

# PEYTO

Energy Trust

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*Interim Report  
for the three months ended June 30, 2008*

# Highlights

	3 Months Ended June 30		%	6 Months Ended June 30		%
	2008	2007	Change	2008	2007	Change
<b>Operations</b>						
Production						
Natural gas (mcf/d)	97,819	101,812	(4)%	99,644	103,986	(4)%
Oil & NGLs (bbl/d)	3,226	3,540	(9)%	3,328	3,574	(7)%
Barrels of oil equivalent (boe/d @ 6:1)	19,530	20,509	(5)%	19,936	20,904	(5)%
Product prices						
Natural gas (\$/mcf)	9.32	8.59	8%	8.90	9.19	(3)%
Oil & NGLs (\$/bbl)	107.45	65.65	64%	95.08	62.71	52%
Operating expenses (\$/boe)	2.58	2.70	(4)%	2.63	2.77	(5)%
Transportation (\$/boe)	0.64	0.57	12%	0.63	0.58	9%
Field netback (\$/boe)	46.12	41.21	12%	44.38	43.04	3%
General & administrative expenses (\$/boe)	1.08	1.10	(2)%	1.14	1.04	10%
Interest expense (\$/boe)	3.34	2.95	13%	3.26	2.96	10%
<b>Financial (\$000, except per unit)</b>						
Revenue	114,543	100,750	14%	218,971	213,576	3%
Royalties	26,861	17,734	51%	46,125	38,060	21%
Funds from operations	74,113	69,345	7%	145,068	147,709	(2)%
Funds from operations per unit	0.70	0.66	7%	1.37	1.40	(2)%
Total distributions	46,605	44,399	5%	91,403	88,750	3%
Total distributions per unit	0.44	0.42	5%	0.86	0.84	2%
Payout ratio	63	64	(2)%	63	60	5%
Earnings	31,412	38,825	(19)%	63,852	95,709	(33)%
Earnings per diluted unit	0.30	0.37	(19)%	0.60	0.91	(34)%
Capital expenditures	21,528	12,949	66%	54,587	43,426	26%
Weighted average trust units outstanding	105,920,194	105,712,364	-	105,876,470	105,670,476	-
<b>As at June 30</b>						
Net debt (before future compensation expense)				454,417	415,266	9%
Unitholders' equity				419,922	514,651	(15)%
Total assets				1,196,367	1,150,589	4%

	3 Months Ended June 30		6 Months Ended June 30	
	2008	2007	2008	2007
<b>Net Earnings</b>	31,412	38,825	63,852	95,709
<b>Items not requiring cash:</b>				
Non-cash provision for performance based compensation	5,349	431	8,845	438
Future income tax expense	19,510	11,326	35,243	12,965
Depletion, depreciation and accretion	17,842	18,763	37,128	38,597
<b>Funds from operations <sup>(1)</sup></b>	<b>74,113</b>	<b>69,345</b>	<b>145,068</b>	<b>147,709</b>

<sup>(1)</sup>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. Management believes 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” or “the Trust”) is pleased to present the operating and financial results for the second quarter of the 2008 fiscal year. Peyto is an explorer and producer of unconventional tight gas assets in Alberta’s Deep Basin and, due to its trust structure, is able to flow profits from the success of that business to its unitholders in the form of distributions. The success of Peyto’s strategy has resulted in the growth of both assets and distributions over time.

Peyto is well known for building its own high quality, sweet natural gas assets that exhibit long reserve life, low operating costs and high revenue per boe. The following summarizes the Trust’s foundation:

- Long reserve life – Proved Producing 13 years, Total Proved 16 years, Proved plus Probable 21 years
- Low operating costs - \$2.58/boe, three months ending June 30, 2008
- High revenue per boe - \$70.16/boe before hedging, \$64.45/boe after hedging, three months ending June 30, 2008
- Low base general and administrative costs - \$1.08/boe, three months ending June 30, 2008
- High field netback – \$46.12/boe, three months ending June 30, 2008
- High operatorship – operates over 95% of its production
- Cash distributions – cash distributions of \$46.6 million were 63% of funds from operations for the three months ended June 30, 2008
- Low debt to funds from operations ratio – 1.5:1 (net debt, before provision for future compensation, divided by annualized second quarter 2008 funds from operations)
- Distribution growth – distributions have been increased 6 times; they have never decreased, and are now 100% higher than when the trust was formed in July, 2003
- Since inception, Peyto has raised a total of \$410 million issuing units from treasury, accumulated earnings of \$804 million, and distributed \$714 million to unitholders
- Transparent capital structure - no convertible debentures, no exchangeable shares, no stock options, no warrants

The second quarter was highlighted by stronger commodity prices, increased distributions and increased capital spending as improved business conditions offered better returns. The following summarizes performance highlights of the business for the second quarter of 2008.

- Capital expenditures – \$21.5 million was invested into finding and developing new natural gas reserves in the quarter, a 66% increase from Q2 2007. Over 75% of the capital was spent in June following spring breakup. Capital expenditures for the first half of 2008 were \$54.6 million versus \$43.4 million for the first half of 2007, an increase of 26%
- Production - decreased 5% from 20,509 boe/d in the second quarter of 2007 to 19,530 boe/d in the second quarter of 2008
- Production per unit - decreased 5% per trust unit from the second quarter of 2007, after adjusting for debt and future unrealized performance based compensation
- Per unit funds from operations – increased 7% from the previous year to \$0.70/unit
- Strong commodity prices – Natural gas prices, both before and after hedging, were stronger in Q2 2008 with prices averaging \$10.46/mcf and \$9.32/mcf, respectively versus \$8.10/mcf and \$8.59/mcf in Q2 2007
- Hedging – a \$10.1 million loss for the three months ending June 30, 2008 was realized
- Distributions per unit increased 5% from the second quarter of 2007 while the cash payout ratio decreased to 63% in Q2 2008 from 64% in Q2 2007. A total of \$46.6 million or \$0.44 per unit was distributed to unitholders in the second quarter of 2008
- Net debt increased 9% from \$415 million in Q2 2007 to \$454 million in Q2 2008. This leaves available borrowing capacity of \$96 million on bank lines of \$550 million

*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). This could be misleading if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.*

- (1) *Per unit results are adjusted for changes in net debt (including future performance-based compensation) and equity. Net debt is converted to equity using the June 30 unit price of \$18.20 for 2007 and \$20.15 for 2008.*

## **Quarterly Review**

In the second quarter, Peyto spent \$21.5 million drilling and connecting new tight gas wells in its Alberta Deep Basin core areas. The majority of the capital was invested in June, following spring breakup, as the Trust embarked on its expanded capital program. Drilling and completions accounted for \$17.0 million in the quarter, while wellsite equipment and tie-ins accounted for \$3.2 million. Successful land sale bids and new seismic data made up the balance of the capital expenditures at \$1.2 million.

