PEYTO

Energy Trust

3

Interim Report
for the nine months ended September 30, 2003

Highlights

	3 Months Ended Sept.		%
	2003	2002	Change
Operations			
Production			
Natural gas (mcf/d)	**66,827**	45,018	*48*
Oil & NGLs (bbl/d)	**2,948**	2,009	*47*
Barrels of oil equivalent (boe/d @ 6:1)	**14,086**	9,512	*48*
Average product prices			
Natural gas ($/mcf)	**7.02**	3.49	*101*
Oil & NGLs ($/bbl)	**33.86**	33.67	*1*
Average operating expenses ($/boe)	**2.20**	1.36	*62*
Field Netback ($/boe)	**29.24**	16.42	*78*
Financial ($000, except per unit/share)			
Revenue	**52,365**	20,676	*153*
Royalties (net of ARTC)	**11,622**	5,122	*127*
Funds from operations	**35,882**	13,474	*166*
Funds from operations per unit/share	**0.79**	0.31	*155*
Cash distributions	**20,428**	-	-
Cash distributions per unit	**0.45**	-	-
Percentage of cash flow distributed	**57%**	-	-
Earnings	**25,398**	5,957	*331*
Earnings per unit/share	**0.56**	0.14	*307*
Capital expenditures	**36,280**	24,105	*51*
Weighted average trust units/shares outstanding	**45,395,122**	43,277,421	*5*
Working capital deficit	**31,254**	18,990	*65*
Bank debt	**100,000**	78,126	*28*
Unitholders’ equity	**122,887**	60,109	*104*
Total assets	**339,115**	204,241	*66*

Report from the president

PEYTO Energy Trust is pleased to present its consolidated financial and operating results for the period ended September 30, 2003.

- The reorganization of Peyto Exploration & Development Corp. into an energy trust was effective on July 1, 2003.
- Cash distributions of $0.15 per unit per month to unitholders commenced with the July distribution being paid on August 15, 2003.
- Cash flow totaled $35.9 million ($0.79 per trust unit) of which 57% or $20.4 million was distributed to unitholders with the balance used to fund capital expenditures.
- Production increased 48 percent year over year, with natural gas averaging 66.8 mmcf per day and oil and natural gas liquids averaging 2,948 barrels per day.
- Capital expenditures of $36.3 million added 4.4 barrels of oil equivalent (boe) of proved producing reserves for each boe of reserves produced.
- A total of 23 gross (19.4 net) wells were drilled and completed, of which 16 have now been tied in and brought on production.
- High heat content natural gas combined with a successful hedging strategy resulted in a gas price for the quarter of $7.02 per mcf of which the hedging program contributed $0.58 per mcf.
- Operating costs rose from the previous quarter due to higher volumes being processed through third party facilities in new areas and limited gathering and processing capacity in the Sundance field. Construction is underway to expand the Sundance gathering system and build a new gas processing facility for the Smoky and Kakwa fields.
- An issue of 1.9 million trust units was completed for proceeds of $29.9 million. The issue was completed in connection with the purchase and cancellation of the issued stock options pursuant to the reorganization.
- Total debt, including working capital deficit was $131.3 million at September 30, 2003 resulting in a debt to cash flow ratio of 0.9:1.
- Bank lines were increased to $180 million effective upon the conversion to a trust.

Reserves

Drilling operations have added 4.9 million boes (“boe”, natural gas converted on a 6:1 basis throughout) of proved developed reserves net of production during the quarter. The net present value (NPV) discounted at 8% of the proved developed reserves increased to $797 million. The reserve life index for the proved producing category is now 10.9 years. The Trust replaced third quarter production four fold with the same high quality predictable long life proved producing reserves.

An independent interim review of the proved developed reserves was conducted at the end of the quarter. Interim reviews do not address new probable additional opportunities. However, probable additional reserves that have been converted into the proved developed category since year end are subtracted from the opening balance. Based on the number and risk profile of the wells scheduled to be drilled in 2004, we are confident that the probable additional reserves will be replenished when we conduct our year end review. We have historically booked a relatively high number of probable additional reserves, because our business is based on drilling internally generated projects.

