, costs of drilling both productive and non-productive wells and overhead charges directly related to acquisition, exploration and development activities.

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are depleted and depreciated on the unit-of-production method based on estimated gross proven reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil).

Costs of acquiring unproved properties are initially excluded from depletion calculations. These unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion calculations.

Full Cost Accounting Ceiling Test

The carrying value of property, plant and equipment is reviewed at least annually for impairment. Impairment occurs when the carrying value of the assets is not recoverable by the future undiscounted cash flows. The ceiling test is based on estimates of proved reserves, production rates, estimated future petroleum and natural gas prices and costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material. Any impairment would be charged as additional depletion and depreciation expense.

Asset Retirement Obligation

The asset retirement obligation is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Future Market Performance Based Compensation

The provision for future market based compensation is estimated based on current market conditions, distribution history and on the assumption that all outstanding rights will be paid out according to the vesting schedule. The conditions at the time of vesting could vary significantly from the current conditions and may have a material effect on the calculation.

Reserve Value Performance Based Compensation

The reserve value based compensation is calculated using the 2005 year end independent reserves evaluation which was completed in January 2006. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and distributions. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes

The determination of the Trust's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

RECENT ACCOUNTING PRONOUNCEMENTS

Comprehensive Income, Financial Instruments and Hedges

The CICA issued new standards in early 2005 for Comprehensive Income (CICA 1530), Financial Instruments (CICA 3855) and Hedges (CICA 3865) which will be effective for the reporting year end 2007. The new standards will bring Canadian rules in line with current rules in the US. The standards will introduce the concept of "Comprehensive Income" to Canadian GAAP and will require that an enterprise (a) classify items of comprehensive income by their nature in a financial statement and (b) display the accumulated balance of comprehensive income separately from retained earnings and additional paid-in capital in the equity section of the statement of financial position. Derivative contracts will be carried on the balance sheet at their mark-to-market value, with the change in value flowing to either net income or comprehensive income. Gains and losses on instruments that are identified as hedges will flow initially to comprehensive income and be brought into net income at the time the underlying hedged item is settled. It is expected that this standard will be effective for the Trust's 2007 reporting. Any instruments that do not qualify for hedge accounting will be marked-to-market with the adjustment (tax effected) flowing through the income statement.

ADDITIONAL INFORMATION

Additional information relating to Peyto Energy Trust can be found on SEDAR at www.sedar.com and www.peyto.com.

Quarterly information

	2006			2005		
	Q3	Q2	Q1	Q4	Q3	Q2
Operations						
Production						
Natural gas (mcf/d)	**115,304**	112,484	110,878	108,356	108,460	106,866
Oil & NGLs (bbl/d)	**4,205**	4,145	4,143	4,185	4,569	4,653
Barrels of oil equivalent (boe/d @ 6:1)	**23,422**	22,892	22,622	22,245	22,646	22,464
Average product prices						
Natural gas ($/mcf)	**7.81**	7.96	9.26	10.55	8.67	8.00
Oil & natural gas liquids ($/bbl)	**64.50**	66.94	57.12	58.43	57.22	51.03
Average operating expenses ($/boe)	**1.90**	2.26	1.81	1.95	1.70	1.30
Average transportation costs ($/boe)	**0.58**	0.59	0.63	0.70	0.66	0.68
Field netback ($/boe)	**36.58**	39.64	40.02	43.33	38.39	33.97
General & administrative expense ($/boe)	**0.55**	0.43	0.06	0.05	0.13	0.10
Interest expense ($/boe)	**2.52**	2.00	1.36	0.91	1.16	1.25
Financial ($000 except per unit)						
Revenue	**107,844**	106,751	113,717	127,633	110,566	99,427
Royalties (net of ARTC)	**23,680**	18,236	27,258	33,522	25,654	25,954
Funds from operations	**72,360**	77,507	78,617	86,607	77,179	66,548
Funds from operations per unit*	**0.69**	0.74	0.76	0.85	0.78	0.69
Total distributions	**44,111**	43,921	41,517	36,773	35,505	33,898
Total distributions per unit*	**0.42**	0.42	0.40	0.36	0.36	0.35
Payout ratio	**61%**	57%	53%	42%	46%	51%
Cash distributions (net of DRIP)	**41,019**	38,315	34,665	33,771	32,318	31,023
Payout ratio	**57%**	49%	44%	39%	42%	47%
Earnings	**46,155**	56,768	45,293	60,745	37,702	25,690
Earnings per diluted unit*	**0.44**	0.54	0.44	0.60	0.38	0.27
Capital expenditures	**71,223**	67,195	145,094	107,647	93,001	58,730
Weighted average trust units outstanding*	**104,924,702**	104,472,570	103,910,640	102,148,411	98,584,597	96,848,988

