PEYTO

Energy Trust

1

Interim Report
For the three months ended March 31, 2007

Highlights

	3 Months Ended Mar. 31		%
	2007	2006	Change
Operations			
Production			
Natural gas (mcf/d)	**106,183**	110,878	*(4)%*
Oil & NGLs (bbl/d)	**3,607**	4,143	*(13)%*
Barrels of oil equivalent (boe/d @ 6:1)	**21,305**	22,622	*(6)%*
Product prices			
Natural gas ($/mcf)	**9.77**	9.26	*6%*
Oil & NGLs ($/bbl)	**59.79**	57.12	*5%*
Operating expenses ($/boe)	**2.84**	1.81	*57%*
Transportation ($/boe)	**0.59**	0.63	*(6)%*
Field netback ($/boe)	**44.82**	40.02	*12%*
General & administrative expenses ($/boe)	**0.98**	0.06	*1533%*
Interest expense ($/boe)	**2.96**	1.36	*118%*
Financial ($000, except per unit)			
Revenue	**112,825**	113,717	*(1)%*
Royalties (net of ARTC)	**20,326**	27,258	*(25)%*
Funds from operations	**78,364**	78,617	-
Funds from operations per unit	**0.74**	0.76	*(2)%*
Total distributions	**44,350**	41,517	*7%*
Total distributions per unit	**0.42**	0.40	*5%*
Payout ratio	**57**	53	*8%*
Cash distributions (net of DRIP)	**44,350**	34,665	*28%*
Payout ratio	**57**	44	*30%*
Earnings	**56,833**	45,293	*25%*
Earnings per diluted unit	**0.54**	0.44	*23%*
Capital expenditures	**30,478**	145,094	*(79)%*
Weighted average trust units outstanding	**105,542,484**	103,910,640	*2%*
As at March 31			
Net debt (before future compensation expense)	**427,263**	372,073	
Unitholders' equity	**506,901**	449,414	
Total assets	**1,142,438**	1,037,191	

	12 Months Ended Mar. 31	
	2007	2006
Net Earnings	**56,833**	45,293
Items not requiring cash:		
Non-cash provision for performance based compensation	**6**	4,822
Future income tax expense	**1,639**	8,677
Depletion, depreciation and accretion	**19,836**	19,825
Funds from operations [1]	**78,364**	78,617

[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") operates a conventional oil and gas business that develops unconventional assets and delivers superior results. Peyto designs, drills and builds high quality, long life natural gas assets located in Alberta's premier gas exploration area, the Deep Basin. Peyto is pleased to present the operating and financial results for the first quarter of the 2007 fiscal year.

The following summarizes the Trust's foundation.

- Long reserve life - Proved 14 years, Proved plus Probable 20 years from the end of 2006
- Low operating costs - $2.84/boe (three months ending March 31, 2007)
- Low base general and administrative costs - $0.98/boe (three months ending March 31, 2007)
- High revenue per boe - $50.32/boe before hedging, $58.84/boe after hedging (three months ending March 31, 2007)
- High field netback – $44.82/boe (three months ending March 31, 2007)
- High operatorship – Peyto operates over 95% of its production
- Low cash distribution payout ratio – total distributions were 57% of funds from operations for the three months ended March 31, 2007
- Low debt to funds from operations ratio – 1.4 (net debt, before provision for future compensation, divided by annualized first quarter 2007 funds from operations)
- Distribution growth – distributions have been increased 5 times, never decreased, and are now 87% higher than when the trust was formed in July 2003.
- Since inception, Peyto has raised a total of $406 million issuing units from treasury, accumulated earnings of $588 million, and distributed $489 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 first quarter of 2007.

- Capital expenditures – $30 million was invested into finding and developing new natural gas reserves in the quarter, a 79% reduction from Q1 2006
- Production - decreased 6% from 22,622 boe/d in the first quarter of 2006 to 21,305 boe/d in the first quarter of 2007
- Production per unit - decreased 14% from the first quarter of 2006, after adjusting for debt and future unrealized performance based compensation
- Per unit funds from operations – decreased 2% from the previous year to $0.74/unit
- Future sales – Peyto had a $16.3 million hedging gain for the quarter from future sales, versus a hedging loss of $5.8 million in the first quarter of 2006
- Distributions per unit increased by 5% from the first quarter of 2006 while the cash payout ratio remained low at 57% compared to 53% in the first quarter of 2006. A total of $44.4 million or $0.42 per unit was distributed to unitholders in the first quarter of 2007.

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 first quarter, Peyto invested $30 million into drilling, completing and connecting new gas wells. Drilling and completions accounted for $25 million while wellsite equipment and pipelines accounted for $4 million. Minor investments in new land, seismic and facilities made up the balance.

Peyto's capital expenditures have always been driven to achieve above average rates of return. It was recognized in 2006 that the cost environment was impeding that goal. The following table illustrates a deliberate effort to reduce capital investments, while awaiting lower service costs and improved rates of return. This resulted in cash flow exceeding the total of the distributions and capital expenditures for the second quarter in a row. The difference contributed towards the quarterly net debt reduction of $6.4 million.