The following table summarizes Peyto’s reserves and the discounted net present value of future cash flow before income tax, using variable pricing, at September 30, 2003.

Reserve Category	Gas (mmcf)	Oil & NGL (mstb)	BOE 6:1 (mstb)	Reserve Life Index (years)	Net Present Value ($000) Discounted at 0%	4%	8%	10%
Proved Producing	264,581	11,758	55,855	10.9	1,401,055	973,935	756,889	684,898
Proved Non-producing	20,489	670	4,085		114,711	56,886	39,645	35,146
Proved Undeveloped	-	-	-		-	-	-	-
Total Proved	285,070	12,428	59,940	11.7	1,515,766	1,030,821	796,534	720,044
Probable Additional (1)	126,510	5,323	26,408		664,642	328,260	209,642	176,275
Proved + Probable Additional	411,580	17,751	86,348	16.8	2,180,408	1,359,081	1,006,176	896,319

(1) Probable Additional reserves were not reviewed in the September 30, 2003 evaluation.
Based on the Paddock Lindstrom & Associates report effective September 30, 2003 using their October 1, 2003 price deck available at www.padlin.com

Activity Update

To date in 2003, Peyto has drilled and cased 61 gross (50 net) gas wells. Peyto currently has four drilling rigs active in Sundance with a fifth rig beginning a winter development program in Smoky and Kakwa. Processing capacity at the Sundance gas plant was expanded with the addition of 12 mmcf/d of compression in October. Expansion of the main gathering lines in Sundance is underway and will continue into the first quarter. We anticipate that these projects will allow more of the connected gas to be produced. A new gas processing plant that will handle production from Smoky and Kakwa will begin construction in December and is expected to be operational by February 2004. Fourth quarter production to date has averaged over 15,600 boe per day.

Growth

The unique design of Peyto Energy Trust enables growth of unitholder value while distributing approximately 50 percent of cash flow. Our business is managed with a focus on the value generated from each dollar invested. The net present value (NPV) of the proved developed reserves is used to measure our rate of growth. In order to determine the change in value we were responsible for, the same price forecast for the NPV at the beginning and end of the quarter is used. The table below is meant to assess the amount of growth we had during the quarter:

		$million	Equation
A	Capital Invested	36	
B	Cash Flow	36	
C	Change in NPV	65	
D	NPV Growth Before Capital	101	B + C
E	NPV Growth After Capital	65	D – A
F	NPV Growth Distributed	20	
G	NPV Growth Retained	45	E – F

Change in NPV is measured using the net present value discounted at 8% of the proved developed reserves per boe, $13.30/boe, times the 4.9 million boes of proved developed reserves added during the quarter.

The $36 million of capital invested generated $101 million worth of present value. For the quarter, the present value of the future cash flow, adjusted for changes in units outstanding and net debt, grew at an annualized rate of 44% per unit. Approximately 30% of the gain in value was distributed to unitholders while the remaining 70% was retained to fund future projects.

We recognize that the industry has historically measured growth in more simplistic terms. These incomplete measures can lead to a short term focus inconsistent with a unitholders long term objectives. At Peyto we invest our capital based on a value model that considers all the attributes of an oil and gas investment. This approach is the only way we know how to accurately measure the success of our investments. Our unique ability to grow value at a rate faster than we distribute income is understood when the following advantages are considered:

- We have a technical team that can generate proprietary projects with attributes complimentary to our value approach. Our team has a five year track record of generating premium quality high return projects.
- The natural production declines of our wells become less as we move forward. Thus, the percentage of the total cash flow required to replace natural declines will also decline over time.
- High revenue, low cost production allows us to fund more opportunities for each boe we produce.
- Long developed reserve life means that our producing reserves are being depleted at a relatively slow rate.
- Low distribution rate relative to the traditional trust model allows for minimal dilution of future value.

Outlook

The many competitive advantages we enjoy will allow us to continue building unitholder value for years to come. The capital program for the remainder of 2003 continues to be focused on the drilling, completion and tie-in of low risk development gas wells. In order to learn more about Peyto we encourage you to visit Peyto's website at www.peyto.com where you will find a current presentation, financial and historical news releases and an updated insider trading summary.