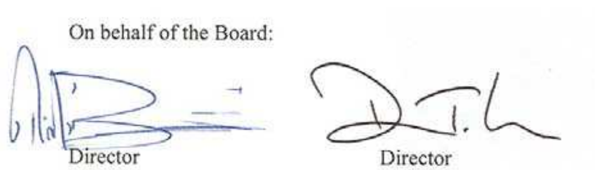
*Note: prior periods restated for 2 for 1 split of trust units completed May 31, 2005.

Peyto Energy Trust

Consolidated Balance Sheets
($000)
(unaudited)

	September 30, 2006 $	December 31, 2005 $
Assets		
Current		
Cash	**6,287**	-
Accounts receivable	**44,916**	82,794
Due from private placements	**-**	27,450
Prepaid expenses and deposits	**2,762**	1,796
	53,965	112,040
Property, plant and equipment *(Note 2)*	**1,056,582**	832,887
	1,110,547	944,927
Liabilities and Unitholders' Equity		
Current		
Accounts payable and accrued liabilities	**70,328**	208,284
Capital taxes payable	**-**	111
Cash distributions payable	**14,735**	11,530
Provision for future performance based compensation	**10,319**	8,748
	95,382	228,673
Long-term debt *(Note 3)*	**400,000**	180,000
Provision for future performance based compensation	**22**	1,401
Asset retirement obligations	**5,611**	4,729
Future income taxes	**127,669**	108,293
	533,302	294,423
Unitholders' equity		
Unitholders' capital *(Note 4)*	**398,434**	328,736
Units to be issued *(Note 4)*	**-**	28,332
Accumulated earnings	**484,142**	335,926
Accumulated distributions *(Note 5)*	**(400,713)**	(271,163)
	481,863	421,831
	1,110,547	944,927

See accompanying notes



(signed) *"Michael MacBean"* (signed) *"Donald T. Gray"*

Peyto Energy Trust

Consolidated Statements of Earnings and Accumulated Earnings
($000 except per unit amounts)
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	**2006**	2005
	$	$	**$**	$
Revenue				
Petroleum and natural gas sales, net	**84,164**	84,912	**259,138**	230,782
Expenses				
Operating *(Note 6)*	**4,084**	3,537	**12,465**	8,553
Transportation	**1,256**	1,384	**3,767**	4,087
General and administrative (Note 7)	**1,194**	264	**2,209**	584
Future market and reserves based bonus provision	**(2,005)**	14,144	**192**	39,188
Interest	**5,432**	2,422	**12,374**	6,845
Depletion, depreciation and accretion *(Note 2)*	**20,389**	14,278	**60,701**	41,566
	30,350	36,029	**91,708**	100,823
Earnings before taxes	**53,814**	48,883	**167,430**	129,959
Taxes				
Future income tax expense	**7,821**	11,056	**19,376**	28,786
Capital tax expense	**(162)**	125	**(162)**	350
	7,659	11,181	**19,214**	29,136
Net earnings for the period	**46,155**	37,702	**148,216**	100,823
Accumulated earnings, beginning of period	**437,987**	237,479	**335,926**	174,358
Accumulated earnings, end of period	**484,142**	275,181	**484,142**	275,181
Earnings per unit *(Note 4)*				
Basic	**0.44**	0.38	**1.42**	1.04
Diluted	**0.44**	0.38	**1.42**	1.04