Peyto drilled 9 gross (6.9 net, 77% working interest) gas wells, completed 16 gross (14 net) gas zones and brought 15 gross (13.5 net) gas zones on production in the quarter. Production for the quarter averaged 19,530 boe/d, comprised of 97.8 mmcf/d of gas and 3,226 bbl/d of oil and natural gas liquids (NGLs).

Strong commodity prices were realized in the quarter with an average natural gas price of \$9.32/mcf and an average liquids price of \$107.45/bbl, after hedging losses. Royalties to the Alberta government averaged 23.5% or \$15.11/boe, up from \$9.50/boe in the previous year due to higher commodity prices. Operating costs in Q2 2008 were \$2.58/boe, down from \$2.68/boe in the previous quarter and \$2.70/boe a year ago. Reductions in operating costs resulted from lower third party processing charges which more than offset increases due to property taxes, chemicals and fuel. The high commodity prices and low costs combined to yield the highest field netback in the Trust's history at \$46.12/boe.

## **Activity Update**

Post breakup, there have been five drilling rigs actively exploring and developing both the extensive Cardium gas trend across the Trust's land base, as well as the established Notikewin and Cadomin trends in the greater Sundance area. This compares to three drilling rigs working at this same time last year. The five rigs currently active are drilling much more efficiently than in past years, effectively delivering as many wells as 7 to 8 rigs were in 2006.

To date in 2008, Peyto has drilled 34 gross (24.6 net) wells and brought on 37 gross (35.0 net) zones accounting for approximately 2500 boe/d of new production. The Trust is looking to maintain this level of activity through the balance of 2008, on track with previous capital guidance for the year of approximately \$175 million. Other than some minor pipeline looping, it is anticipated that existing processing facilities and gathering infrastructure will be sufficient to handle this year's new volumes.

## **Marketing**

Natural gas prices have been extremely volatile over the last few months. In January 2008, the monthly average AECO (Alberta) price was \$6.10/GJ. The price then rose to \$10.80/GJ by July followed promptly by a 22% drop in August to \$8.44/GJ. Oil prices, to which our condensate price is closely tied, were only slightly less volatile, dropping approximately 15% in the last month. Numerous factors are at play in the energy markets including global supply and demand, US economic recession, currency markets, Middle East unrest, weather forecasts and environmental concerns. It makes predicting future natural gas prices challenging and is the reason that Peyto adheres to a marketing strategy which smoothes out such volatility through future sales. As at June 30, 2008, the Trust had committed to the future sale of 21,035,000 GJ of natural gas at an average price of \$7.88/GJ (\$9.22/mcf based on the historical heating value of Peyto's natural gas). Had these contracts been closed on June 30, 2008, the Trust would have realized a loss in the amount of \$80 million. By comparison, had these contracts been closed at July 31, 2008 prices, the Trust would have realized a loss in the amount of \$12 million.

For the second quarter of 2008, Peyto's natural gas price before future sales was \$10.46/mcf, up 29% from \$8.10 in Q2 2007. Forward sales for the second quarter 2008 decreased the realized natural gas price by \$1.14/mcf versus a \$0.49/mcf gain in the equivalent period in 2007. In general, this approach of forward selling a portion of the Trusts production will realize hedging losses when the short term prices rise and hedging gains when the short term prices fall.

## **Outlook**

Despite the recent drop in natural gas price futures, 2008 is unfolding as a year of record commodity prices. Industry activity has re-aligned service costs such that good returns are again being realized. Alberta's new royalty framework, to take effect January 2009, has been incorporated into the economic evaluation of future drilling ideas. With an industry leading cost structure to help offset the increased royalties, Peyto remains in

the enviable position of having an abundance of profitable drilling prospects. The Trust is actively working to execute on them in both a timely and cost efficient manner.

Peyto remains committed to its strategy of exploration and development of Deep Basin tight gas. These high quality assets, when combined with Peyto's low cost structure, deliver some of the highest returns on capital in the industry. Unitholders who visit the Peyto website at [www.Peyto.com](http://www.Peyto.com) will find a monthly report from the President with up to date production and capital spending as well an investor presentation designed to educate and inform.

A handwritten signature in black ink, appearing to be 'D. Gee', with a long horizontal line extending to the right.

Darren Gee  
President and Chief Executive Officer  
August 6, 2008

## **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 June 30, 2008 and the audited consolidated financial statements of Peyto Energy Trust ("Peyto") for the year ended December 31, 2007. 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 August 5, 2008. Additional information about Peyto, including the most recently filed annual information form is available at [www.sedar.com](http://www.sedar.com).

On January 1, 2008, Peyto completed an internal reorganization. As a result of this reorganization, all of the oil and gas assets of Peyto are now held in the Peyto Energy Limited Partnership. Peyto Energy Administration Corp. is the administrator of Peyto and Peyto Operating Trust, and PEDC is the general partner of the Partnership. Certain subsidiaries of Peyto were amalgamated pursuant to the internal reorganization.

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. Peyto believes 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.

Peyto's foreign ownership level currently stands at approximately 38 percent, well below the level that would jeopardize Peyto's status as a mutual fund trust under current or proposed legislation.

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).

### **Alberta Government Crown Royalty Regime Change**

On October 25, 2007 the Alberta Government released a new Royalty Framework pertaining to royalties on oil and gas resources including oil sands, conventional oil and gas, and coalbed methane. This new framework is scheduled to take effect on January 1, 2009 and is based on the Alberta government's response

to the recommendations put forth by the Alberta Royalty Review Panel. Further clarity by the Alberta government regarding the New Royalty Framework was announced on April 10, 2008, with the incentives for deeper gas exploration being partially re-established. Previously announced pricing curves were not modified, and therefore much of the recent natural gas price improvement will result in increased royalty rates in January 2009. Those increased royalty rates would lessen the positive impact to funds from operations that would have otherwise been derived from higher gas prices. Peyto's independent engineers have assessed the impact of the new royalty framework on the value to the Trust's reserve assets and determined that the overall impact on net present value is similar to that of funds from operations but less pronounced.

#### **Federal Government's Trust Tax Legislation**

On June 12, 2007, Bill C-52 (the "SIFT Rules") enacted the October 31, 2006 proposal to impose a new tax on distributions from flow-through entities, including publicly traded income trusts. Under the SIFT Rules, existing income trusts will be subject to the new measures commencing in their 2011 taxation year, following a four-year grace period. 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 the Federal Corporate rate and applicable provincial corporate rate. 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 but will not be eligible to use the dividend tax credit. 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 tax at the trust level, distributions to tax-deferred accounts and non-residents will be reduced.