$ millions	2007 Q1	2006 Q4	Q3	Q2	Q1	2005 Q4	Q3	Q2
Funds from operations	**78.4**	77.4	72.4	77.5	78.6	86.6	77.2	66.5
Distributions	**(44.4)**	(44.2)	(44.1)	(43.9)	(41.5)	(36.8)	(35.5)	(33.9)
Capital Expenditures	**(30.5)**	(28.4)	(71.2)	(67.2)	(145.1)	(107.6)	(93.0)	(58.7)
Total	**3.5**	**4.7**	**(43.0)**	**(33.6)**	**(108.0)**	**(57.8)**	**(51.3)**	**(26.1)**

Peyto drilled and cased 13 gross (10 net or 78% net ownership) wells in the quarter, completed 22 gross (17 net) gas zones and brought 16 gross (11 net) zones on-stream. Operations were split between new expansion areas, where seasonal access restricts activity, and the Greater Sundance area where there is more immediate access to Peyto owned processing capacity. Average production declined from 22,550 boe/d in the fourth quarter 2006 to 21,305 boe/d in the first quarter 2007. This decline was anticipated as the reduced activity level was not expected to fully replace the decline of flush production added in 2006. Quarterly production was comprised of 106 mmcf/d of natural gas and 3,607 bbl/d of oil and natural gas liquids.

Operating costs for the first quarter 2007 were $2.84/boe, up $1.03/boe from the same period in 2006. Peyto had 5 gas processing plants in operation during the quarter as opposed to 3 plants a year ago. As capacity utilization improves, per unit cost for these plants will decrease. Other contributors to the operating cost increase were chemicals, field labor and utilities. Chemical costs contributed to approximately 35% of the increase while labor and power costs contributed to approximately 30% of the increase. Some of these cost components are expected to remain higher while others, such as chemicals, will fluctuate with product prices. Methanol prices, for example, the largest contributor to chemical costs, have since decreased from approximately $0.70/liter in March 2007 to $0.50/liter in May 2007. Despite inflationary pressure in operating costs, Peyto continues to lead the trust sector by a wide margin.

Royalty payments for the quarter were down $2.80/boe from $13.39/boe to $10.59/boe. This decrease was primarily due to lower natural gas prices and reduced production per well. As a result of these total cost reductions and slightly improved prices, field netbacks increased from $40.02/boe in Q1 2006 to $44.82/boe in Q1 2007.

Natural gas prices, after hedging, averaged $9.77/mcf for the period, up 11% from the previous quarter and 6% from the first quarter of 2006. Oil and natural gas liquids prices, after hedging, averaged $59.79/bbl for the quarter, which were 9% higher than the previous quarter and 5% higher than a year ago.

After review of the annual independent engineering evaluation of Peyto's reserves, the banking syndicate has increased bank lines by 17% from $450 million to $525 million. This increase is consistent with Peyto's assessment of the incremental value created in 2006.

Activity Update

To date, in 2007, Peyto has brought on 22 gross (15 net) zones accounting for approximately 1,700 boe/d of new production. The cost to add new production has declined significantly, as compared to Q1 2006, as capital has been allocated to those lower risk drilling locations that offered more timely conversion to production. Since the end of the first quarter, no new wells have been drilled due to the onset of spring breakup.

Spring breakup is not expected to be abnormally long this year and a return to field operations is anticipated in late May. Three drilling rigs are currently scheduled to commence operations in core areas drilling low risk, premium opportunities. It is anticipated that as service costs continue to improve throughout the second quarter, more will be accomplished with this reduced level of capital spending. Material decreases in service costs have already been observed.

Marketing

Peyto's marketing strategy smoothes out short term fluctuations in the price of both natural gas and natural gas liquids through future sales. First quarter 2007 natural gas prices, before hedging, averaged $8.17/mcf or 16% lower than a year ago. Oil and natural gas liquids prices averaged $56.82/bbl or 8% less than a year ago. Hedging gains of $1.60/mcf on gas and $2.97/bbl on liquids resulted in a total quarterly hedging gain of $16.3 million or $8.52/boe.

As at March 31, 2007, Peyto had committed to the forward sale of 15,105,000 gigajoules (GJ) of natural gas at an average price of $7.95 per GJ. Based on the historical heating value of Peyto's natural gas, the price per mcf on this forward sale will be $9.30, which is 95% of the price Peyto realized in the first quarter of 2007. As a proxy for condensate, Peyto has committed to the forward sale of 200,800 barrels of crude oil at an average price of $82.12 per barrel.

Outlook

Mr. John Boyd will be retiring from the board of directors after the annual meeting of unitholders on May 29, 2007. Mr. Boyd is a very successful private investor and Peyto was honored that he chose to serve on the board. On behalf of the directors, staff and unitholders of Peyto, the board would like to thank John for his contributions over the last five years.

The Peyto strategy is to use its technical expertise and ability to execute ideas to generate solid returns on the capital invested. Commitment to this strategy is unwavering. Although there are now additional resources available, due to an expanded credit facility, capital will only be invested when the environment is right to maximize returns. In the meantime, the Peyto technical team continues to build upon an inventory of top quality drilling opportunities. To fully understand the value of Peyto, please visit the Peyto website at www.peyto.com where there is a wealth of information designed to inform and educate investors.

Annual General Meeting

The Trust's Annual General Meeting of Unitholders is scheduled for 2:30p.m. on Tuesday, May 29, 2007 at the McLeod Hall A, Telus Convention Centre, 120 – 9th Avenue SE, Calgary, Alberta.

Darren Gee
President and Chief Executive Officer
May 9, 2007

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 March 31, 2007 and the audited consolidated financial statements of Peyto Energy Trust ("Peyto") for the year ended December 31, 2006. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

The Trust was created by way of a Plan of Arrangement effective July 1, 2003 which reorganized Peyto Exploration & Development Corp. ("PEDC") from a corporate entity into a trust. Accordingly, the consolidated financial statements were reported on a continuity of interests basis. This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 8, 2007. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com.

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).