See accompanying notes

Peyto Energy Trust

Consolidated Statements of Cash Flows
($000)
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2006 **$**	2005 $	**2006** **$** **(restated see Note 1)**	2005 $
Cash provided by (used in)				
Operating Activities				
Net earnings for the period	**46,155**	37,702	**148,216**	100,823
Items not requiring cash:				
Future income tax expense	**7,821**	11,056	**19,376**	28,786
Depletion, depreciation and accretion	**20,389**	14,278	**60,701**	41,566
Change in non-cash working capital related to operating activities	**(6,166)**	8,273	**(34,884)**	9,427
	68,199	71,309	**193,409**	180,602
Financing Activities				
Issue of trust units, net of costs and DRIP	**8,748**	145,079	**25,815**	149,509
Cash distributions paid (net of DRIP)	**(41,019)**	(32,318)	**(113,999)**	(93,323)
Increase in bank debt	**10,000**	(60,000)	**220,000**	40,000
Change in non-cash working capital related to financing activities	**1,390**	501	**30,656**	29,141
	(20,881)	53,262	**162,472**	125,327
Investing Activities				
Additions to property, plant and equipment	**(71,223)**	(93,001)	**(283,513)**	(250,806)
Change in non-cash working capital related to investing activities	**26,353**	28,788	**(66,081)**	11,651
	(44,870)	(64,213)	**(349,594)**	(239,155)
Net increase (decrease) in cash	**2,448**	60,358	**6,287**	66,774
Cash, beginning of period	**3,839**	6,416	**-**	-
Cash, end of period	**6,287**	66,774	**6,287**	66,774

1. Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements of Peyto Energy Trust (the "Trust") follow the same accounting policies as the most recent annual audited financial statements. The interim consolidated financial statement note disclosures do not include all of those required by Canadian generally accepted accounting principles applicable for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the 2005 audited consolidated financial statements.

These financial statements include the accounts of Peyto Energy Trust and its wholly owned subsidiaries, Peyto Exploration & Development Corp. and Peyto Operating Trust.

Correction of Error

The Consolidated Interim Statements of Cash Flows for the three months ended March 31, 2006 and the six months ended June 30, 2006 have been restated. The Trust has determined that it incorrectly classified the reduction in accounts payable attributable to the payment of the market based and reserves based performance based compensation in cash flows from investing activities instead of cash flows from operating activities. The correction of the error did not impact the Consolidated Interim Balance Sheets or the Consolidated Interim Statements of Earnings and Accumulated Earnings for the three months ended March 31, 2006 and the three and six months ended June 30, 2006 or the Consolidated Interim Statement of Cash Flows for the three months ended June 30, 2006.

The effect of the restatement in the Consolidated Interim Statements of Cash Flows is as follows:

	Three months ended March 31, 2006		
	As Previously Reported	**Change in Non-Cash Working Capital**	**As Restated**
($000)	**$**	$	$
Change in non-cash working capital related to operating activities	25,266	(56,252)	(30,986)
Change in non-cash working capital related to investing activities	(75,912)	56,252	(19,660)
Cash provided by (used in)			
Operating Activities	99,061	(56,252)	42,809
Investing Activities	(221,007)	56,252	(164,755)

	Six months ended June 30, 2006		
	As Previously Reported	**Change in Non-Cash Working Capital**	**As Restated**
($000)	**$**	$	$
Change in non-cash working capital related to operating activities	27,534	(56,252)	(28,718)
Change in non-cash working capital related to investing activities	(148,686)	56,252	(92,434)

Cash provided by (used in)			
Operating Activities	181,462	(56,252,)	125,210
Investing Activities	(360,976)	56,252	(304,724)

2. Property, Plant and Equipment

($000)	**September 30, 2006 $**	December 31, 2005 $
Property, plant and equipment	**1,260,139**	976,005
Accumulated depletion and depreciation	**(203,557)**	(143,118)
	1,056,582	832,887

At September 30, 2006 costs of $39,032 (September 30, 2005 - $28,663) related to undeveloped land have been excluded from the depletion and depreciation calculation.