On July 14, 2008, the Department of Finance released proposed amendments (the "Conversion Rules") to the Income Tax Act (Canada) to facilitate the conversion of existing income trusts into corporations. In general, the proposed amendments will permit a conversion to be tax deferred for both the unitholders and the income trust. However, the Conversion Rules provide alternative approaches to completing a tax deferred conversion. The Department of Finance has requested comments on the Conversion Rules by September 15, 2008 and it is anticipated that there will be further amendments to the Conversion Rules. Management and the Board of Directors continue to review the impact of the Trust tax on our business strategy and while there has not been a decision as to Peyto's future direction, at this time we are of the opinion that the conversion from a trust into a corporation may be the most logical and tax efficient alternative for unitholders. We expect future technical interpretations and details will further clarify the legislation.

#### **Climate Change Programs**

On March 8, 2007, the Alberta government introduced legislation to reduce greenhouse gas emission intensity. Bill 3 states that facilities emitting more than 100,000 tonnes of greenhouse gases per year must reduce their emissions intensity by 12 per cent over the average emissions levels of 2003, 2004 and 2005; if they are not able to do so, these facilities will be required to pay \$15 per tonne for every tonne above the 12 per cent target, beginning on July 1, 2007. At this time, the Trust has determined that there is currently no impact of this legislation on Peyto's existing facilities.

In April 2007, the Federal Government announced a new climate change plan that calls for greenhouse gas emissions to be reduced by 20 per cent below current levels by 2020. Environment Canada has been supplied with the necessary Schedule 19 under section 71 of the Canadian Environmental Protection Act. The Federal Government is drafting specific regulations to achieve an 18% reduction in emissions-intensity by 2010. Those regulations are due for public comment by the fall of 2008.

#### **United States Proposed Changes to Qualifying Dividends**

A bill was introduced into United States Congress on March 23, 2007 that could deny qualified dividend income treatment to the distributions made by the Trust to its U.S. unitholders. The bill is in the first step of the legislative process and it is uncertain whether it will eventually be passed into law in its current form. If the bill is passed in its current form, distributions received by U.S. unitholders would no longer qualify for the 15 per cent qualified dividend tax rate. For additional information, please refer to the February 27, 2008 press release "2007 United States Tax Information".

## 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, 2007, the total Proved plus Probable reserves were 164.8 million barrels of oil equivalent with a reserve life of 21 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 nine years indicate that these principles have been successfully implemented. This business model makes Peyto a truly unique energy trust.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per unit amounts)	2008			2007		2006		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue (net of royalties)	<b>87,682</b>	85,164	82,307	75,589	83,017	92,499	91,425	84,164
Funds from operations	<b>74,113</b>	70,955	68,976	62,938	69,345	78,364	77,360	72,360
Per unit – basic and diluted	<b>0.70</b>	0.67	0.65	0.60	0.66	0.74	0.74	0.69
Earnings (loss)	<b>31,412</b>	32,440	73,289	39,886	38,825	56,883	47,012	46,155
Per unit – basic and diluted	<b>0.30</b>	0.31	0.69	0.37	0.37	0.54	0.44	0.44

## RESULTS OF OPERATIONS

### Production

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Natural gas (mmcf/d)	<b>97.8</b>	101.8	<b>99.6</b>	104.0
Oil & natural gas liquids (bbl/d)	<b>3,226</b>	3,540	<b>3,328</b>	3,574
Barrels of oil equivalent (boe/d)	<b>19,530</b>	20,509	<b>19,936</b>	20,904

Natural gas production averaged 97.8 mmcf/d in the second quarter of 2008, 4 percent lower than the 101.8 mmcf/d reported for the same period in 2007. Oil and natural gas liquids production averaged 3,226 bbl/d, a decrease of 9 percent from 3,540 bbl/d reported in the prior year. Second quarter production decreased 5 percent from 20,509 boe/d to 19,530 boe/d. The production decreases are attributable to Peyto's natural resource declines and reduced drilling activity.

### Commodity Prices

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Natural gas (\$/mcf)	<b>10.46</b>	8.10	<b>9.17</b>	8.14
Hedging – gas (\$/mcf)	<b>(1.14)</b>	0.49	<b>(0.27)</b>	1.05
Natural gas – after hedging (\$/mcf)	<b>9.32</b>	8.59	<b>8.90</b>	9.19
Oil and natural gas liquids (\$/bbl)	<b>107.45</b>	63.19	<b>96.54</b>	60.00
Hedging – oil (\$/bbl)	<b>-</b>	2.46	<b>(1.46)</b>	2.71
Oil and natural gas liquids – after hedging (\$/bbl)	<b>107.45</b>	65.65	<b>95.08</b>	62.71
Total Hedging (\$/boe)	<b>(5.71)</b>	2.85	<b>(1.61)</b>	5.72

Peyto's natural gas price before hedging losses averaged \$10.46/mcf during the second quarter of 2008, an increase of 29 percent from \$8.10/mcf reported for the equivalent period in 2007. Oil and natural gas liquids prices averaged \$107.45/bbl up 70 percent from \$63.19/bbl a year earlier. Hedging activity for the second quarter of 2008 reduced Peyto's price achieved by \$1.14/mcf or \$5.71/boe.

## Revenue

(\$000)	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Natural gas	<b>93,134</b>	75,078	<b>166,325</b>	153,113
Oil and natural gas liquids	<b>31,548</b>	20,358	<b>58,484</b>	38,805
Hedging gain (loss)	<b>(10,139)</b>	5,314	<b>(5,838)</b>	21,658
Total revenue	<b>114,543</b>	100,750	<b>218,971</b>	213,576

For the three months ended June 30, 2008, gross revenue increased 14 percent to \$114.5 million from \$100.8 million for the same period in 2007. The increase in revenue for the period was the result of increased prices as detailed in the following table:

	Three Months ended June 30			Six Months ended June 30		
	2008	2007	\$million	2008	2007	\$million
Total Revenue, June 30, 2007			<b>100.8</b>			<b>213.6</b>
Revenue change due to:						
<b>Natural gas</b>						
Volume (mmcf)	8,902	9,265	<b>(3.1)</b>	18,135	18,821	<b>(6.3)</b>
Price (\$/mcf)	\$9.32	\$8.59	<b>6.5</b>	\$8.90	\$9.19	<b>(5.3)</b>
<b>Oil &amp; NGL</b>						
Volume (mdbl)	294	322	<b>(1.9)</b>	606	647	<b>(2.6)</b>
Price (\$/bbl)	\$107.45	\$65.65	<b>12.2</b>	\$95.08	\$62.71	<b>19.6</b>
Total Revenue, June 30, 2008			<b>114.5</b>			<b>219.0</b>

## 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.

(\$000 except per unit amounts)	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Royalties	<b>26,861</b>	17,734	<b>46,125</b>	38,060
% of sales before hedging	<b>21.5</b>	18.5	<b>20.5</b>	19.7
% of sales after hedging	<b>23.5</b>	17.6	<b>21.1</b>	17.8
\$/boe	<b>15.11</b>	9.50	<b>12.71</b>	10.06

For the second quarter of 2008, royalties averaged \$15.11/boe or approximately 23.5 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 rates decline, the associated effective Crown Royalty rate will decrease. In addition, Peyto will receive Deep Gas Royalty Holiday or Marginal Deep Gas Well Program benefits until December 31, 2008, which further decrease our crown royalty rate. In its 9 year history, Peyto has invested over \$1.5 billion in capital projects and has found and developed gas reserves that have paid over \$445 million in royalties to Albertans.