Proposed Tax Legislation

On October 31, 2006, the Minister of Finance announced its proposal to amend the Income Tax Act (Canada) to apply a Distribution Tax on distributions from publicly-traded income trusts. Under the proposal, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. The Minister of Finance has issued a Notice of Ways and Means Motion to Amend the Income Tax Act, but it is not known at this time if or when the proposal will be enacted by Parliament. In simplified terms, under the proposed tax plan, income distributions will first be taxed at the trust level at a special rate estimated to be 31.5%. Income distributions to individual unitholders will then be treated as dividends from a Canadian corporation and eligible for the dividend tax credit. Income distributions to corporations resident in Canada will be eligible for full deduction as tax free intercorporate dividends. Tax-deferred accounts (RRSPs, RRIFs and Pension Plans) will continue to pay no tax on distributions. Non-resident unitholders will be taxed on distributions at the non-resident withholding tax rate for dividends. The net impact on Canadian taxable investors is expected to be minimal because they can take advantage of the dividend tax credit. However, as a result of the 31.5% Distribution Tax at the trust level, distributions to tax-deferred accounts will be reduced by approximately 31.5%, and distributions to non-residents will be reduced by approximately 26.5%. Peyto is currently assessing the proposals and the potential implications to the Trust. Structural alternatives will continue to be reviewed to ensure that Peyto's structure is as efficient as possible.

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, 2006, the total proved plus probable reserves were 163.5 million barrels of oil equivalent with a reserve life of 20 years as evaluated by the independent petroleum engineers. Production is weighted approximately 83% natural gas and 17% natural gas liquids and oil.

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

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

Operating results over the last eight years indicate that these principles have been successfully implemented. This business model makes Peyto a truly unique energy trust.

QUARTERLY FINANCIAL INFORMATION

	2007	2006				2005		
($000 except per unit amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue (net of royalties)	**92,499**	91,425	84,164	88,515	86,459	94,111	84,912	73,473
Funds from operations	**78,364**	77,360	72,360	77,507	78,617	86,607	77,179	66,548
Per unit – basic	**0.74**	0.74	0.69	0.74	0.76	0.85	0.78	0.69
Per unit – diluted	**0.74**	0.74	0.69	0.74	0.76	0.85	0.78	0.69
Earnings (loss)	**56,883**	47,012	46,155	56,768	45,293	60,745	37,702	25,690
Per unit – basic	**0.54**	0.44	0.44	0.54	0.44	0.60	0.38	0.27
Per unit – diluted	**0.54**	0.44	0.44	0.54	0.44	0.60	0.38	0.27

RESULTS OF OPERATIONS

Production

	Three Months ended Mar. 31	
	2007	2006
Natural gas (mmcf/d)	**106.2**	110.9
Oil & natural gas liquids (bbl/d)	**3,607**	4,143
Barrels of oil equivalent (boe/d)	**21,305**	22,622

Natural gas production averaged 106.2 mmcf/d in the first quarter of 2007, 4 percent lower than the 110.9 mmcf/d reported for the same period in 2006. Oil and natural gas liquids production averaged 3,607 bbl/d, a decrease of 14 percent from 4,143 bbl/d reported in the prior year. First quarter production decreased 6 percent from 22,622 boe/d to 21,305 boe/d. The production decreases are attributable to Peyto's reduced drilling program.

Commodity Prices

	Three Months ended Mar. 31	
	2007	2006
Natural gas ($/mcf)	**8.17**	9.67
Hedging – gas ($/mcf)	**1.60**	(0.41)
Natural gas – after hedging ($/mcf)	**9.77**	9.26
Oil and natural gas liquids($/bbl)	**56.82**	61.77
Hedging – oil ($/bbl)	**2.97**	(4.65)

Oil and natural gas liquids – after hedging ($/bbl)	**59.79**	57.12
Total Hedging ($/boe)	**8.52**	(2.86)

Peyto’s natural gas price before hedging gains averaged $8.17/mcf during the first quarter of 2007, a decrease of 16 percent from $9.67/mcf reported for the equivalent period in 2006. Oil and natural gas liquids prices before hedging gains averaged $56.82/bbl down 8 percent from $61.77/bbl a year earlier. Hedging activity for the first quarter of 2007 accounted for $8.52/boe of Peyto’s price achieved.

Revenue

	Three Months ended Mar. 31	
($000)	**2007**	2006
Natural gas	**78,034**	96,520
Oil and natural gas liquids	**18,448**	23,028
Hedging gain (loss)	**16,343**	(5,831)
Total revenue	**112,825**	113,717

For the three months ended March 31, 2007, gross revenue decreased 1 percent to $112.8 million from $113.7 million for the same period in 2006. The decrease in revenue for the period was a result of decreased production volumes as detailed in the following table:

	Three Months ended Mar 31		
	2007	2006	**$million**
Total Revenue, Mar. 31, 2006			**113.7**
Revenue change due to:			
Natural gas			
Volume (mmcf)	9,556	9,979	**(3.9)**
Price ($/mcf)	$9.77	$9.26	**4.9**
Oil & NGL			
Volume (mbbl)	325	373	**(2.8)**
Price ($/bbl)	$59.79	$57.12	**0.9**
Total Revenue, Mar. 31, 2007			**112.8**

Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, 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 Mar. 31	
($000 except per unit amounts)	**2007**	2006
Royalties	**20,326**	27,383
ARTC	**-**	(125)
	20,326	27,258
% of sales	**18.0**	24.1
$/boe	**10.59**	13.39

For the first quarter of 2007, royalties averaged $10.59/boe or approximately 18.0 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 and that hedging gains and losses are not subject to royalties. As average per well production rate declines, the associated effective Crown Royalty rate will decrease. In addition, Peyto receives Deep Gas Royalty Holiday benefits which further decrease our crown royalty rate. Effective January 1, 2007, the Alberta Government discontinued the Alberta Royalty Tax Credit (“ARTC”) program.