3. Long-Term Debt

The Trust has a syndicated $450 million extendible revolving credit facility. The facility is made up of a $20 million working capital sub-tranche and a $430 million production line. The facilities are available on a revolving basis for a period of at least 364 days and upon the term out date may be extended for a further 364 day period at the request of the Trust, subject to approval by the lenders. In the event that the revolving period is not extended, the facility is available on a non-revolving basis for a one year term, at the end of which time the facility would be due and payable. Outstanding amounts on this facility bear interest at rates determined by the Trust's debt to cash flow ratio that range from prime to prime plus 0.75% for debt to cash flow ratios ranging from less than 1:1 to greater than 2.5:1. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank.

4. Unitholders' Capital

Authorized: Unlimited number of voting trust units

Issued and Outstanding Trust Units (no par value) ($000)	**Number of Units**	**Amount $**
Balance, December 31, 2004	47,725,272	138,953
Trust units issued by private placement	670,000	31,586
Trust unit issue costs	-	(103)
Trust units issued pursuant to DRIP	28,645	1,356
Trust units issued pursuant to 2 for 1 split	48,423,917	-
Trust units issued by public offering	5,000,000	152,750
Trust unit issue costs	-	(8,054)
Trust units issued pursuant to DRIP	279,561	7,448
Trust units issued pursuant to OTUPP	206,452	4,800
Balance, December 31, 2005	102,333,847	328,736
Trust units issued by private placement	1,393,940	34,378
Trust units issued pursuant to DRIP	690,387	16,301
Trust units issued pursuant to OTUPP	833,220	19,019
Balance, September 30, 2006	**105,251,394**	**398,434**

Units to be Issued

On March 2, 2005, Peyto implemented a Distribution Reinvestment Plan ("DRIP"). On November 21, 2005 the DRIP plan was amended to incorporate an Optional Trust Unit Purchase Plan ("OTUPP") which provides unitholders enrolled in the DRIP with the opportunity to purchase additional trust units from treasury subject to certain limitations, using the same pricing as the DRIP. Both the DRIP and OTUPP were suspended August 31, 2006.

Per Unit Amounts

Earnings per unit have been calculated based upon the weighted average number of units outstanding during the period of 104,924,702 (2005 – 98,584,957). There are no dilutive instruments outstanding.

5. Accumulated Distributions

During the quarter, the Trust paid total distributions to unitholders in the aggregate amount of $44.1 million of which $41.0 million was settled in cash and $3.1 million was settled by the issuance of trust units pursuant to the DRIP (2005 – total $35.5 million; cash $32.3 million and DRIP $3.2 million). For the nine months ended September 30, 2006, the Trusts paid total distributions to unitholders in the aggregate amount of $129.5 million of which $114.0 million was settled in cash and $15.5 million was settled by the issuance of trust units pursuant to the DRIP (2005 – total $99.9 million; cash $93.3 million and DRIP $6.6 million) in accordance with the following schedule:

Production Period	Record Date	Distribution Date	Per Unit
January 2006	January 31, 2006	February 15, 2006	$0.12
February 2006	February 28, 2006	March 15, 2006	$0.14
March 2006	March 31, 2006	April 13, 2006	$0.14
April 2006	April 30, 2006	May 15, 2006	$0.14
May 2006	May 31, 2006	June 15, 2006	$0.14
June 2006	June 30, 2006	July 14, 2006	$0.14
July 2006	July 31, 2006	August 15, 2006	$0.14
August 2006	August 31, 2006	September 15, 2006	$0.14
September 2006	September 30, 2006	October 13, 2006	$0.14

6. Operating Expenses

The Trust's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering income related to joint venture and third party natural gas reduces operating expenses.

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2006	2005	**2006**	2005
($000)	**$**	$	**$**	$
Field expenses	**6,245**	5,192	**18,404**	13,250
Processing and gathering income	**(2,161)**	(1,655)	**(5,939)**	(4,697)
Total operating costs	**4,084**	3,537	**12,465**	8,553

7. General and Administrative Expenses

General and administrative expenses are reduced by operating and capital overhead recoveries from operated properties.

