

PEYTO

Energy Trust

3



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

| | 3 Months Ended September 30 | | % | 9 Months Ended September 30 | | % |
|---|-----------------------------|-------------|--------|-----------------------------|-------------|--------|
| | 2008 | 2007 | Change | 2008 | 2007 | Change |
| Operations | | | | | | |
| Production | | | | | | |
| Natural gas (mcf/d) | 100,324 | 97,000 | 3% | 99,872 | 101,632 | (2)% |
| Oil & NGLs (bbl/d) | 3,199 | 3,573 | (10)% | 3,285 | 3,573 | (8)% |
| Barrels of oil equivalent (boe/d @ 6:1) | 19,920 | 19,740 | 1% | 19,930 | 20,512 | (3)% |
| Product prices | | | | | | |
| Natural gas (\$/mcf) | 8.81 | 7.61 | 16% | 8.87 | 8.68 | 2% |
| Oil & NGLs (\$/bbl) | 99.28 | 70.51 | 41% | 96.46 | 65.34 | 48% |
| Operating expenses (\$/boe) | 2.54 | 2.48 | 2% | 2.60 | 2.67 | (3)% |
| Transportation (\$/boe) | 0.63 | 0.58 | 9% | 0.63 | 0.58 | 9% |
| Field netback (\$/boe) | 44.09 | 38.57 | 14% | 44.28 | 41.59 | 6% |
| General & administrative expenses (\$/boe) | 0.71 | 0.82 | (13)% | 0.99 | 0.97 | 2% |
| Interest expense (\$/boe) | 2.74 | 3.10 | (12)% | 3.08 | 3.00 | 3% |
| Financial (\$000, except per unit) | | | | | | |
| Revenue | 110,537 | 91,070 | 21% | 329,508 | 304,646 | 8% |
| Royalties | 23,930 | 15,481 | 55% | 70,055 | 53,541 | 21% |
| Funds from operations | 74,485 | 62,938 | 18% | 219,553 | 210,647 | 4% |
| Funds from operations per unit | 0.70 | 0.60 | 17% | 2.07 | 1.99 | 4% |
| Total distributions | 47,664 | 44,399 | 7% | 139,067 | 133,148 | 4% |
| Total distributions per unit | 0.45 | 0.42 | 7% | 1.31 | 1.26 | 4% |
| Payout ratio | 64 | 71 | (10)% | 63 | 63 | - |
| Earnings | 64,834 | 39,886 | 63% | 128,686 | 135,594 | (5)% |
| Earnings per diluted unit | 0.61 | 0.37 | 65% | 1.21 | 1.28 | (5)% |
| Capital expenditures | 62,271 | 42,598 | 46% | 116,857 | 86,024 | 36% |
| Weighted average trust units outstanding | 105,920,194 | 105,712,364 | - | 105,876,470 | 105,656,359 | - |
| As at September 30 | | | | | | |
| Net debt (before future compensation expense) | | | | 489,867 | 439,325 | 12% |
| Unitholders' equity | | | | 536,918 | 507,744 | 6% |
| Total assets | | | | 1,250,973 | 1,164,561 | 7% |

| | 3 Months Ended September | | 9 Months Ended September 30 | |
|---|--------------------------|---------------|-----------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net Earnings | 64,834 | 39,886 | 128,686 | 135,594 |
| Items not requiring cash: | | | | |
| Non-cash provision for performance based compensation | (4,079) | 202 | 4,766 | 640 |
| Future income tax expense | (4,910) | 4,808 | 30,333 | 17,774 |
| Depletion, depreciation and accretion | 18,640 | 18,042 | 55,768 | 56,639 |
| Funds from operations ⁽¹⁾ | 74,485 | 62,938 | 219,553 | 210,647 |

⁽¹⁾Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. 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 third quarter of 2008. Peyto is an explorer and producer of unconventional tight gas assets in Alberta’s Deep Basin and currently employs a trust structure to flow profits, in the form of distributions, from the success of that business to its unitholders. The success of Peyto’s strategy over its ten year history 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 - \$2.54/boe (\$0.42/mcfe), three months ending September 30, 2008
- High revenue per boe - \$65.67/boe (\$10.95/mcfe) before hedging, \$60.32/boe (\$10.05/mcfe) after hedging, three months ending September 30, 2008
- Low base G&A costs - \$0.71/boe (\$0.12/mcfe), three months ending September 30, 2008
- High field netback – \$44.09/boe (\$7.35/mcfe), three months ending September 30, 2008
- High operatorship – operates over 95% of its production
- Cash distributions – cash distributions of \$47.7 million were 64% of funds from operations for the three months ended September 30, 2008
- Debt to funds from operations ratio – 1.6:1 (net debt, before provision for future compensation, divided by annualized third quarter 2008 funds from operations)
- Distribution growth – distributions have been increased 6 times 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 \$869 million, and distributed \$762 million to unitholders
- Transparent capital structure - no convertible debentures, no exchangeable shares, no stock options, no warrants

Continued strong commodity prices, sustained distributions and a high level of capital investment highlighted the following summary of the third quarter of 2008.