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 Mar. 31	
	2007	2006
Operating costs ($000)		
Field expenses	**7,107**	5,396
Processing and gathering income	**(1,669)**	(1,720)
Total operating costs	**5,438**	3,676
$/boe	**2.84**	1.81
Transportation	**1,129**	1,274
$/boe	**0.59**	0.63

Operating costs were $5.4 million in the first quarter of 2007 compared to $3.7 million during the same period a year earlier. Peyto had 5 gas processing plants in operation during the quarter as opposed to 3 plants a year ago. Other contributors to the operating cost increase were chemicals, field labor and utilities. Chemical costs contributed to approximately 35% of the increase while labor and power costs contributed to approximately 30% of the increase. Transportation expense remained relatively constant and was lower on a per boe basis. On a unit-of-production basis, operating costs averaged $2.84/boe in the first quarter of 2007 compared to $1.81/boe for the first quarter of 2006.

Netbacks

Field 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 the natural gas that results in higher commodity prices.

	Three Months ended Mar. 31	
($/boe)	**2007**	2006
Sale Price	**58.84**	55.85
Less:		
Royalties	**10.59**	13.39
Operating costs	**2.84**	1.81
Transportation	**0.59**	0.63
Field netback	**44.82**	40.02
General and administrative	**0.98**	0.06
Interest on long-term debt	**2.96**	1.36
Cash netback	**40.88**	38.60

General and Administrative Expenses

	Three Months ended Mar. 31	
	2007	2006
G&A expenses ($000)	**2,537**	2,053
Overhead recoveries	**(653)**	(1,927)
Net G&A expenses	**1,884**	126
$/boe	**0.98**	0.06

General and administrative expenses before overhead recoveries increased 19% from $2.1 million in the first quarter of 2006 to $2.5 million for the same period in 2007. This increase was attributable to increased costs for professional third party services such as independent engineering, audit, legal and information technology. Net of overhead recoveries associated with the capital expenditures program, general and administrative costs increased to $0.98 per boe in the first of 2007 from $0.06 per boe in the first quarter of 2006. First quarter 2007 capital overhead recoveries were 66% lower than first quarter 2006 recoveries due to the reduction in capital expenditures.

Interest Expense

	Three Months ended Mar. 31	
	2007	2006
Interest expense ($000)	**5,684**	2,767
$/boe	**2.96**	1.36

First quarter 2007 interest expense was $5.7 million or $2.96/boe compared to $2.8 million or $1.36/boe a year earlier. During the first quarter of 2007, average debt levels were $418.3 million as compared to $273.4 million in the first quarter of 2006. Interest rates continue to be favorable and are not expected to increase substantially in the short-term. The average interest rate for the first quarter of 2007 was 5.5% compared to 4.1% for the first quarter of 2006. While interest rates increased slightly over this time period, the increase in rate was primarily due to the Trust's higher debt to EBITDA ratio.

Depletion, Depreciation and Accretion

The 2007 first quarter provision for depletion, depreciation and accretion totaled $19.8 million as compared to $19.8 million in 2006. On a unit-of-production basis, depletion, depreciation and accretion costs averaged $10.34/boe as compared to $9.74/boe in 2006.

Income Taxes

The current provision for future income tax decreased to $1.6 million recorded in the first quarter (2006 - $8.7 million). Peyto's trust structure is unique and was designed to provide for discretion at the operating trust level to distribute taxable income to the Trust. Resource pools are generated from the capital program which are available to offset current and future income tax liabilities. Unitholders benefit as the use of these resource pools increases the tax free return of capital component of the cash distributions.

MARKETING

Commodity Price Risk Management

Effective January 1, 2007, the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3855, "Financial Instruments - Recognition and Measurement," Section 3865, "Hedges," Section 1530, "Comprehensive Income" and Section 3861, "Financial Instruments – Disclosure and Presentation." The Trust has adopted these standards retroactively without restatement and the comparative interim consolidated financial statements have not been restated. Transition amounts have been recorded in retained earnings or accumulated other comprehensive income ("AOCI"). See Note 2 to the Consolidated Financial Statements.

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these forward 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 first quarter of 2007, a hedging gain of $16.3 million was recorded as compared to a hedging loss of $5.8 million in the first quarter of 2006. 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	Weighted Average Price (CAD)
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
July 1 to September 30, 2007	Fixed price	200 bbl	$77.12/bbl
October 1 to December 31, 2007	Fixed price	200 bbl	$77.51/bbl
October 1 to December 31, 2007	Fixed price	300 bbl	$78.75/bbl
January 1 to March 31, 2008	Fixed price	200 bbl	$78.55/bbl
January 1 to March 31, 2008	Fixed price	300 bbl	$79.05/bbl

Natural Gas Period Hedged	Type	Daily Volume	Weighted Average Price (CAD)
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 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 to October 31, 2007	Fixed price	5,000 GJ	$7.60/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.60/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.80/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.50/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.70/GJ
April 1, 2007 to March 31, 2008	Fixed price	5,000 GJ	$8.90/GJ
Nov 1, 2007 to March 31, 2008	Fixed price	5,000 GJ	$8.35/GJ

As at March 31, 2007, the Trust had committed to the future sale of 200,800 barrels of crude oil at an average price of $82.12 per barrel and 15,105,000 gigajoules (GJ) of natural gas at an average price of $7.95 per GJ or $9.30 per mcf based on the historical heating value of Peyto's natural gas. These contracts will generate revenue totaling $136.5 million. Based on the market's estimate of the future commodity prices as at March 31, 2006 the fair value of these contracts would be $133.9 million. Had these contracts been closed on March 31, 2007, the Trust would have realized a gain in the amount of $2.6 million.