## 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.

(\$000 except per unit amounts)	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Operating costs				
Field expenses	<b>7,328</b>	7,714	<b>14,878</b>	14,821
Processing and gathering income	<b>(2,748)</b>	(2,676)	<b>(5,333)</b>	(4,345)
Total operating costs	<b>4,580</b>	5,038	<b>9,545</b>	10,476
\$/boe	<b>2.58</b>	2.70	<b>2.63</b>	2.77

Transportation	<b>1,133</b>	1,071	<b>2,293</b>	2,200
\$/boe	<b>0.64</b>	0.57	<b>0.63</b>	0.58

Operating costs were \$4.6 million in the second quarter of 2008 compared to \$5.0 million during the same period a year earlier. Transportation expense increased due to an increase in pipeline tariffs effective January 1, 2008. On a unit-of-production basis, operating costs averaged \$2.58/boe in the second quarter of 2008 compared to \$2.70/boe for the second quarter of 2007.

### 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.

(\$/boe)	Three Months ended June 30		Six Months ended June 30	
	<b>2008</b>	2007	<b>2008</b>	2007
Gross Sale Price	<b>70.16</b>	51.13	<b>61.96</b>	50.73
Hedging gain (loss)	<b>(5.71)</b>	2.85	<b>(1.61)</b>	5.72
Net Sale Price	<b>64.45</b>	53.98	<b>60.35</b>	56.45
Less:				
Royalties	<b>15.11</b>	9.50	<b>12.71</b>	10.06
Operating costs	<b>2.58</b>	2.70	<b>2.63</b>	2.77
Transportation	<b>0.64</b>	0.57	<b>0.63</b>	0.58
Field netback	<b>46.12</b>	41.21	<b>44.38</b>	43.04
General and administrative	<b>1.08</b>	1.10	<b>1.14</b>	1.04
Interest on long-term debt	<b>3.34</b>	2.95	<b>3.26</b>	2.96
Cash netback	<b>41.70</b>	37.16	<b>39.98</b>	39.04

### General and Administrative Expenses

(\$000 except per unit amounts)	Three Months ended June 30		Six Months ended June 30	
	<b>2008</b>	2007	<b>2008</b>	2007
G&A expenses	<b>2,579</b>	2,522	<b>5,468</b>	5,059
Overhead recoveries	<b>(661)</b>	(461)	<b>(1,347)</b>	(1,114)
Net G&A expenses	<b>1,918</b>	2,061	<b>4,121</b>	3,945
\$/boe	<b>1.08</b>	1.10	<b>1.14</b>	1.04

General and administrative expenses before overhead recoveries increased 2% from \$2.5 million in the second quarter of 2007 to \$2.6 million for the same period in 2008. Net of overhead recoveries associated with the capital expenditures program, general and administrative costs decreased to \$1.08 per boe in the second quarter of 2008 from \$1.10 per boe in the second quarter of 2007. Second quarter 2008 overhead recoveries were 43% higher than second quarter 2007 recoveries due to the increase in capital expenditures.

### Interest Expense

	Three Months ended June 30		Six Months ended June 30	
	<b>2008</b>	2007	<b>2008</b>	2007
Interest expense (\$000)	<b>5,938</b>	5,502	<b>11,819</b>	11,186
\$/boe	<b>3.34</b>	2.95	<b>3.26</b>	2.96
Average interest rate	<b>5.4%</b>	5.6%	<b>5.4%</b>	5.5%

Second quarter 2008 interest expense was \$5.9 million or \$3.34/boe compared to \$5.5 million or \$2.95/boe a year earlier. Interest rates continue to be favorable and are not expected to increase substantially in the short-term. The average interest rate for the second quarter of 2008 was 5.4% compared to 5.6% for the second quarter of 2007.

### Depletion, Depreciation and Accretion

The 2008 second quarter provision for depletion, depreciation and accretion totaled \$17.8 million as compared to \$18.8 million in 2007. On a unit-of-production basis, depletion, depreciation and accretion costs averaged \$10.04/boe as compared to \$10.05/boe in 2007.

## Income Taxes

The second quarter provision for future income tax was \$19.5 million (2007 - \$13.0 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 Trust may use these resource pools to increase the tax free return of capital component of the cash distributions. As a result of the internal reorganization that took place January 1, 2008, the tax rate applied to differences between the accounting basis and tax basis of the Trust's assets increased by approximately 3% (the difference between future corporate income tax rates and future tax rates applicable to trusts).

Canada Revenue Agency ("CRA") has conducted an audit of restructuring costs claimed as a result of the trust conversion in 2003 that has resulted in the reclassification of \$41.0 million dollars in employment related costs as eligible capital. The Trust has not yet received a notice of reassessment from the CRA. Based upon consultation with legal counsel, Management's view is that CRA's position has no merit. A notice of objection will be filed upon receipt of the notice of reassessment.

## MARKETING

### Commodity Price Risk Management

The Trust is a party to certain 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 second quarter of 2008, a hedging loss of \$10.1 million was recorded as compared to a gain of \$5.3 million in the second quarter of 2007. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.85/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.60/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.40/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.60/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.80/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.05/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.20/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.10/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.20/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.40/GJ
April 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.05/GJ
April 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$6.82/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.25/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.50/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.60/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.00/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.25/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.40/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.65/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$9.00/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$9.70/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$7.85/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$8.12/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$8.95/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$9.30/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$10.20/GJ

As at June 30, 2008, the Trust had committed to the future sale of 21,035,000 gigajoules (GJ) of natural gas at an average price of \$7.88 per GJ or \$9.22 per mcf based on the historical heating value of Peyto's natural gas. Had these contracts been closed on June 30, 2008, the Trust would have realized a loss in the amount of \$80.3 million.

### 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 June 30, 2008, the increase or decrease in earnings for each 100 bps change in interest rate paid on the outstanding revolving demand loan amounts to approximately \$4.4 million per annum.

## LIQUIDITY AND CAPITAL RESOURCES

### Funds from Operations

(\$000)	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Net earnings	<b>31,412</b>	38,825	<b>63,852</b>	95,709
Items not requiring cash:				
Non-cash provision for performance based compensation	<b>5,349</b>	431	<b>8,845</b>	438
Future income tax expense	<b>19,510</b>	11,326	<b>35,243</b>	12,965
Depletion, depreciation & accretion	<b>17,842</b>	18,763	<b>37,128</b>	38,597
Funds from operations	<b>74,113</b>	69,345	<b>145,068</b>	147,709

For the second quarter ended June 30, 2008, funds from operations totaled \$74.1 million or \$0.70 per unit, as compared to \$69.3 million, or \$0.66 per unit during the same period in 2007. Peyto's policy is to maintain a sustainable distribution to unitholders, 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 \$550 million including a \$530 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.