- Strong commodity prices – Natural gas prices, both before and after hedging, were stronger in Q3 2008 with prices averaging \$9.87/mcf and \$8.81/mcf, respectively versus \$6.07/mcf and \$7.61/mcf in Q3 2007
- Distributions per unit increased 7% from the third quarter of 2007 while the cash payout ratio decreased to 64% in Q3 2008 from 71% in Q3 2007. A total of \$47.7 million or \$0.45 per unit was distributed to unitholders in the third quarter of 2008
- Capital expenditures – \$62.3 million was invested into finding and developing new natural gas reserves in the quarter, a 46% increase from Q3 2007. Capital expenditures for the three quarters ended September 30, 2008 were \$116.9 million versus \$86.0 million for the same period in 2007, an increase of 36%
- Per unit funds from operations – increased 18% to \$0.70/unit in Q3 2008 from \$0.60/unit in Q3 2007
- Production - increased 1% from 19,740 boe/d in the third quarter of 2007 to 19,920 boe/d in the third quarter of 2008
- Production per unit - decreased 4% per trust unit from the third quarter of 2007, after adjusting for debt and future unrealized performance based compensation
- Hedging – a \$9.8 million loss for the three months ending September 30, 2008 was realized
- Net debt increased 12% from \$439 million in Q3 2007 to \$490 million in Q3 2008. This leaves available borrowing capacity of \$60 million on bank lines of \$550 million, secured by over \$2.5 billion of Proved Producing assets (2007 PP NPV_{5%})

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 September 30 unit price of \$17.75 for 2007 and \$15.30 for 2008.

Quarterly Review

In response to an improved natural gas price outlook, and therefore improved expected profitability, Peyto continued an accelerated capital spending program in the third quarter, investing \$62.3 million. The drilling and completion of Deep Basin gas wells accounted for \$54.6 million in the quarter, while wellsite equipment and tie-ins accounted for \$6.1 million. Exploratory seismic data, acquired in the Pine Creek and Chime areas, along with minor land purchases made up the balance of the capital expenditures at \$1.5 million.

Peyto drilled 25 gross (18.6 net, 74% working interest) gas wells, completed 56 gross (38.6 net) gas zones and brought 50 gross (32.9 net) gas zones on production in the quarter. Net production additions from this activity equated to approximately 2,100 boe/d. Production for the quarter averaged 19,920 boe/d, comprised of 100.3 mmcf/d of gas and 3,199 bbl/d of oil and natural gas liquids (NGLs).

Commodity prices during the third quarter 2008 continued to be extremely volatile, with Alberta daily natural gas price dropping from \$11.21/GJ on July 1 to \$5.80/GJ by September 30. Peyto's unhedged gas production realized an average natural gas price for the quarter of \$8.47/GJ which translated into \$9.87/mcf as a result of a 17% premium heat content. A portion of Peyto's gas production had already been sold at \$7.01/GJ (\$8.32/mcf) which, when combined with the unhedged price, resulted in a combined price of \$8.81/mcf. An average liquids price of \$99.28/bbl was also realized in the quarter. Alberta crown royalties averaged 21.6% or \$13.06/boe (\$2.18/mcfe), up from \$8.52/boe (\$1.40/mcfe) in the previous year due to higher commodity prices. Operating costs in Q3 2008 were \$2.54/boe (\$0.42/mcfe), down from \$2.58/boe (\$0.43/mcfe) in the previous quarter and \$2.60/boe (\$0.43/mcfe) a year ago.

The best protection Peyto can provide against periods of low commodity price is low cost structure. Peyto's total cash costs including operating costs, transportation costs, base G&A expenses and interest cost combine to represent only a small fraction of the realized price. When the Q3 2008 cash costs of \$6.62/boe are combined with royalties of \$13.06/boe, they represent just 30% of the unhedged price. In other words, a 70% profit margin ensures Peyto can withstand much commodity price volatility.

Activity Update

During the first half of the year, the price of raw materials used in the manufacturing of finished steel products skyrocketed. The rising cost of raw materials, coupled with a shortage of casing, materialized in the third quarter as a considerable increase in tubular costs for the oil and gas industry. Various grades of pipe, which Peyto uses for casing wells, production tubing and gathering systems, all increased in cost. The casing and tubing costs for a typical Deep Basin well rose from \$400,000 in Q1 2008 to \$780,000 in Q3 2008.

Steel prices have now begun to decline as a result of the general economic slowdown in the US. Peyto anticipates that tubular costs will continue to fall throughout the balance of the year. It is for this reason, and in light of the credit crisis in the banking sector, that the Trust has decided to reduce drilling for the remainder of the year. Completions, re-completion and tie-in activity will continue until all recently drilled wells are on-stream. This move will preserve Peyto's financial flexibility and allow the declining demand and cost of materials to make its way through the supply chain. Peyto remains poised to return to increased activity levels once this cost correction has occurred. As a result of this slowdown in activity, the Trust anticipates spending between \$135 and \$150 million for 2008.

Marketing

While current natural gas prices in Alberta are now similar to the start of 2008, the future prices are stronger. This is less a result of rising demand and mostly the result of a weaker Canadian dollar, which has fallen close to 20% in the last month. Despite this volatility in both commodity prices and exchange rates, Peyto has continued to "take" future prices and layer in those sales to smooth out future volatility. As at September 30, 2008, the Trust had committed to the future sale of 15,515,000 GJ of natural gas at an average price of \$8.20/GJ (\$9.59/mcf based on the historical heating value of Peyto's natural gas). Had these contracts been closed on September 30, 2008, the Trust would have realized a gain in the amount of \$19.5 million, as compared to an \$80 million loss in Q2 2008.

Outlook

With this third quarter, Peyto celebrates the completion of ten years as a Canadian energy business. By concentrating its efforts and sticking to a successful strategy, Peyto has built a top quality asset base

comprised of long reserve life, low cost, natural gas reserves. Funding for this strategy, as highlighted in the following table, has come primarily from cashflow that was generated along the way.

| Funding Sources for Capital Since Inception (1998 to 2008) | (\$000) | % of Total |
|---|------------------|-------------------|
| Cashflow from projects found and developed by Peyto | 1,390,716 | 61 |
| Net Equity Issued | 410,233 | 18 |
| Net Debt | 489,867 | 21 |
| Total Sources of Capital | 2,290,816 | 100 |
| Accumulated Distributions | 761,533 | 33 |
| Capital Expenditures | 1,529,283 | 67 |
| Total Uses of Capital | 2,290,816 | 100 |

During the past ten years, Peyto has experienced both periods of dramatic growth and periods of sustainability; taking advantage of times when economic conditions allowed for maximum returns to be generated. With the adoption of a trust structure, unitholders have been able to share in the profits of the business over time, without having to relinquish their holdings. In total, earnings of \$869 million have been accumulated, while \$762 million has been distributed. Starting in 2011, it appears that the Trust structure may not be the most effective way to share those profits with unitholders. Peyto will endeavor to seek out the best structure that will allow unitholders to continue to share in the profits and success of the underlying energy business.