Subsequent to March 31, 2007 the Trust entered into the following contracts:

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price** **(CAD)**
April 1 to October 31, 2007	Fixed price	5,000 GJ	$9.06/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$9.10/GJ

Commodity Price Sensitivity

Low operating costs, low distribution ratio and long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

The Trust is exposed to fluctuations in the Canadian/US dollar exchange ratio since the 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 a commodity hedging strategy that is conducted at Canadian prices. 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 Peyto has 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 March 31, 2007, the increase or decrease in earnings for each 100 bps change in interest rate paid on the outstanding revolving demand loan amounts to approximately $4.2 million per annum.

LIQUIDITY AND CAPITAL RESOURCES

Funds from Operations

	Three Months ended Mar. 31	
($000)	**2007**	2006
Net earnings	**56,883**	45,293
Items not requiring cash:		
Non-cash provision for performance based compensation	**6**	4,822
Future income tax expense	**1,639**	8,677
Depletion, depreciation & accretion	**19,836**	19,825
Funds from operations	**78,364**	78,617

For the quarter ended March 31, 2007, funds from operations totaled $78.4 million or $0.74 per unit, as compared to $78.6 million, or $0.76 per unit during the same period in 2006. 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. Earnings and cash flow are highly sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

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

The Trust has an extendible revolving term credit facility with a syndicate of financial institutions in the amount of $450 million including 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 first quarter of 2007 was 5.5% (2006 – 4.1%). While interest rates increased slightly over this time period, the increase in rate was primarily due to the Trust's higher debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratio. Subsequent to March 31, 2007, the Trust's banking syndicate has agreed to increase the credit facilities to $525 million. An additional bank, Fortis Capital (Canada) Ltd., was added to the loan syndicate to enhance future financing flexibility.

At March 31, 2007, $415 million was drawn under the facility. Working capital liquidity is maintained by drawing from and repaying the unutilized credit facility as needed. At March 31, 2007, the working capital deficit was $9.6 million.

Peyto believes funds generated from operations, together with borrowings under the credit facility and proceeds from equity issued will be sufficient to finance current operations and planned capital expenditure program. The total amount of capital invested in 2007 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Trust. The majority of the 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 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 due to unfavorable market conditions.

On March 15, 2007 the Trust completed a private placement of 175,780 trust units to employees and consultants for net proceeds of $2,824,785. These trust units were issued on March 15, 2007. On March 15, 2007, subsequent to the issuance of these units, 105,712,364 trust units were outstanding (December 31, 2006 – 105,251,394).

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

Trust Units (no par value) ($000)	**Number of Shares/Units**	**Amount $**
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, December 31, 2006	**105,251,394**	**398,434**
Trust units issued by private placement	460,970	7,867
Balance, March 31, 2007	**105,712,364**	**406,301**

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 4% 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. No provision for the reserve value based component was recorded for the first quarter of 2007.

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 7% 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. For units vesting in 2007 and 2008, a tax factor of 1.333 will then be applied to determine the amount to be paid. Commencing 2009, no tax factor will be applied to determine the amount paid.

Based on the five day weighted average trading price of the trust units for the period ended March 31, 2007, compensation costs related to 4.2 million non-vested rights (4% of the total number of trust units outstanding), with an average grant price of $22.03, are $6,000. The Trust records a non-cash provision for future compensation expense over the life of the rights. The cumulative provision is $7,000.

Capital Expenditures

Net capital expenditures for the first quarter of 2007 totaled $30.4 million. Exploration and development related activity represented $25.1 million or 82% of the total, while expenditures on facilities, gathering systems and equipment totaled $4.7 million or 15% of the total. The following table summarizes capital expenditures for the quarter.

	Three Months ended Mar. 31	
($000)	**2007**	2006
Land	**368**	10,631
Seismic	**243**	5,137
Drilling – Exploratory & Development	**25,140**	100,988
Production Equipment, Facilities & Pipelines	**4,721**	28,241
Acquisitions & Dispositions	**-**	-
Office Equipment	**6**	97
Total Capital Expenditures	**30,478**	145,094

Distributions

	Three Months ended Mar. 31	
	2007	2006
Funds from operations ($000)	**78,364**	78,617
Total distributions ($000)	**44,350**	41,517
Total distributions per unit ($)	**0.42**	0.40
Payout ratio (%)	**57**	53
Cash distributions ($000) (net of DRIP)	**44,350**	34,665
Payout ratio (%)	**57**	44

Peyto's strategy is to distribute approximately 50 percent of funds from operations to unitholders on a monthly basis with the balance being withheld to fund capital expenditures. As participation in the DRIP is 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 of Directors is prepared to adjust the payout levels to balance desired distributions with the 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:

($000)	$
2007	714
2008	1,097
2009	1,097
2010	1,097
2011	1,097
	5,102

RELATED PARTY TRANSACTIONS

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.

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 quarter of 2007, the Trust paid distributions to the unitholders in the amount of $44.4 million (2006 - $41.5 million) in accordance with the following schedule:

Production Period	Record Date	Distribution Date	Per Unit
January 2007	January 31, 2007	February 15, 2007	$0.14
February 2007	February 28, 2007	March 15, 2007	$0.14
March 2007	March 31, 2007	April 13, 2007	$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 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.

Expected funds from operations depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for 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 received for 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 Peyto’s focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect distributions to unitholders and the value of the units. Peyto employs experienced staff on its team and performs appropriate levels of due diligence on the 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, Peyto employs experienced staff to evaluate and operate wells and utilizes appropriate technology in its operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect the Trust against certain potential losses.

The value of Peyto’s 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, 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.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the 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. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. The Trust operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and is able to respond to changes as they occur. Crown royalty rates assessed on the Trust's oil and natural gas production are set by the government of the Province of Alberta. These rates are subject to review and modification from time to time.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Environment risks have been reviewed and to the best of Peyto's knowledge, the Trust is in compliance with environmental legislation. Currently, there is no current material impact on Peyto's operations.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, the Trust must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The 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, 2006 were audited by independent petroleum engineers Paddock Lindstrom & Associates Ltd. Paddock has been evaluating reserves in this area and for Peyto for 8 consecutive years.