At June 30, 2008, \$450 million was drawn under the facility. Working capital liquidity is maintained by drawing from and repaying the unutilized credit facility as needed. At June 30, 2008, the working capital deficit was \$84.6 million (including a non-cash current liability of \$75.8 million for unrealized mark to market future hedging losses).

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 2008 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

On March 17, 2008 the Trust completed a private placement of 207,830 trust units to employees and consultants for net proceeds of \$3,932,143 (\$18.92 per unit). These trust units were issued on March 17, 2008. On March 17, 2008, subsequent to the issuance of these trust units, 105,920,194 trust units were outstanding (December 31, 2007 – 105,712,364).

Authorized: Unlimited number of voting trust units

Issued and Outstanding:

<b>Trust Units (no par value) (\$000)</b>	<b>Number of Shares/Units</b>	<b>Amount \$</b>
<b>Balance, December 31, 2006</b>	<b>105,251,394</b>	<b>398,434</b>
Trust units issued by private placement	460,970	7,867
<b>Balance, December 31, 2007</b>	<b>105,712,364</b>	<b>406,301</b>
Trust units issued by private placement	207,830	3,932
<b>Balance, June 30, 2008</b>	<b>105,920,194</b>	<b>410,233</b>

### 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. A provision for compensation expense of \$3,900,000 was recorded for the first half of 2008.

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. For rights vesting in 2008, a tax factor of 1.333 will be applied to determine the amount to be paid. Commencing in 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 June 30, 2008, compensation costs related to 4.3 million non-vested rights (4% of the total number of trust units outstanding), with an average grant price of \$19.31, are \$4.9 million. The Trust records a non-cash provision for future compensation expense over the life of the rights. The cumulative provision is \$5.2 million.

### Capital Expenditures

Net capital expenditures for the second quarter of 2008 totaled \$21.5 million. Exploration and development related activity represented \$18.3 million or 85% of the total, while expenditures on facilities, gathering systems and equipment totaled \$3.2 million or 15% of the total. The following table summarizes capital expenditures for the quarter.

(\$000)	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Land	852	74	852	441
Seismic	393	602	915	845
Drilling – Exploratory & Development	17,020	10,572	43,908	35,712
Production Equipment, Facilities &	3,248	1,699	8,892	6,420

Pipelines				
Acquisitions & Dispositions	-	-	-	-
Office Equipment	15	2	20	8
Total Capital Expenditures	<b>21,528</b>	12,949	<b>54,589</b>	43,426

### Distributions

	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Funds from operations (\$000)	<b>74,113</b>	69,345	<b>145,068</b>	147,709
Total distributions (\$000)	<b>46,605</b>	44,399	<b>91,403</b>	88,750
Total distributions per unit (\$)	<b>0.44</b>	0.42	<b>0.86</b>	0.84
Payout ratio (%)	<b>63</b>	64	<b>63</b>	60

Peyto's strategy is to maintain a sustainable distribution that is well balanced with the business needs and high quality assets, while offering the prospect of growth into the future. The Board of Directors is prepared to adjust the payout levels to achieve the desired distributions while maintaining 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.

### Accumulated Earnings and Distributions

(\$000)	Three Months ended June 30		Six Months ended June 30	
	2008	2007	2008	2007
Opening accumulated earnings	<b>772,478</b>	588,037	<b>740,038</b>	531,154
Net earnings for the period	<b>31,412</b>	38,825	<b>63,852</b>	95,709
Total accumulated earnings	<b>803,890</b>	626,863	<b>803,890</b>	626,863
Total accumulated distributions	<b>(713,869)</b>	(533,668)	<b>(713,869)</b>	(533,668)
Accumulated earnings per Balance Sheet	<b>90,021</b>	93,195	<b>90,021</b>	93,195

Since inception, Peyto has accumulated earnings of \$803.9 million and distributed \$713.8 million to unitholders.

### Contractual Obligations

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

(\$000)	\$
2008	548
2009	1,097
2010	1,097
2011	1,097
	<b>3,839</b>

### 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 second quarter of 2008, the Trust paid distributions to the unitholders in the amount of \$46.6 million (2007 - \$44.4 million) in accordance with the following schedule:

<b>Production Period</b>	<b>Record Date</b>	<b>Distribution Date</b>	<b>Per Unit</b>
Special Distribution	January 1, 2008	January 15, 2008	\$0.0035
January 2008	January 31, 2008	February 15, 2008	\$0.14
February 2008	February 28, 2008	March 14, 2008	\$0.14
March 2008	March 31, 2008	April 15, 2008	\$0.14
April 2008	April 30, 2008	May 15, 2008	\$0.14
May 2008	May 31, 2008	June 13, 2008	\$0.15
June 2008	June 30, 2008	July 15, 2008	\$0.15

### **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.

A bill was introduced into United States Congress on March 23, 2007 that could deny qualified dividend income treatment to the distributions made by the Trust to its U.S. unitholders. The bill is in the first step of the legislative process and it is uncertain whether it will eventually be passed into law in its current form. If the bill is passed in its current form, distributions received by U.S. unitholders would no longer qualify for the 15 per cent qualified dividend tax rate.

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 Chief Financial Officer ("CFO"), 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 CFO. Based on this evaluation, the CEO and CFO 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.

### **Internal Controls Update**

Peyto is required to comply with Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings". The 2008 certificate requires that the Trust disclose in the interim MD&A any changes in the Trust's internal control over financial reporting that occurred during the period that has materially affected, or is reasonably likely to materially affect the Trust's internal control over financial reporting. The Trust confirms that no such changes were made to the internal controls over financial reporting during the first six months of 2008.

## **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, 2007 were audited by independent petroleum engineers Paddock Lindstrom & Associates Ltd. Paddock has been evaluating reserves in Peyto's areas of operation and for Peyto for 9 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 2007 year end independent reserves evaluation which was completed in January 2008. 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**

As of January 1, 2008, the Trust adopted two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced 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. . Refer to Note 10 to the Consolidated Financial Statements for the additional disclosures under section 3862.

As of January 1, 2008, the Trust adopted 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. Refer to Note 11 to the Consolidated Financial Statements.

As of January 1, 2009, the Trust will be required to adopt new CICA Handbook Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs." Various changes have been made to other standards to be consistent with the new Section 3064, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and of intangible assets. Standards concerning goodwill are unchanged from the standards in the previous Section 3062. The Trust is assessing the impact of this new standard on its consolidated financial statements, however, the adoption is not expected to have a material impact on its consolidated financial statements.

### **ADDITIONAL INFORMATION**

Additional information relating to Peyto Energy Trust can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.peyto.com](http://www.peyto.com).