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2006	2005	**2006**	2005
($000)	**$**	$	**$**	$
G&A expenses	**2,556**	1,620	**6,971**	4,560
Overhead recoveries	**(1,362)**	(1,356)	**(4,762)**	(3,976)
Net G&A expenses	**1,194**	264	**2,209**	584

8. Financial Instruments

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these contracts with well established counterparties for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of petroleum and natural gas prices. The Trust believes the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument, as the term and notional amount do not exceed the Trust's firm commitment or forecasted transaction and the underlying basis of the instrument correlates highly with the Trust's exposure. A summary of contracts outstanding in respect of the hedging activities at September 30, 2006 is as follows:

Crude Oil Period Hedged	**Type**	**Daily Volume**	**Weighted Average Price (CAD)**
October 1 to December 31, 2006	Fixed price	200 bbl	$69.40/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$71.10/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$79.00/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$81.10/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$87.10/bbl
October 1 to December 31, 2006	Fixed price	200 bbl	$87.13/bbl
January 1 to March 31, 2007	Fixed price	200 bbl	$82.82/bbl
January 1 to March 31, 2007	Fixed price	200 bbl	$87.35/bbl
January 1 to March 31, 2007	Fixed price	200 bbl	$88.00/bbl
April 1 to June 30, 2007	Fixed price	200 bbl	$82.39/bbl
April 1 to June 30, 2007	Fixed price	200 bbl	$87.10/bbl
April 1 to June 30, 2007	Fixed price	200 bbl	$88.05/bbl
July 1 to September 30, 2007	Fixed price	200 bbl	$87.61/bbl
July 1 to September 30, 2007	Fixed price	200 bbl	$88.20/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Weighted Average Price (CAD)**
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.10/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.20/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.30/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.35/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.45/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.61/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$7.75/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$9.30/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$10.60/GJ
April 1 to October 31, 2006	Fixed price	5,000 GJ	$10.60/GJ
April 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.27/GJ
July 1 to October 31, 2006	Fixed price	5,000 GJ	$6.53/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$8.71/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.00/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.05/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$10.06/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$10.28/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$11.40/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$11.60/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.65/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$10.25/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.00/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$8.65/GJ
Nov. 1, 2006 to March 31, 2007	Fixed price	5,000 GJ	$9.23/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$8.60/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.50/GJ
April 1, 2007 to March 31, 2008	Fixed price	5,000 GJ	$8.90/GJ

As at September 30, 2006, the Trust had committed to the future sale of 255,800 barrels of crude oil at an average price of $83.29 per barrel and 15,640,000 gigajoules (GJ) of natural gas at an average price of $9.20 per GJ or $10.77 per mcf based on the historical heating value of Peyto's natural gas. These contracts will generate revenue totaling $165.2 million. Based on the market's estimate of the future commodity prices as at September 30, 2006 the fair value of these contracts would be $120.0 million.

Subsequent to September 30, 2006 the Trust entered into the following contracts:

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price** **(CAD)**
Nov. 1, 2006 to Nov 30, 2006	Fixed price	5,000 GJ	$5.76/GJ
Dec. 1, 2006 to Dec 31, 2006	Fixed price	5,000 GJ	$7.28/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.25/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.51/GJ

Fair Values of Financial Assets and Liabilities

The Trust's financial instruments include accounts receivable, current liabilities, provision for future performance based compensation and long term debt. At September 30, 2006, the carrying value of accounts receivable, current liabilities and provision for future performance based compensation approximate their value due to their short term nature or method of determination. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the facilities.

Credit Risk

A substantial portion of the Trust's accounts receivable is with petroleum and natural gas marketing entities. The Trust generally extends unsecured credit to these companies, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Trust's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. The Trust has not previously experienced any material credit losses on the collection of accounts receivable. Of the Trust's significant individual accounts receivable at September 30, 2006, approximately 63% was due from two companies (December 31, 2005 – 42%).