Depletion and Depreciation Estimate

The full cost method of accounting for petroleum and natural gas operations is followed 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 2006 year end independent reserves evaluation which was completed in January 2007. 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.

Effect of Change in Accounting Policies

Effective January 1, 2007, the Trust adopted the revised recommendations of CICA section 1506, "Accounting Changes." The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting polices, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007. When the Trust has not applied a new primary source of GAAP that has been issued, but is not effective, the Trust will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

As of January 1, 2008, the Trust will be required to adopt two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace current Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements. The Trust is assessing the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Trust will be required to adopt CICA handbook Section 1535 "Capital Disclosures:, which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Trust is assessing the impact of this new standard on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

ADDITIONAL INFORMATION

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

Quarterly information

	2007	2006			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (mcf/d)	**106,183**	112,296	115,304	112,484	110,878
Oil & NGLs (bbl/d)	**3,607**	3,834	4,205	4,145	4,143
Barrels of oil equivalent (boe/d @ 6:1)	**21,305**	22,550	23,422	22,892	22,622
Average product prices					
Natural gas ($/mcf)	**9.77**	8.84	7.81	7.96	9.26
Oil & natural gas liquids ($/bbl)	**59.79**	54.89	64.50	66.94	57.12
$/BOE					
Average sale price ($/boe)	**58.84**	53.35	50.05	51.24	55.85
Average royalties paid ($/boe)	**10.59**	9.29	10.99	8.75	13.39
Average operating expenses ($/boe)	**2.84**	2.69	1.90	2.26	1.81
Average transportation costs ($/boe)	**0.59**	0.52	0.58	0.59	0.63
Field netback ($/boe)	**44.82**	40.85	36.58	39.64	40.02
General & administrative expense ($/boe)	**0.98**	0.85	0.55	0.43	0.06
Interest expense ($/boe)	**2.96**	2.72	2.52	2.00	1.36
Cash netback ($/boe)	**40.88**	37.28	33.51	37.21	38.60
Financial ($000 except per unit)					
Revenue	**112,825**	110,696	107,844	106,751	113,717
Royalties (net of ARTC)	**20,326**	19,271	23,680	18,236	27,258
Funds from operations	**78,364**	77,360	72,360	77,507	78,617
Funds from operations per unit	**0.74**	0.74	0.69	0.74	0.76
Total distributions	**44,350**	44,206	44,111	43,921	41,517
Total distributions per unit	**0.42**	0.42	0.42	0.42	0.40
Payout ratio	**57%**	57%	61%	57%	53%
Cash distributions (net of DRIP)	**44,350**	44,206	41,019	38,315	34,665
Payout ratio	**57%**	57%	57%	49%	44%
Earnings	**56,833**	47,012	46,155	56,768	45,293
Earnings per diluted unit	**0.54**	0.44	0.44	0.54	0.44
Capital expenditures	**30,478**	28,413	71,223	67,195	145,094
Weighted average trust units outstanding	**105,542,484**	105,251,394	104,924,702	104,472,570	103,910,640

Peyto Energy Trust

Consolidated Balance Sheets
($000)

(unaudited)

	March 31, 2007 $	December 31, 2006 $
Assets		
Current		
Cash	**10,526**	10,806
Accounts receivable *(Note 9)*	**50,451**	53,418
Financial derivative asset *(Note 9)*	**2,649**	-
Due from private placements	**-**	5,042
Prepaid expenses and deposits	**2,860**	2,681
	66,486	71,947
Property, plant and equipment *(Note 3)*	**1,075,953**	1,064,753
	1,142,438	1,136,700
Liabilities and Unitholders' Equity		
Current		
Accounts payable and accrued liabilities	**61,300**	70,836
Cash distributions payable	**14,800**	14,735
Provision for future performance based compensation	**1**	-
	76,101	85,571
Long-term debt *(Note 4)*	**415,000**	420,000
Provision for future performance based compensation	**6**	-
Asset retirement obligations	**6,324**	5,767
Future income taxes	**138,106**	135,650
	559,436	561,417
Unitholders' equity		
Unitholders' capital *(Note 5)*	**406,301**	398,434
Units to be issued *(Note 5)*	**-**	5,042
Accumulated earnings	**98,769**	86,236
Accumulated other comprehensive income *(Notes 2, 9)*	**1,831**	-
	506,901	489,712
	1,142,438	1,136,700

See accompanying notes

On behalf of the Board:

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Energy Trust

Consolidated Statements of Earnings and Comprehensive Income
($000 except per unit amounts)

(unaudited)

For the three months ended March 31,

	2007	2006
	$	$
Revenue		
Petroleum and natural gas sales, net	**92,499**	86,459
Expenses		
Operating *(Note 7)*	**5,438**	3,676
Transportation	**1,129**	1,274
General and administrative*(Note 8)*	**1,884**	126
Future performance based compensation provision	**6**	4,821
Interest on long term debt	**5,684**	2,767
Depletion, depreciation and accretion *(Note 3)*	**19,836**	19,825
	33,977	32,489
Earnings before taxes	**58,522**	53,970
Taxes		
Future income tax expense	**1,639**	8,677
Net earnings for the period	**56,883**	45,293
Other comprehensive income (loss)		
Change in unrealized gains on cash flow hedges, net of tax	**(13,817)**	-
Reclassification of realized cash flow hedges, net of tax	**(7,794)**	-
Comprehensive Income (*Note 2)*	**35,272**	45,293
Earnings per unit *(Note 5)*		
Basic	**0.54**	0.44
Diluted	**0.54**	0.44