Peyto has begun planning for 2009, with an initial capital program of approximately \$100 to \$130 million. Although global financial markets are in turmoil and there is great uncertainty in the banking sector, Canadian energy prices remain strong. The Trust has demonstrated in the past that it can live within its means during times of fiscal constraint while still replacing production. Peyto's track record of internally generating profitable drilling ideas speaks for itself with over 650 Deep Basin wells drilled in the last ten years. This same exploration strategy will continue into the future, with a significant number of locations already in inventory and many more currently under development. Ensuring the greatest return for unitholders will determine how and when those opportunities are funded.

Unitholders are encouraged to visit the Peyto website at www.Peyto.com for a monthly report from the President with up to date production and capital spending as well an investor presentation designed to educate and inform.

Darren Gee
 President and Chief Executive Officer
 November 5, 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 September 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 November 4, 2008. Additional information about Peyto, including the most recently filed annual information form is available at 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 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 35 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 pending final legislation expected in November

2008. 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 any natural gas price improvement will result in increased royalty rates in January 2009. These increased royalty rates would lessen the positive impact to funds from operations that would otherwise be 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. For a more detailed discussion of the impact on net asset values, please refer to 2007 Reserve Report Press Release dated February 13, 2008.

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 unitholders will then be treated as dividends from a Canadian corporation. Individual unitholders will be eligible for the dividend tax credit. 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 the basis of proposed legislation it is anticipated that the tax will be 26.5%.

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 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. At the present time, Peyto believes that if structural or other similar changes are not made, the relative after-tax distribution amount in 2011 to taxable Canadian investors will remain approximately the same, however, will decline for both tax-deferred Canadian investors (RRSPs, RRIFs, pension plans, etc.) and foreign investors.

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 expected 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 were 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 long term 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 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 ten 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 |
|----------------------------------|---------------|--------|--------|--------|--------|--------|--------|--------|
| | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 |
| Total revenue (net of royalties) | 86,607 | 87,682 | 85,164 | 82,307 | 75,589 | 83,017 | 92,499 | 91,425 |
| Funds from operations | 74,485 | 74,113 | 70,955 | 68,976 | 62,938 | 69,345 | 78,364 | 77,360 |
| Per unit – basic and diluted | 0.70 | 0.70 | 0.67 | 0.65 | 0.60 | 0.66 | 0.74 | 0.74 |
| Earnings (loss) | 64,834 | 31,412 | 32,440 | 73,289 | 39,886 | 38,825 | 56,883 | 47,012 |
| Per unit – basic and diluted | 0.61 | 0.30 | 0.31 | 0.69 | 0.37 | 0.37 | 0.54 | 0.44 |

RESULTS OF OPERATIONS

Production

| | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|-----------------------------------|---------------------------|--------|--------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Natural gas (mmcf/d) | 100.3 | 97.0 | 99.9 | 101.6 |
| Oil & natural gas liquids (bbl/d) | 3,199 | 3,573 | 3,285 | 3,573 |
| Barrels of oil equivalent (boe/d) | 19,920 | 19,740 | 19,930 | 20,512 |

Natural gas production averaged 100.3 mmcf/d in the third quarter of 2008, 3 percent higher than the 97.0 mmcf/d reported for the same period in 2007. Oil and natural gas liquids production averaged 3,199 bbl/d, a decrease of 10 percent from 3,573 bbl/d reported in the prior year. Third quarter production increased 1 percent from 19,740 boe/d to 19,920 boe/d.

Commodity Prices

| | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|--|---------------------------|-------|--------------------------|-------|
| | 2008 | 2007 | 2008 | 2007 |
| Natural gas (\$/mcf) | 9.87 | 6.07 | 9.41 | 7.47 |
| Hedging – gas (\$/mcf) | (1.06) | 1.54 | (0.54) | 1.21 |
| Natural gas – after hedging (\$/mcf) | 8.81 | 7.61 | 8.87 | 8.68 |
| Oil and natural gas liquids(\$/bbl) | 99.28 | 69.56 | 97.44 | 63.22 |
| Hedging – oil (\$/bbl) | - | 0.95 | (0.98) | 2.12 |
| Oil and natural gas liquids – after hedging (\$/bbl) | 99.28 | 70.51 | 96.46 | 65.34 |
| Total Hedging (\$/boe) | (5.35) | 7.76 | (2.86) | 6.38 |

Peyto's natural gas price before hedging losses averaged \$9.87/mcf during the third quarter of 2008, an increase of 63 percent from \$6.07/mcf reported for the equivalent period in 2007. Oil and natural gas liquids prices averaged \$99.28/bbl up 43 percent from \$69.56/bbl a year earlier. Hedging activity for the third quarter of 2008 reduced Peyto's price achieved by \$1.06/mcf or \$5.35/boe.