## Quarterly information

	2008			2007	
	Q2	Q1	Q4	Q3	Q2
<b>Operations</b>					
Production					
Natural gas (mcf/d)	<b>97,819</b>	101,468	104,749	97,000	101,812
Oil & NGLs (bbl/d)	<b>3,226</b>	3,430	3,675	3,573	3,540
Barrels of oil equivalent (boe/d @ 6:1)	<b>19,530</b>	20,342	21,134	19,740	20,509
Average product prices					
Natural gas (\$/mcf)	<b>9.32</b>	8.49	7.67	7.61	8.59
Oil & natural gas liquids (\$/bbl)	<b>107.45</b>	83.45	75.23	70.51	65.65
\$/BOE					
Average sale price (\$/boe)	<b>64.45</b>	56.41	51.12	50.15	53.98
Average royalties paid (\$/boe)	<b>15.11</b>	10.40	8.78	8.52	9.50
Average operating expenses (\$/boe)	<b>2.58</b>	2.68	2.25	2.48	2.70
Average transportation costs (\$/boe)	<b>0.64</b>	0.63	0.54	0.58	0.57
Field netback (\$/boe)	<b>46.12</b>	42.70	39.54	38.57	41.21
General & administrative expense (\$/boe)	<b>1.08</b>	1.19	0.87	0.82	1.10
Interest expense (\$/boe)	<b>3.34</b>	3.18	3.19	3.10	2.95
Cash netback (\$/boe)	<b>41.70</b>	38.33	35.49	34.65	37.16
<b>Financial (\$000 except per unit)</b>					
Revenue	<b>114,543</b>	104,428	99,387	91,070	100,750
Royalties	<b>26,861</b>	19,264	17,080	15,482	17,734
Funds from operations	<b>74,113</b>	70,955	68,976	62,938	69,345
Funds from operations per unit	<b>0.70</b>	0.67	0.65	0.60	0.66
Total distributions	<b>46,605</b>	44,798	44,399	44,399	44,399
Total distributions per unit	<b>0.44</b>	0.42	0.42	0.42	0.42
Payout ratio	<b>63%</b>	63%	64%	71%	64%
Earnings	<b>31,412</b>	32,440	73,289	39,886	38,825
Earnings per diluted unit	<b>0.30</b>	0.31	0.69	0.37	0.37
Capital expenditures	<b>21,528</b>	33,058	35,546	42,598	12,949
Weighted average trust units outstanding	<b>105,920,194</b>	105,744,338	105,712,364	105,712,364	105,712,364

## Peyto Energy Trust

### Consolidated Balance Sheets

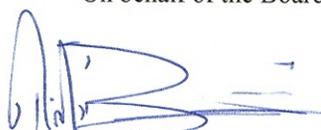
(\$000)

(unaudited)

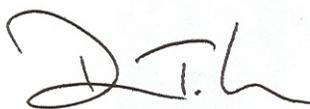
	June 30, 2008	December 31, 2007
<b>Assets</b>		
<b>Current</b>		
Cash	5,726	20,547
Accounts receivable (Note 10)	53,462	47,728
Financial derivative instruments (Note 10)	-	7,405
Prepaid expenses and deposits	6,289	5,020
	65,477	80,700
<b>Property, plant and equipment (Note 4)</b>	<b>1,130,890</b>	<b>1,111,532</b>
	<b>1,196,367</b>	<b>1,192,232</b>
<b>Liabilities and Unitholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	54,006	85,923
Distributions payable	15,888	14,800
Provision for future performance based compensation	4,346	16
Financial derivative instruments (Note 10)	75,793	-
Future income taxes	-	2,285
	150,033	103,024
Long-term debt (Note 5)	450,000	430,000
Provision for future performance based compensation	4,769	253
Asset retirement obligations	8,664	6,766
Financial derivative instruments (Note 10)	4,539	-
Future income taxes	158,440	123,197
	626,412	560,216
<b>Unitholders' equity</b>		
Unitholders' capital (Note 6)	410,233	406,301
Accumulated earnings (Note 7)	90,021	117,572
Accumulated other comprehensive income (loss)	(80,332)	5,119
Accumulated earnings and other comprehensive income (loss)	9,689	122,691
	419,922	528,992
	<b>1,196,367</b>	<b>1,192,232</b>

See accompanying notes

On behalf of the Board:



Director



Director

(signed) "Michael MacBean"

(signed) "Darren Gee"

## Peyto Energy Trust

### Consolidated Statements of Earnings

(\$000 except per unit amounts)

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
<b>Revenue</b>				
Oil and gas sales	114,543	100,750	218,971	213,576
Royalties	(26,861)	(17,733)	(46,125)	(38,060)
Petroleum and natural gas sales, net	87,682	83,017	172,846	175,516
<b>Expenses</b>				
Operating (Note 8)	4,580	5,038	9,545	10,476
Transportation	1,133	1,071	2,293	2,200
General and administrative (Note 9)	1,918	2,061	4,121	3,945
Future performance based compensation provision	5,349	431	8,845	438
Interest on long term debt	5,938	5,502	11,819	11,186
Depletion, depreciation and accretion (Note 4)	17,842	18,763	37,128	38,597
	36,760	32,866	73,751	66,842
Earnings before taxes	50,922	50,151	99,095	108,674
<b>Taxes</b>				
Future income tax expense	19,510	11,326	35,243	12,965
<b>Net earnings for the period</b>	<b>31,412</b>	<b>38,825</b>	<b>63,852</b>	<b>95,709</b>
Earnings per unit (Note 6)				
Basic and diluted	0.30	0.37	0.60	0.91

See accompanying notes

**Peyto Energy Trust**

**Consolidated Statements of Comprehensive Income (Loss)**

(\$000 except per unit amounts)

(unaudited)

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Net earnings for the period</b>	<b>31,412</b>	38,825	<b>63,852</b>	95,709
<b>Other comprehensive income (loss)</b>				
Change in unrealized gain (loss) on cash flow hedges	<b>(32,234)</b>	9,650	<b>(79,613)</b>	(4,166)
Realized gain (loss) on cash flow hedges	<b>(10,150)</b>	3,674	<b>(5,838)</b>	(4,121)
<b>Comprehensive income (loss)</b>	<b>(10,972)</b>	52,149	<b>(21,599)</b>	87,422

*See accompanying notes*

**Peyto Energy Trust**

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

(unaudited)

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Accumulated earnings, beginning of period	<b>105,214</b>	98,769	<b>117,572</b>	86,236
Net earnings for the period	<b>31,412</b>	38,825	<b>63,852</b>	95,709
Distributions ( <i>Note 7</i> )	<b>(46,605)</b>	(44,399)	<b>(91,403)</b>	(88,750)
<b>Accumulated earnings, end of period</b>	<b>90,021</b>	93,195	<b>90,021</b>	93,195
Accumulated other comprehensive income, beginning of period	<b>(37,948)</b>	1,831	<b>5,119</b>	-
Adoption of financial instruments, net of tax	-	-	-	23,442
Other comprehensive income (loss)	<b>(42,384)</b>	13,324	<b>(85,451)</b>	(8,287)
<b>Accumulated other comprehensive income (loss), end of period</b>	<b>(80,332)</b>	15,155	<b>(80,332)</b>	15,155