See accompanying notes

Peyto Energy Trust

Consolidated Statements of Accumulated Earnings and Accumulated Other Comprehensive Income
($000)

(unaudited)

For the three months ended March 31,

	2007	**2006**
	$	$
Accumulated earnings, beginning of period	**86,236**	64,763
Net earnings for the period	**56,883**	45,293
Distributions *(Note 6)*	**(44,350)**	(41,517)
Accumulated earnings, end of period	**98,769**	68,539
Accumulated other comprehensive income, beginning of period	**-**	-
Adoption of financial instruments, net of tax *(Notes 2, 9)*	**23,442**	-
Other comprehensive income *(Notes 2, 9)*	**(21,611)**	-
Accumulated other comprehensive income, end of period	**1,831**	-

See accompanying notes

Peyto Energy Trust

Consolidated Statements of Cash Flows
($000)

(unaudited)

For the three months ended March 31,

	2007	2006
	$	$
Cash provided by (used in)		
Operating Activities		
Net earnings for the period	**56,883**	45,293
Items not requiring cash:		
Future income tax expense	**1,639**	8,677
Depletion, depreciation and accretion	**19,836**	19,825
Change in non-cash working capital related to operating activities	**(957)**	(30,986)
	77,401	42,809
Financing Activities		
Issue of trust units, net of costs and DRIP	**2,825**	16,955
Cash distribution paid (net of DRIP)	**(44,350)**	(34,665)
Increase (decrease) in bank debt	**(5,000)**	120,000
Change in non-cash working capital related to financing activities	**5,107**	19,655
	(41,418)	121,945
Investing Activities		
Additions to property, plant and equipment	**(30,478)**	(145,094)
Change in non-cash working capital related to investing activities	**(5,785)**	(19,660)
	(36,263)	(164,754)
Net increase (decrease) in cash	**(280)**	-
Cash, beginning of period	**10,806**	-
Cash, end of period	**10,526**	-

See accompanying notes

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 except as disclosed in Note 2. 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 2006 audited consolidated financial statements.

2. Changes in Accounting Policies

Effective January 1, 2007, the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") Section 3855, "Financial Instruments - Recognition and Measurement," Section 3865, "Hedges," Section 1530, "Comprehensive Income" and Section 3861, "Financial Instruments – Disclosure and Presentation." The Trust has adopted these standards retroactively without restatement and the comparative interim consolidated financial statements have not been restated. Transition amounts have been recorded in retained earnings or accumulated other comprehensive income ("AOCI"). Accumulated other comprehensive income is included on the balance sheet as a separate component of Unitholders' equity, and includes the effective gains and losses on derivative instruments designated as cash flow hedges.

a) Financial Instruments
All financial instruments must initially be recognized at fair value on the balance sheet. The Trust has classified each financial instrument into the following categories: "held for trading" and "available for sale" financial assets and financial liabilities; "loans or receivables"; and "other financial liabilities". Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in other comprehensive income and are transferred to earnings when the asset is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method.

b) Derivative Instruments and Hedging Activities
Derivative instruments are utilized by the Trust to manage market risk against the volatility in commodity prices. The Trust's policy is not to utilize derivative instruments for speculative purposes. The Trust has chosen to designate its existing derivative instruments as cash flow hedges. The Trust assesses on an ongoing basis, whether the derivatives that are used as cash flow hedges are highly effective in offsetting changes in cash flows of hedged items. All derivative instruments are recorded on the balance sheet at fair value in either accounts receivable or accrued liabilities. The effective portion of the gains and losses is recorded in other comprehensive income until the hedged transaction is recognized in earnings. When the earnings impact of the underlying hedged transaction is recognized in the consolidated statement of earnings, the fair value of the associated cash flow hedge is reclassified from other comprehensive income into earnings. Any hedge ineffectiveness is immediately recognized in earnings. The fair values of forward contracts are based on forward market prices.

c) Embedded Derivatives
An embedded derivative is a component of a contract that causes some of the cash flows of the combined instrument to vary in a way similar to a stand-alone derivative. This causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable, such as interest rate, financial instrument price, commodity price, foreign exchange rate, index or prices or rates, a credit rating or credit index, or other variables. The Trust has no contracts containing embedded derivatives.

d) Comprehensive Income
Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI

comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge. "Accumulated other comprehensive income" is a new equity category comprised of the cumulative amounts of OCI.

Effect of Change in Accounting Policies
Effective January 1, 2007, the Trust adopted the revised recommendations of CICA section 1506, "Accounting Changes." The new recommendations permit voluntary changes in accounting policy only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting polices, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007. When the Trust has not applied a new primary source of GAAP that has been issued, but is not effective, the Trust will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

As of January 1, 2008, the Trust will be required to adopt two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which will replace current Section 3861. The new standards require disclosure of the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. The new presentation standard essentially carries forward the current presentation requirements. The Trust is assessing the impact of these new standards on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

As of January 1, 2008, the Trust will be required to adopt CICA handbook Section 1535 "Capital Disclosures:, which requires entities to disclose their objectives, policies and processes for management of capital, and in addition, whether the entity has complied with any externally imposed capital requirements. The Trust is assessing the impact of this new standard on its consolidated financial statements and anticipates the main impact will be in terms of additional disclosures required.

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

3. Property, Plant and Equipment

($000)	**March 31, 2007 $**	December 31, 2006 $
Property, plant and equipment	**1,319,247**	1,288,616
Accumulated depletion and depreciation	**(243,294)**	(223,863)
	1,075,953	1,064,753

At March 31, 2007 costs of $38.9 million (March 31, 2006 - $39.1 million) related to undeveloped land have been excluded from the depletion and depreciation calculation.