Revenue

| (\$000) | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|-----------------------------|---------------------------|--------|--------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Natural gas | 91,120 | 54,116 | 257,444 | 207,229 |
| Oil and natural gas liquids | 29,220 | 22,866 | 87,705 | 61,671 |
| Hedging gain (loss) | (9,803) | 14,088 | (15,641) | 35,746 |
| Total revenue | 110,537 | 91,070 | 329,508 | 304,646 |

For the three months ended September 30, 2008, gross revenue increased 21 percent to \$110.5 million from \$91.1 million for the same period in 2007. The increase in revenue for the period was the result of increased prices and quarterly volumes as detailed in the following table:

| | Three Months ended Sep 30 | | | Nine Months ended Sep 30 | | |
|------------------------------|---------------------------|---------|-----------|--------------------------|---------|-----------|
| | 2008 | 2007 | \$million | 2008 | 2007 | \$million |
| Total Revenue, Sept 30, 2007 | | | 91.1 | | | 304.6 |
| Revenue change due to: | | | | | | |
| Natural gas | | | | | | |
| Volume (mmcf) | 9,230 | 8,924 | 3.1 | 27,365 | 27,746 | (6.3) |
| Price (\$/mcf) | \$8.81 | \$7.61 | 6.5 | \$8.87 | \$8.68 | 5.3 |
| Oil & NGL | | | | | | |
| Volume (mdbl) | 294 | 329 | (1.9) | 900 | 976 | (2.6) |
| Price (\$/bbl) | \$99.28 | \$70.51 | 12.2 | \$96.46 | \$65.34 | 19.6 |
| Total Revenue, Sept 30, 2008 | | | 110.5 | | | 329.5 |

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 Sep 30 | | Nine Months ended Sep 30 | |
|---------------------------------|---------------------------|--------|--------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Royalties | 23,930 | 15,481 | 70,055 | 53,541 |
| % of sales before hedging | 19.9 | 20.1 | 20.3 | 19.9 |
| % of sales after hedging | 21.6 | 17.0 | 21.3 | 17.6 |
| \$/boe | 13.06 | 8.52 | 12.83 | 9.56 |

For the third quarter of 2008, royalties averaged \$13.06/boe or approximately 21.6 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 10 year history, Peyto has invested over \$1.5 billion in capital projects and has found and developed gas reserves that have paid over \$465 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 Sep 30 | | Nine Months ended Sep 30 | |
|---------------------------------|---------------------------|---------|--------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Operating costs | | | | |
| Field expenses | 7,724 | 6,476 | 22,602 | 21,297 |
| Processing and gathering income | (3,066) | (1,976) | (8,399) | (6,321) |
| Total operating costs | 4,658 | 4,500 | 14,203 | 14,976 |

| | | | | |
|----------------|--------------|-------|--------------|-------|
| \$/boe | 2.54 | 2.48 | 2.60 | 2.67 |
| Transportation | 1,153 | 1,045 | 3,446 | 3,245 |
| \$/boe | 0.63 | 0.58 | 0.63 | 0.58 |

Operating costs were \$4.7 million in the third quarter of 2008 compared to \$4.5 million during the same period a year earlier. Processing and gathering income has increased as third party volumes have increased significantly. Transportation expense increased due to an increase in pipeline tariffs effective January 1, 2008. On a unit-of-production basis, operating costs averaged \$2.54/boe in the third quarter of 2008 compared to \$2.48/boe for the third 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 Sep 30 | | Nine Months ended Sep 30 | |
|----------------------------|---------------------------|-------|--------------------------|-------|
| | 2008 | 2007 | 2008 | 2007 |
| Gross Sale Price | 65.67 | 42.39 | 63.20 | 48.02 |
| Hedging gain (loss) | (5.35) | 7.76 | (2.86) | 6.38 |
| Net Sale Price | 60.32 | 50.15 | 60.34 | 54.40 |
| Less: | | | | |
| Royalties | 13.06 | 8.52 | 12.83 | 9.56 |
| Operating costs | 2.54 | 2.48 | 2.60 | 2.67 |
| Transportation | 0.63 | 0.58 | 0.63 | 0.58 |
| Field netback | 44.09 | 38.57 | 44.28 | 41.59 |
| General and administrative | 0.71 | 0.82 | 0.99 | 0.97 |
| Interest on long-term debt | 2.74 | 3.10 | 3.08 | 3.00 |
| Cash netback | 40.64 | 34.65 | 40.21 | 37.62 |

General and Administrative Expenses

| (\$000 except per unit amounts) | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|---------------------------------|---------------------------|---------|--------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| G&A expenses | 2,485 | 2,536 | 7,953 | 7,595 |
| Overhead recoveries | (1,192) | (1,053) | (2,539) | (2,167) |
| Net G&A expenses | 1,293 | 1,483 | 5,414 | 5,428 |
| \$/boe | 0.71 | 0.82 | 0.99 | 0.97 |

General and administrative expenses for the third quarter before overhead recoveries remained constant at \$2.5 million quarter over quarter. Net of overhead recoveries associated with the capital expenditures program, general and administrative costs decreased to \$0.71 per boe in the third quarter of 2008 from \$0.82 per boe in the third quarter of 2007. Third quarter 2008 overhead recoveries were 13% higher than third quarter 2007 recoveries due to the increase in capital expenditures.

Interest Expense

| Interest expense (\$000) | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|--------------------------|---------------------------|-------|--------------------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| Interest expense (\$000) | 5,018 | 5,623 | 16,837 | 16,809 |
| \$/boe | 2.74 | 3.10 | 3.08 | 3.00 |
| Average interest rate | 4.5% | 5.6% | 5.1% | 5.6% |

Third quarter 2008 interest expense was \$5.0 million or \$2.74/boe compared to \$5.6 million or \$3.10/boe a year earlier. The average interest rate for the third quarter of 2008 was 4.5% compared to 5.6% for the third quarter of 2007. Although interest rates have continued to be favorable, they have been increasingly volatile due to the global credit crisis.

Depletion, Depreciation and Accretion

The 2008 third quarter provision for depletion, depreciation and accretion totaled \$18.6 million as compared to \$18.0 million in 2007. On a unit-of-production basis, depletion, depreciation and accretion costs averaged \$10.17/boe as compared to \$9.93/boe in 2007.