*See accompanying notes*

**Peyto Energy Trust****Consolidated Statements of Cash Flows**

(\$000)

(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
<b>Cash provided by (used in)</b>				
<b>Operating Activities</b>				
Net earnings for the period	31,412	38,825	63,852	95,709
Items not requiring cash:				
Future income tax expense	19,510	11,326	35,243	12,965
Depletion, depreciation and accretion	17,842	18,763	37,128	38,597
Change in non-cash working capital related to operating activities	(2,677)	(40)	(17,653)	(996)
	66,087	68,874	118,570	146,275
<b>Financing Activities</b>				
Issue of trust units, net of costs	-	-	3,932	2,825
Distributions paid <i>(Note 7)</i>	(46,605)	(44,399)	(91,403)	(88,750)
Increase (decrease) in bank debt	10,000	(5,000)	20,000	(10,000)
Change in non-cash working capital related to financing activities	1,059	-	1,088	5,107
	(35,546)	(49,399)	(66,383)	(90,818)
<b>Investing Activities</b>				
Additions to property, plant and equipment	(21,520)	(12,949)	(54,587)	(43,426)
Change in non-cash working capital related to investing activities	(5,759)	(5,828)	(12,421)	(11,613)
	(27,279)	(18,777)	(67,008)	(55,039)
<b>Net increase (decrease) in cash</b>	<b>3,262</b>	<b>698</b>	<b>(14,821)</b>	<b>418</b>
Cash, beginning of period	2,464	10,526	20,547	10,806
<b>Cash, end of period</b>	<b>5,726</b>	<b>11,224</b>	<b>5,726</b>	<b>11,224</b>

*See accompanying notes*

## **Peyto Energy Trust**

### **Notes to Consolidated Financial Statements**

(unaudited)

June 30, 2008 and 2007

#### **1. Summary of Significant Accounting Policies**

The unaudited interim consolidated financial statements of Peyto Energy Trust (the "Trust" or "Peyto") follow the same accounting policies as the most recent annual audited consolidated 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 ("GAAP") applicable for annual financial statements. Accordingly, these interim financial statements should be read in conjunction with the December 31, 2007 audited consolidated financial statements.

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

#### **2. Changes in Accounting Policies**

##### **a) Financial Instruments - Disclosure and Presentation**

As of January 1, 2008, the Trust adopted two new CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861 "Financial Instruments – Disclosure and Presentation". The new standards require disclosure on the significance of financial instruments to an entity's financial statements, the risks associated with the financial instruments, and how those risks are managed. Specifically, Section 3862 requires disclosure on the significance of financial instruments to the Trust's financial position. In addition, the guidance outlines revised requirements for the disclosure of qualitative and quantitative information regarding exposure to risks arising from financial instruments. The presentation requirements under Section 3863 are relatively unchanged from Section 3861. Refer to Note 10, "Financial Instruments and Risk Management" for the additional disclosures under Section 3862.

##### **b) Capital Disclosures**

As of January 1, 2008, the Trust adopted 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. These disclosures include a description of the Trust's objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance. Refer to Note 11, "Capital Disclosures".

#### **3. Pending Accounting Pronouncements**

##### **Goodwill and Intangible Assets**

As of January 1, 2009, the Trust will be required to adopt new CICA Handbook Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs." Various changes have been made to other standards to be consistent with the new Section 3064, which establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. Standards concerning goodwill are unchanged from the standards in the previous Section 3062. The Trust is assessing the impact of this new standard on its consolidated financial statements, however, the adoption is not expected to have a material impact on its consolidated financial statements.

##### **Adoption of IFRS**

In January 2006, the CICA Accounting Standards Board ("ASCB") adopted a strategic plan for the direction of accounting standards in Canada. As part of that plan, accounting standards in Canada for public companies are expected to converge with International Financial Reporting Standards

("IFRS") by 2011. On February 13, 2008, The ASCB confirmed that the use of IFRS will be required in 2011 for publicly accountable profit-orientated enterprises. The Trust continues to monitor and assess the impact of the convergence of Canadian GAAP and IFRS.

#### 4. Property, Plant and Equipment

(\$000)	June 30, 2008	December 31, 2007
Property, plant and equipment	1,466,745	1,410,767
Accumulated depletion and depreciation	(335,855)	(299,235)
	<b>1,130,890</b>	<b>1,111,532</b>

At June 30, 2008 costs of \$37.8 million (June 30, 2007 - \$38.8 million) related to undeveloped land have been excluded from the depletion and depreciation calculation.

#### 5. Long-Term Debt

The Trust has a syndicated \$550 million extendible revolving credit facility. The facility is made up of a \$20 million working capital sub-tranche and a \$530 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.

#### 6. Unitholders' Capital

**Authorized:** Unlimited number of voting trust units

##### Issued and Outstanding

Trust Units (no par value) (\$000)	Number of Units	Amount
<b>Balance, December 31, 2006</b>	<b>105,251,394</b>	<b>398,434</b>
Trust units issued by private placement	460,970	7,867
<b>Balance, December 31, 2007</b>	<b>105,712,364</b>	<b>406,301</b>
Trust units issued by private placement	207,830	3,932
<b>Balance, June 30, 2008</b>	<b>105,920,194</b>	<b>410,233</b>

##### Per Unit Amounts

Earnings per unit have been calculated based upon the weighted average number of units outstanding for three months ended June 30, 2008 of 105,920,194 (2007 - 105,712,364) and for the six months ended June 30, 2008 of 105,876,470 (2007 - 105,670,476). There are no dilutive instruments outstanding.