4. 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 earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratio that range from prime to prime plus 0.75% for debt to EBITDA 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. Subsequent to March 31, 2007, the credit facility was increased, see Note 12 Subsequent Events.

5. Unitholders' Capital

Authorized: Unlimited number of voting trust units

Issued and Outstanding Trust Units (no par value) ($000)	**Number of Shares/Units**	**Amount $**
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, December 31, 2006	**105,251,394**	**398,434**
Trust units issued by private placement	460,970	7,867
Balance, March 31, 2007	**105,712,364**	**406,301**

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 105,542,484 (2006 – 103,910,640). There are no dilutive instruments outstanding.

6. Accumulated Distributions

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. Management and the Board are prepared to adjust the payout levels to balance desired distributions with our requirement to maintain an appropriate capital structure. During the quarter, the Trust paid total distributions to the unitholders in the aggregate amount of $44.4 million of which all was settled in cash (2006 – total $41.5 million; cash $34.7 million and DRIP $6.8 million) in accordance with the following schedule:

Production Period	**Record Date**	**Distribution Date**	**Per Unit**
January 2007	January 31, 2007	February 15, 2007	$0.14
February 2007	February 28, 2007	March 15, 2007	$0.14
March 2007	March 31, 2007	April 13, 2007	$0.14

7. 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.

($000)	**2007 $**	2006 $
Field expenses	**7,107**	5,396
Processing and gathering income	**(1,669)**	(1,720)
Total operating costs	**5,438**	3,676

8. General and Administrative Expenses

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

($000)	**2007** **$**	2006 $
G&A expenses	**2,537**	2,053
Overhead recoveries	**(653)**	(1,927)
Net G&A expenses	**1,884**	126

9. Financial Instruments

As described in Note 2, on January 1, 2007, the Trust adopted the new CICA requirements relating to financial instruments. The following summarizes the prospective adoption adjustments that were required as at January 1, 2007.

($000)	December 31, 2006 (As Reported)	Adoption Adjustment	January 1, 2007 (As Restated)
Consolidated Balance Sheets			
Assets			
Financial derivative asset	-	33,904	33,904
Liabilities and Unitholders' Equity			
Future income taxes	135,650	10,462	146,112
Accumulated other comprehensive income	-	23,442	23,442

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 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 March 31, 2007 is as follows:

Crude Oil Period Hedged	**Type**	**Daily Volume**	**Weighted Average Price (CAD)**
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
July 1 to September 30, 2007	Fixed price	200 bbl	$77.12/bbl
October 1 to December 31, 2007	Fixed price	200 bbl	$77.51/bbl
October 1 to December 31, 2007	Fixed price	300 bbl	$78.75/bbl
January 1 to March 31, 2008	Fixed price	200 bbl	$78.55/bbl
January 1 to March 31, 2008	Fixed price	300 bbl	$79.05/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Weighted Average Price (CAD)**
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 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 to October 31, 2007	Fixed price	5,000 GJ	$7.60/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.60/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.80/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.50/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$7.70/GJ

April 1, 2007 to March 31, 2008	Fixed price	5,000 GJ	$8.90/GJ
Nov 1, 2007 to March 31, 2008	Fixed price	5,000 GJ	$8.35/GJ

As at March 31, 2007, the Trust had committed to the future sale of 200,800 barrels of crude oil at an average price of $82.12 per barrel and 15,105,000 gigajoules (GJ) of natural gas at an average price of $7.95 per GJ or $9.30 per mcf based on the historical heating value of Peyto's natural gas. These contracts will generate revenue totaling $136.5 million. Based on the market's estimate of the future commodity prices as at March 31, 2006 the fair value of these contracts would be $133.9 million. Had these contracts been closed on March 31, 2007, the Trust would have realized a gain in the amount of $2.6 million.

Subsequent to March 31, 2007 the Trust entered into the following contracts:

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price** **(CAD)**
April 1 to October 31, 2007	Fixed price	5,000 GJ	$9.06/GJ
April 1 to October 31, 2007	Fixed price	5,000 GJ	$9.10/GJ

Fair Values of Financial Assets and Liabilities

The Trust's financial instruments include accounts receivable, financial derivative assets, current liabilities, provision for future performance based compensation and long term debt. At March 31, 2007, 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 March 31, 2007, approximately 72% was due from two companies (March 31, 2006 – 39%). Of the Trust's revenue for the year ended March 31, 2007, approximately 95% was received from three companies (March 31, 2006 – two companies, 74%).

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.

10. Supplemental Cash Flow Information

($000)	**2007** **$**	2006 $
Cash interest paid during the period	**5,684**	2,767
Cash taxes paid during the period	**-**	-

11. Contingencies and Commitments

a) Contingent Liability

From time to time, Peyto is the subject of litigation arising out of its day-to-day 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 or results of operations. 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. Affidavits of Records were filed in July, 2006 but CNRL had taken no steps to move the matter forward until February 14, 2007 when it proposed to amend its Statement of Claim to particularize further its allegations. 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:

($000)	$
2007	714
2008	1,097
2009	1,097
2010	1,097
2011	1,097
	5,102

12. Subsequent Events

On May 4, 2007, an amendment to the Trust's credit agreement was signed increasing the credit facilities to $525 million.

Peyto Exploration & Development Corp. Information

Officers

Darren Gee
President and Chief Executive Officer

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
Darren Gee
Gregory Fletcher

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

Transfer Agent
Valiant Trust Company

Head Office
2900, 450 – 1st Street SW
Calgary, AB
T2P 5H1

Phone: 403.261.6081
Fax: 403.451.4100
Web: www.peyto.com

Stock Listing Symbol: PEY.un
Toronto Stock Exchange