Income Taxes

The third quarter provision for future income tax recovery was \$4.9 million (2007 – expense of \$4.8 million). Increases in capital spending and distributions shorten the period over which timing differences between the accounting and tax basis of assets reverse. As a result, higher reversals occur in the years subject to a zero percent tax rate rather than in years subject to the SIFT tax rate, reducing the tax rate applied to the timing differences in calculating future income taxes by approximately 7%. This resulted in a reduction of the future income tax liability and corresponding future tax recovery. 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. In October, 2008, the Trust has received a notice of reassessment from the CRA and paid an amount of \$7.2 million related to this audit. Based upon consultation with legal counsel, Management's view is that CRA's position has no merit. A notice of objection has been filed.

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 third quarter of 2008, a hedging loss of \$9.8 million was recorded as compared to a gain of \$14.1 million in the third 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 |
| April 1 to October 31, 2009 | Fixed price | 5,000 GJ | \$7.50/GJ |
| April 1, 2009 to March 31, 2010 | Fixed price | 5,000 GJ | \$7.65/GJ |
| Nov 1, 2009 to March 31, 2010 | Fixed price | 5,000 GJ | \$8.39/GJ |
| Nov 1, 2009 to March 31, 2010 | Fixed price | 5,000 GJ | \$8.35/GJ |

As at September 30, 2008, the Trust had committed to the future sale of 15,515,000 gigajoules (GJ) of natural gas at an average price of \$8.20 per GJ or \$9.59 per mcf based on the historical heating value of Peyto's natural gas. Had these contracts been closed on September 30, 2008, the Trust would have realized a gain in the amount of \$19.5 million (June 30, 2008 - \$80.3 million unrealized future hedging loss).

Commodity Price Sensitivity

Low operating costs 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 in Canadian currency. Over the long term, the Canadian dollar tends to rise as oil prices rise. There is a similar correlation between oil and gas prices. Currently 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 September 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 Sep 30 | | Nine Months ended Sep 30 | |
|---|---------------------------|--------|--------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings | 64,834 | 39,886 | 128,686 | 135,594 |
| Items not requiring cash: | | | | |
| Non-cash provision for performance based compensation | (4,079) | 202 | 4,766 | 640 |
| Future income tax expense | (4,910) | 4,808 | 30,333 | 17,774 |
| Depletion, depreciation & accretion | 18,640 | 18,042 | 55,768 | 56,639 |
| Funds from operations | 74,485 | 62,938 | 219,553 | 210,647 |

For the third quarter ended September 30, 2008, funds from operations totaled \$74.5 million or \$0.70 per unit, as compared to \$62.9 million, or \$0.60 per unit during the same period in 2007. Peyto's policy is to balance distributions to unitholders and funding for a capital program with cashflow and available bank lines. 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 September 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 September 30, 2008, the working capital deficit was \$26.4 million (including a non-cash current asset of \$18.2 million for unrealized mark to market future hedging gains).

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 the planned capital expenditure program. The total amount of capital invested in the remainder of 2008 and in 2009 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.

As a result of the weakened global economic situation, the Trust may have restricted access to capital and increased borrowing costs. Although the Trust's business and asset base have not changed, the lending capacity of all financial institutions has been diminished and risk premiums have increased. These issues may impact the Trust as it reviews financing alternatives for the 2009 capital program and manages future 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 \$3.9 million (\$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:

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

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 \$4.7 million was recorded for the three quarters ended September 30, 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 September 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 \$19.28, are \$0.1 million. The Trust records a non-cash

provision for future compensation expense over the life of the rights. The cumulative provision is \$0.3 million.

Capital Expenditures

Net capital expenditures for the third quarter of 2008 totaled \$62.3 million. Exploration and development related activity represented \$54.6 million or 88% of the total, while expenditures on facilities, gathering systems and equipment totaled \$6.1 million or 10% of the total. The following table summarizes capital expenditures for the quarter.

| (\$000) | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|--|---------------------------|---------------|--------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Land | 165 | 555 | 1,016 | 997 |
| Seismic | 1,348 | 477 | 2,263 | 1,322 |
| Drilling – Exploratory & Development | 54,608 | 31,455 | 98,516 | 67,166 |
| Production Equipment, Facilities & Pipelines | 6,136 | 10,096 | 15,028 | 16,516 |
| Acquisitions & Dispositions | - | - | - | - |
| Office Equipment | 14 | 15 | 35 | 23 |
| Total Capital Expenditures | 62,271 | 42,598 | 116,858 | 86,024 |

Distributions

| | Three Months ended Sep 30 | | Nine Months ended Sep 30 | |
|-----------------------------------|---------------------------|--------|--------------------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Funds from operations (\$000) | 74,485 | 62,938 | 219,553 | 210,647 |
| Total distributions (\$000) | 47,664 | 44,399 | 139,067 | 133,149 |
| Total distributions per unit (\$) | 0.45 | 0.42 | 1.31 | 1.26 |
| Payout ratio (%) | 64 | 71 | 63 | 63 |

Peyto's policy is to balance distributions to unitholders and funding for a capital program with cashflow and available bank lines. 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 Sep 30 | | Nine Months ended Sep 30 | |
|---|---------------------------|---------------|--------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| Opening accumulated earnings | 803,890 | 626,862 | 740,038 | 531,154 |
| Net earnings for the period | 64,834 | 39,886 | 128,686 | 135,594 |
| Total accumulated earnings | 868,724 | 666,748 | 868,724 | 666,748 |
| Total accumulated distributions | (761,533) | (578,066) | (761,533) | (578,066) |
| Accumulated earnings per Balance Sheet | 107,191 | 88,682 | 107,191 | 88,682 |

Since inception, Peyto has accumulated earnings of \$868.7 million and distributed \$761.5 million to unitholders.