#### 7. Accumulated Distributions

The Trust paid total distributions to the unitholders in the aggregate amount of \$46.6 million in the three months ended June 30, 2008 (2007 - total \$44.4 million) and \$91.4 million for the six months ended June 30, 2008 (2007 - total \$88.8 million) in accordance with the following schedule:

Production Period	Record Date	Distribution Date	Per Unit
Special Distribution	January 1, 2008	January 15, 2008	\$0.0035
January 2008	January 31, 2008	February 15, 2008	\$0.14
February 2008	February 28, 2008	March 14, 2008	\$0.14
March 2008	March 31, 2008	April 15, 2008	\$0.14
April 2008	April 30, 2008	May 15, 2008	\$0.14
May 2008	May 31, 2008	June 13, 2008	\$0.15
June 2008	June 30, 2008	July 15, 2008	\$0.15

## Accumulated Earnings and Distributions

(\$000)	June 30, 2008	December 31, 2007
Opening accumulated earnings	740,038	531,154
Net earnings for the period	63,852	208,884
Total accumulated earnings	803,890	740,038
Total accumulated distributions	(713,869)	(622,466)
Accumulated earnings	90,021	117,572

## 8. 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)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Field expenses	7,328	7,714	14,878	14,821
Processing and gathering income	(2,748)	(2,676)	(5,333)	(4,345)
Total operating costs	4,580	5,038	9,545	10,476

## 9. General and Administrative Expenses (G & A)

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

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
G&A expenses	2,579	2,522	5,468	5,059
Overhead recoveries	(661)	(461)	(1,347)	(1,114)
Net G&A expenses	1,918	2,061	4,121	3,945

## 10. Financial Instruments and Risk Management

### Market Risk

Market risk is the risk that changes in market prices, such as commodity prices and interest rates will affect the Trust's net earnings or the value of financial instruments. The objective of market risk management is to manage and control its exposures within acceptable limits, while maximizing returns. These risks are consistent with prior years.

### Commodity Price Risk Management

The Trust is a party to certain 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 June 30, 2008 is as follows:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.85/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.60/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.40/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.60/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$6.80/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.05/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.20/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.10/GJ
April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.20/GJ

April 1 to October 31, 2008	Fixed price	5,000 GJ	\$7.40/GJ
April 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.05/GJ
April 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$6.82/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.25/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.50/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$7.60/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.00/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.25/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.40/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$8.65/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$9.00/GJ
Nov 1, 2008 to March 31, 2009	Fixed price	5,000 GJ	\$9.70/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$7.85/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$8.12/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$8.95/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$9.30/GJ
April 1 to October 31, 2009	Fixed price	5,000 GJ	\$10.20/GJ

As at June 30, 2008, the Trust had committed to the future sale of 21,035,000 gigajoules (GJ) of natural gas at an average price of \$7.88 per GJ or \$9.22 per mcf based on the historical heating value of Peyto's natural gas. Had these contracts been closed on June 30, 2008, the Trust would have realized a loss in the amount of \$80.3 million. If the AECO gas price on June 30, 2008 had been \$1/GJ higher or lower, the unrealized loss on these closed contracts would change by approximately \$21.0 million and would be reflected in the other comprehensive income of the Trust.

#### **Interest rate risk**

The Trust is exposed to interest rate risk in relation to interest expense on its revolving demand facility. Currently, the Trust has not entered into any agreements to manage this risk. A 1% increase or decrease in interest rates would have impacted the net income before taxes of the Trust during the quarter ended June 30, 2008 by approximately \$1.1 million and year to date by approximately \$2.2 million.

#### **Fair Values of Financial Assets and Liabilities**

The Trust's financial instruments include cash, accounts receivable, financial derivative instruments, current liabilities (excluding future income tax), provision for future performance based compensation and long term debt. At June 30, 2008, the carrying value of cash, accounts receivable, financial derivative instruments, current liabilities (excluding future income tax) and provision for future performance based compensation approximate their fair 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. Industry standard dictates that commodity sales are settled on the 25<sup>th</sup> day of the month following the month of production. 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 June 30, 2008, approximately 81% was due from four companies (December 31, 2007 – three companies, 72%). Of the Trust's revenue for the six months ended June 30, 2008, approximately 83% was received from three companies (June 30, 2007 – three companies, 86%). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Trust considers past due and no accounts have been written off.

The Trust assesses quarterly if there should be any impairment of financial assets. At June 30, 2008, there was no impairment of any of the financial assets of the Trust.

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.

### Liquidity Risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Trust will not have sufficient funds to settle a transaction on the due date;
- The Trust will be forced to sell financial assets at a value which is less than what they are worth; or
- The Trust may be unable to settle or recover a financial asset at all.

The Trust's operating cash requirements, including amounts projected to complete our existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Trust to conduct equity issues or obtain project debt financing. The Trust also mitigates liquidity risk by maintaining an insurance program to minimize exposure to some losses.

The following are the contractual maturities of financial liabilities as at June 30, 2008:

(\$000s)	<1 Year	1-2 Years	2-5 Years	Thereafter
Accounts payable and accrued liabilities	54,006			
Derivative financial instruments	75,793	4,769		
Distributions Payable	15,888			
Provision for future performance based compensation	4,346	4,769		
Long-term debt		450,000		

## 11. Capital Disclosures

The Trust's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor and market confidence to sustain the future development of the business.

The Trust manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of our underlying assets. The Trust considers its capital structure to include unitholders' equity, debt and working capital. To maintain or adjust the capital structure, the Trust may from time to time, issue trust units, raise debt and/or adjust its capital spending to manage its current and projected debt levels. The Trust monitors capital based on the following non-GAAP measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and amortization ("EBITDA") ratios, payout ratios and net debt levels. To facilitate the management of these ratios, the Trust prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. The annual budget is approved by the Board of Directors. The Trust's unitholders' capital is not subject to any external financial covenants.

There were no changes in the Trust's approach to capital management from the previous year.

(\$000s)	June 30, 2008	December 31, 2007
Unitholders' equity	<b>419,922</b>	528,992
Long-term debt	<b>450,000</b>	430,000
Working capital deficit <sup>1</sup>	<b>84,556</b>	22,324
	<b>954,478</b>	981,316

<sup>1</sup> Current liabilities less current assets (includes unrealized hedging loss of \$80 million)

**12. Supplemental Cash Flow Information**

(\$000)	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Cash interest paid during the period	<b>5,938</b>	5,5	<b>11,81</b>	11,18

**13. Contingencies and Commitments**

**a) Contingent Liabilities**

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.

**b) Commitments**

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

(\$000)	\$
2008	548
2009	1,097
2010	1,097
2011	1,097
	<b>3,839</b>

**c) Income Taxes**

Canada Revenue Agency ("CRA") has conducted an audit of restructuring costs claimed as a result of the trust conversion in 2003 that has resulted in the reclassification of \$41.0 million dollars in employment related costs as eligible capital. The Trust has not yet received a notice of reassessment from the CRA. Based upon consultation with legal counsel, Management's view is that CRA's position has no merit. A notice of objection will be filed upon receipt of the notice of reassessment. No provision has been made in these financial statements.

## **Peyto Exploration & Development Corp. Information**

### **Officers**

Darren Gee  
President and Chief Executive Officer

Glenn Booth  
Vice-President, Land

Scott Robinson  
Executive Vice-President and Chief Operating Officer

Stephen Chetner  
Corporate Secretary

Kathy Turgeon  
Vice-President, Finance and Chief Financial Officer

### **Directors**

Ian Mottershead, Chairman  
Rick Braund  
Don Gray  
Brian Davis  
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  
Fortis Capital (Canada) Ltd.

### **Transfer Agent**

Valiant Trust Company

### **Head Office**

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Toronto Stock Exchange