The Trust may be exposed to certain losses in the event of non-performance by counter-parties to commodity price contracts. The Trust mitigates this risk by entering into transactions with counter-parties that have investment grade credit ratings.

Interest rate risk

The Trust is exposed to interest rate risk in relation to interest expense on its revolving demand facility. At September 30, 2006, the increase or decrease in earnings for each 1% change in interest rate paid on the outstanding revolving demand loan amounts to approximately $3.4 million per annum.

9. Supplemental Cash Flow Information

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2006	2005	**2006**	2005
($000)	**$**	$	**$**	$
Cash interest paid	**5,432**	2,422	**12,374**	6,845
Cash taxes paid	**-**	354	**-**	690

10. Contingencies and Commitments

a) Contingent Liability

From time to time, Peyto is the subject of litigation arising out of Peyto's operations. Damages claimed pursuant to such litigation, including the litigation discussed below, may be material or may be indeterminate and the outcome of such litigation may materially impact Peyto's financial condition or results of operations. While Peyto assesses the merits of each lawsuit and defends itself accordingly, Peyto may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on Peyto's financial position.

Peyto has been named in a Statement of Claim issued by Canadian Natural Resources Limited and affiliates ("CNRL"), claiming $13 million in damages for alleged breaches of duty as operator of jointly owned properties, and an interim and permanent injunction to prevent Peyto from proceeding with the completion of a well on those properties. CNRL alleges that Peyto failed to take proper steps as operator of a joint well (the "Well") on lands that offset 100% Peyto owned lands. Peyto has filed a Statement of Defense defending the allegations set forth in the Statement of Claim. The injunction claimed by CNRL was to prevent Peyto from completing the Well at a target location which had been agreed upon by both parties. Although claimed in the Statement of Claim, CNRL did not apply for an interim injunction, and Peyto completed the Well as planned, but no commercial production was obtained. Accordingly, it remains to be seen whether CNRL will proceed with the action. If the action goes ahead, Peyto intends to defend itself vigorously. Although the outcome of this matter is not determinable at this time, Peyto believes that this claim will not have a material adverse effect on Peyto's financial position or results of operations.

b) Commitments

The Trust is committed to payments under operating leases for office space as follows:

	$
2006	238,371
2007	953,484
2008	1,096,641
2009	1,096,641
2010	1,096,641
2011	1,096,641
	5,578,419

11. Related Party Transactions

During the period ended March 31, 2006, the Trust participated in a joint venture capital project with a company whose director was also a Peyto director until May 16, 2006. The Trust's participation in this joint venture amounted to $620,218. Costs associated with this joint venture capital project are billed and paid in accordance with normal business operations.

An officer of the Trust is a partner of a law firm that provides legal services to the Trust. The fees charged are based on standard rates and time spent on matters pertaining to the Trust and its subsidiaries. For the first nine months of 2006, legal fees totaled $439,485 (2005 - $335,243). Legal fees paid to the law firm for the third quarter totaled $258,040 (2005 - $285,255).

12. Subsequent Events

On October 31, 2006, the Federal Government of Canada announced a plan to begin taxing the income before distributions of flow through vehicles such as income trusts and limited partnerships. The plan provides for a four-year transition period for existing entities. Given the information available at this time, the financial impact on the Trust cannot be reasonably estimated.

Peyto Exploration & Development Corp. Information

Officers

Don Gray
Chief Executive Officer

Darren Gee
President

Scott Robinson
Executive Vice President and Chief Operating Officer

Ken Veres
Vice President, Exploration

Glenn Booth
Vice President, Land

Kathy Turgeon
Vice President, Finance

Stephen Chetner
Corporate Secretary

Directors
Ian Mottershead, Chairman
Rick Braund
Don Gray
Brian Davis
John Boyd
Michael MacBean

Auditors
Deloitte & Touche LLP

Solicitors
Burnet, Duckworth & Palmer LLP

Bankers
Bank of Montreal
Union Bank of California
Royal Bank of Canada
BNP Paribas
Société Générale
ATB Financial

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