Contractual Obligations

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

| (\$000) | \$ |
|---------|--------------|
| 2008 | 274 |
| 2009 | 1,097 |
| 2010 | 1,097 |
| 2011 | 1,097 |
| | 3,565 |

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 third quarter of 2008, the Trust paid distributions to the unitholders in the amount of \$47.7 million (2007 - \$44.4 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 |
| July 2008 | July 31, 2008 | August 15, 2008 | \$0.15 |
| August 2008 | August 31, 2008 | September 15, 2008 | \$0.15 |
| September 2008 | September 30, 2008 | October 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 nine 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 10 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 CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861. These 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 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 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 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 Section 3062. The Trust is assessing the impact of this 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 and www.peyto.com.

Quarterly information

| | | 2008 | | 2007 | |
|---|--------------------|-------------|-------------|-------------|-------------|
| | Q3 | Q2 | Q1 | Q4 | Q3 |
| Operations | | | | | |
| Production | | | | | |
| Natural gas (mcf/d) | 100,324 | 97,819 | 101,468 | 104,749 | 97,000 |
| Oil & NGLs (bbl/d) | 3,199 | 3,226 | 3,430 | 3,675 | 3,573 |
| Barrels of oil equivalent (boe/d @ 6:1) | 19,920 | 19,530 | 20,342 | 21,134 | 19,740 |
| Average product prices | | | | | |
| Natural gas (\$/mcf) | 8.81 | 9.32 | 8.49 | 7.67 | 7.61 |
| Oil & natural gas liquids (\$/bbl) | 99.28 | 107.45 | 83.45 | 75.23 | 70.51 |
| \$/BOE | | | | | |
| Average sale price (\$/boe) | 60.32 | 64.45 | 56.41 | 51.12 | 50.15 |
| Average royalties paid (\$/boe) | 13.06 | 15.11 | 10.40 | 8.78 | 8.52 |
| Average operating expenses (\$/boe) | 2.54 | 2.58 | 2.68 | 2.25 | 2.48 |
| Average transportation costs (\$/boe) | 0.63 | 0.64 | 0.63 | 0.54 | 0.58 |
| Field netback (\$/boe) | 44.09 | 46.12 | 42.70 | 39.54 | 38.57 |
| General & administrative expense (\$/boe) | 0.71 | 1.08 | 1.19 | 0.87 | 0.82 |
| Interest expense (\$/boe) | 2.74 | 3.34 | 3.18 | 3.19 | 3.10 |
| Cash netback (\$/boe) | 40.64 | 41.70 | 38.33 | 35.49 | 34.65 |
| Financial (\$000 except per unit) | | | | | |
| Revenue | 110,537 | 114,543 | 104,428 | 99,387 | 91,070 |
| Royalties | 23,930 | 26,861 | 19,264 | 17,080 | 15,482 |
| Funds from operations | 74,485 | 74,113 | 70,955 | 68,976 | 62,938 |
| Funds from operations per unit | 0.70 | 0.70 | 0.67 | 0.65 | 0.60 |
| Total distributions | 47,664 | 46,605 | 44,798 | 44,399 | 44,399 |
| Total distributions per unit | 0.45 | 0.44 | 0.42 | 0.42 | 0.42 |
| Payout ratio | 64% | 63% | 63% | 64% | 71% |
| Earnings | 64,834 | 31,412 | 32,440 | 73,289 | 39,886 |
| Earnings per diluted unit | 0.61 | 0.30 | 0.31 | 0.69 | 0.37 |
| Capital expenditures | 62,271 | 21,528 | 33,058 | 35,546 | 42,598 |
| Weighted average trust units outstanding | 105,920,194 | 105,920,194 | 105,744,338 | 105,712,364 | 105,712,364 |

Peyto Energy Trust

Consolidated Balance Sheets

(\$000)

(unaudited)

| | September 30, 2008 | December 31, 2007 |
|--|-----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash | - | 20,547 |
| Accounts receivable <i>(Note 10)</i> | 49,612 | 47,728 |
| Financial derivative instruments <i>(Note 10)</i> | 18,204 | 7,405 |
| Prepaid expenses and deposits | 6,704 | 5,020 |
| | 74,520 | 80,700 |
| Financial derivative instruments <i>(Note 10)</i> | 1,290 | - |
| Property, plant and equipment <i>(Note 4)</i> | 1,175,163 | 1,111,532 |
| | 1,176,453 | 1,111,532 |
| | 1,250,973 | 1,192,232 |
| Liabilities and Unitholders' Equity | | |
| Current | | |
| Accounts payable and accrued liabilities | 80,295 | 85,923 |
| Distributions payable | 15,888 | 14,800 |
| Future performance based compensation | 4,724 | 16 |
| Future income taxes | - | 2,285 |
| | 100,907 | 103,024 |
| Long-term debt <i>(Note 5)</i> | 450,000 | 430,000 |
| Future performance based compensation | 312 | 253 |
| Asset retirement obligations | 9,307 | 6,766 |
| Future income taxes | 153,529 | 123,197 |
| | 613,148 | 560,216 |
| Unitholders' equity | | |
| Unitholders' capital <i>(Note 6)</i> | 410,233 | 406,301 |
| Accumulated earnings <i>(Note 7)</i> | 107,191 | 117,572 |
| Accumulated other comprehensive income (loss) | 19,494 | 5,119 |
| Accumulated earnings and other comprehensive income (loss) | 126,685 | 122,691 |
| | 536,918 | 528,992 |
| | 1,250,973 | 1,192,232 |

See accompanying notes

On behalf of the Board:

(signed) "Michael MacBean"
Director

(signed) "Darren Gee"
Director

Peyto Energy Trust

Consolidated Statements of Earnings

(\$000 except per unit amounts)

(unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|---------------|-----------------------------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenue | | | | |
| Oil and gas sales | 120,340 | 76,982 | 345,149 | 268,900 |
| Realized gain (loss) on hedges <i>(Note 10)</i> | (9,803) | 14,088 | (15,641) | 35,746 |
| Royalties | (23,930) | (15,481) | (70,055) | (53,541) |
| Petroleum and natural gas sales, net | 86,607 | 75,589 | 259,453 | 251,105 |
| Expenses | | | | |
| Operating <i>(Note 8)</i> | 4,658 | 4,500 | 14,203 | 14,976 |
| Transportation | 1,153 | 1,045 | 3,446 | 3,245 |
| General and administrative <i>(Note 9)</i> | 1,293 | 1,483 | 5,414 | 5,428 |
| Provision for future performance based compensation | (4,079) | 202 | 4,766 | 640 |
| Interest on long term debt | 5,018 | 5,623 | 16,837 | 16,809 |
| Depletion, depreciation and accretion | 18,640 | 18,042 | 55,768 | 56,639 |
| | 26,683 | 30,895 | 100,434 | 97,737 |
| Earnings before taxes | 59,924 | 44,694 | 159,019 | 153,368 |
| Taxes | | | | |
| Future income tax expense | (4,910) | 4,808 | 30,333 | 17,774 |
| Net earnings for the period | 64,834 | 39,886 | 128,686 | 135,594 |
| Earnings per unit <i>(Note 6)</i> | | | | |
| Basic and diluted | 0.61 | 0.37 | 1.21 | 1.28 |

See accompanying notes

Peyto Energy Trust

Consolidated Statements of Comprehensive Income (Loss)

(\$000 except per unit amounts)

(unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|--|-------------|---|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings for the period | 64,834 | 39,886 | 128,686 | 135,594 |
| Other comprehensive income | | | | |
| Change in unrealized gain (loss) on hedges | 109,629 | (16,482) | 30,015 | (46,426) |
| Realized gain (loss) on hedges | (9,803) | 14,088 | (15,641) | 35,746 |
| Comprehensive income (loss) | 164,660 | 37,492 | 143,060 | 124,914 |

See accompanying notes

Peyto Energy Trust

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

(unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|--|-------------|---|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Accumulated earnings, beginning of period | 90,021 | 93,195 | 117,572 | 86,237 |
| Net earnings for the period | 64,834 | 39,886 | 128,686 | 135,594 |
| Distributions (<i>Note 7</i>) | (47,664) | (44,399) | (139,067) | (133,149) |
| Accumulated earnings, end of period | 107,191 | 88,682 | 107,191 | 88,682 |
| Accumulated other comprehensive income, beginning of period | (80,332) | 15,155 | 5,119 | - |
| Adoption of financial instruments, net of tax | - | - | - | 23,441 |
| Other comprehensive income (loss) | 99,826 | (2,394) | 14,375 | (10,680) |
| Accumulated other comprehensive income (loss), end of period | 19,494 | 12,761 | 19,494 | 12,761 |

See accompanying notes

Peyto Energy Trust

Consolidated Statements of Cash Flows

(\$000)

(unaudited)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|--|-------------|---|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| Cash provided by (used in) | | | | |
| Operating Activities | | | | |
| Net earnings for the period | 64,834 | 39,886 | 128,686 | 135,594 |
| Items not requiring cash: | | | | |
| Future income tax expense | (4,910) | 4,808 | 30,333 | 17,774 |
| Depletion, depreciation and accretion | 18,640 | 18,042 | 55,768 | 56,639 |
| Change in non-cash working capital related to operating activities | 2,873 | 10,163 | (14,780) | 9,167 |
| | 81,437 | 72,899 | 200,007 | 219,174 |
| Financing Activities | | | | |
| Issue of trust units, net of costs <i>(Note 6)</i> | - | - | 3,932 | 2,825 |
| Distributions paid <i>(Note 7)</i> | (47,664) | (44,399) | (139,067) | (133,149) |
| Increase (decrease) in bank debt | - | - | 20,000 | (10,000) |
| Change in non-cash working capital related to financing activities | - | - | 1,088 | 5,107 |
| | (47,664) | (49,399) | (114,047) | (135,217) |
| Investing Activities | | | | |
| Additions to property, plant and equipment | (62,271) | (42,598) | (116,858) | (86,024) |
| Change in non-cash working capital related to investing activities | 22,772 | 7,341 | 10,351 | (4,272) |
| | (39,499) | (35,257) | (106,507) | (90,296) |
| Net increase (decrease) in cash | (5,726) | (6,757) | (20,547) | (6,339) |
| Cash, beginning of period | 5,726 | 11,224 | 20,547 | 10,806 |
| Cash, end of period | - | 4,467 | - | 4,467 |

See accompanying notes

Peyto Energy Trust

Notes to Consolidated Financial Statements

(unaudited)
September 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 CICA Handbook Sections, Section 3862 "Financial Instruments – Disclosures" and Section 3863 "Financial Instruments – Presentation" which replaced Section 3861 "Financial Instruments – Disclosure and Presentation". The 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 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 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 Section 3062. The Trust is assessing the impact of this 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 assess the impact of the convergence of Canadian GAAP and IFRS.

4. Property, Plant and Equipment

| (\$000) | September 30, 2008 | December 31, 2007 |
|--|--------------------|-------------------|
| Property, plant and equipment | 1,529,283 | 1,410,767 |
| Accumulated depletion and depreciation | (354,120) | (299,235) |
| | 1,175,163 | 1,111,532 |

At September 30, 2008 costs of \$36.6 million (September 30, 2007 - \$38.6 million) related to undeveloped land has 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 |
|---|--------------------|----------------|
| Balance, December 31, 2006 | 105,251,394 | 398,434 |
| Trust units issued by private placement | 460,970 | 7,867 |
| Balance, December 31, 2007 | 105,712,364 | 406,301 |
| Trust units issued by private placement | 207,830 | 3,932 |
| Balance, September 30, 2008 | 105,920,194 | 410,233 |

Per Unit Amounts

Earnings per unit have been calculated based upon the weighted average number of units outstanding for three months ended September 30, 2008 of 105,920,194 (2007 - 105,712,364) and for the nine months ended September 30, 2008 of 105,861,789 (2007 - 105,656,359). There are no dilutive instruments outstanding.

7. Accumulated Distributions

The Trust paid total distributions to the unitholders in the aggregate amount of \$47.7 million in the three months ended September 30, 2008 (2007 - total \$44.4 million) and \$139.1 million for the nine months ended September 30, 2008 (2007 - total \$133.1 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 |

| | | | |
|----------------|--------------------|--------------------|--------|
| July 2008 | July 31, 2008 | August 15, 2008 | \$0.15 |
| August 2008 | August 31, 2008 | September 15, 2008 | \$0.15 |
| September 2008 | September 30, 2008 | October 15, 2008 | \$0.15 |

Accumulated Earnings and Distributions

| (\$000) | September 30, 2008 | December 31, 2007 |
|---------------------------------|--------------------|-------------------|
| Opening accumulated earnings | 740,038 | 531,154 |
| Net earnings for the period | 128,686 | 208,884 |
| Total accumulated earnings | 868,724 | 740,038 |
| Total accumulated distributions | (761,533) | (622,466) |
| Accumulated earnings | 107,191 | 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 | | Nine Months Ended | |
|---------------------------------|----------------------|---------|----------------------|---------|
| | September 30 2008 | 2007 | September 30 2008 | 2007 |
| Field expenses | 7,724 | 6,476 | 22,602 | 21,297 |
| Processing and gathering income | (3,066) | (1,976) | (8,399) | (6,321) |
| Total operating costs | 4,658 | 4,500 | 14,203 | 14,976 |

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

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

| (\$000) | Three Months Ended | | Nine Months Ended | |
|---------------------|----------------------|---------|----------------------|---------|
| | September 30 2008 | 2007 | September 30 2008 | 2007 |
| G&A expenses | 2,485 | 2,536 | 7,953 | 7,595 |
| Overhead recoveries | (1,192) | (1,053) | (2,539) | (2,167) |
| Net G&A expenses | 1,293 | 1,483 | 5,414 | 5,428 |

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 its 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 September 30, 2008 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 September 30, 2008, the Trust had committed to the future sale of 15,515,000 gigajoules (GJ) of natural gas at an average price of \$8.20 per GJ or \$9.59 per mcf based on the historical heating value of Peyto's natural gas. Had these contracts been closed on September 30, 2008, the Trust would have realized a gain in the amount of \$19.5 million. If the AECO gas price on September 30, 2008 had been \$1/GJ higher or lower, the unrealized loss on these closed contracts would change by approximately \$15.5 million and would be reflected in the other comprehensive income of the Trust.

Subsequent to September 30, 2008 the Trust entered into the following contracts:

| Natural Gas Period Hedged | Type | Daily Volume | Price (CAD) |
|--------------------------------------|-------------|---------------------|------------------------|
| April 1 to October 31, 2009 | Fixed price | 5,000 GJ | \$7.50/GJ |
| April 1, 2008 to March 31, 2010 | Fixed price | 5,000 GJ | \$7.65/GJ |
| Nov 1, 2009 to March 31, 2010 | Fixed price | 5,000 GJ | \$8.39/GJ |
| Nov 1, 2009 to March 31, 2010 | Fixed price | 5,000 GJ | \$8.35/GJ |

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 three and nine months ended September 30, 2008 by approximately \$1.1 million and \$3.3 million, respectively.

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 September 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 credit facility.

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 25th 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 September 30, 2008, approximately 65% was due from four companies (December 31, 2007 – three companies, 72%). Of the Trust's revenue for the nine months ended September 30, 2008, approximately 80% was received from three companies (September 30, 2007 – three companies, 94%). 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 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.

Counterparties to financial instruments expose the Trust to credit losses in the event of non-performance. Counterparties for derivative instrument transactions are limited to high credit quality financial institutions, which are all members of our syndicated credit facility.

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

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 September 30, 2008:

| (\$000s) | <1 Year | 1-2 Years | 2-5 Years | Thereafter |
|---|---------|-----------|-----------|------------|
| Accounts payable and accrued liabilities | 80,295 | | | |
| Distributions Payable | 15,888 | | | |
| Provision for future performance based compensation | 4,724 | 312 | | |
| 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) | September 30, 2008 | December 31, 2007 |
|--------------------------------------|--------------------|-------------------|
| Unitholders' equity | 536,918 | 528,992 |
| Long-term debt | 450,000 | 430,000 |
| Working capital deficit ¹ | 26,387 | 22,324 |
| | 1,013,305 | 981,316 |

¹ Current liabilities less current assets (includes unrealized hedging gain of \$18.2 million)

12. Supplemental Cash Flow Information

| (\$000) | Three Months Ended | | Nine Months Ended | |
|--------------------------------------|--------------------|-------|-------------------|--------|
| | September 30 | | September 30 | |
| | 2008 | 2007 | 2008 | 2007 |
| Cash interest paid during the period | 5,018 | 5,623 | 16,837 | 16,809 |

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 an operating lease for office space as follows:

| (\$000) | \$ |
|---------|--------------|
| 2008 | 274 |
| 2009 | 1,097 |
| 2010 | 1,097 |
| 2011 | 1,097 |
| | 3,565 |

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. In October, 2008, the Trust has received a notice of reassessment from the CRA and paid an amount of \$7.2 million related to this audit. Based upon consultation with legal counsel, Management's view is that CRA's position has no merit. A notice of objection has been filed.

Peyto Exploration & Development Corp. Information

Officers

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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.

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