Don T. Gray
President and Chief Executive Officer
November 19, 2003

This report, or any part of it, may include comments that do not refer strictly to historical results or actions and may constitute forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Trust or of the industry to be materially different from any results, performance or achievements expressed or implied by such forward-looking statements. Such risks, uncertainties and other factors include general and industry economic and business conditions which, among other things, affect the demand for the commodities produced by the Trust, competitive factors and industry capacity, the availability of personnel to manage the Trust and manage and deliver the commodities produced, the ability of the Trust to finance and implement its business strategy, changes in, or the failure to comply with, government law and regulations (especially relating to health, safety and environment), weather and other such risks as may be identified in this report or in other published documents. Accordingly, there is no certainty that the Trust's plans will be achieved.

Management's discussion and analysis

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the Trust's unaudited interim consolidated financial statements for the three and nine month periods ended September 30, 2003 and the Peyto Exploration & Development Corp. ("Peyto") audited financial statements for the year ended December 31, 2002. The consolidated financial statements for the Trust are reported on a continuity of interests basis and include the financial results of Peyto to June 30, 2003 and the Trust from that date forward. As the Trust was created through a reorganization the historical results of Peyto will represent the comparative financial results of the Trust.

Gross revenues totaled $52.4 million during the third quarter of 2003 (Q3 2002 - $20.7 million) and $160.3 million for the first nine months of 2003 (2002 - $57.3 million). These increases of 153 percent and 180 percent, respectively, are a result of higher production volumes combined with strong commodity prices. The price of natural gas averaged $7.02 per mcf for the third quarter of 2003 (Q3 2002 - $3.49 per mcf) and $7.73 per mcf for the first nine months of 2003 (2002 - $4.08 per mcf). Peyto's gas revenue is reported before transportation costs which are classified as operating costs. Oil and natural gas liquids prices averaged $33.86 per barrel for the third quarter of 2003 (Q3 2002 - $33.67 per barrel) and $37.13 per barrel for the first nine months of 2003 (2002 - $29.92 per barrel). The Trust has a hedging program for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of natural gas commodity prices. For the quarter ended September 30, 2003 approximately 32% of the gas production was collared with an average floor price of $3.90 per GJ and average ceiling of $7.13 per GJ and 19% of gas production was sold at an average fixed price of $7.58 per GJ.

A successful ongoing drilling program resulted in natural gas production for the quarter increasing by 48 percent to 66.8 mmcf per day from 45.0 mmcf per day in the same quarter of 2002. Oil and natural gas liquids production increased 47 percent to 2,948 bbl/d in 2003 from 2,009 bbl/d in 2002. Production for the first nine months of 2003 averaged 13,223 barrels of oil equivalent ("boe", natural gas converted on a 6:1 basis) per day up 61 percent from 8,222 boe per day for the first nine months of 2002.

The 2003 royalties to date, net of Alberta Royalty Tax Credit (ARTC), increased 207 percent to $39.3 million from $12.8 million in 2002. The 2003 average royalty rate, before ARTC, was 25 percent compared to 23 percent for the same period in 2002. The royalty rate, expressed as a percentage of sales, will fluctuate from period to period due to the fact that natural gas crown royalties are calculated based on the Alberta Natural Gas Reference Price rather than the price achieved, which can differ significantly.

Operating costs for the third quarter were $2.8 million in 2003 compared to $1.2 million for the same period in 2002 due primarily to increased production volumes. On a per unit basis quarterly costs increased to $2.20 per boe from $1.36 per boe due to higher volumes being processed through third party facilities in new areas and limited gathering and processing capacity in the Sundance field. Costs for the nine month period ended September 30, 2003 rose to $6.2 million from $3.3 million in 2002. On a barrel of oil equivalent basis, operating costs were $1.73 per boe for the first nine months of 2003 compared to $1.48 per boe for the same period of 2002. Operating costs are comprised of field expenses and natural gas transportation costs net of income generated by the processing and gathering of joint venture gas.

General and administrative expenses were $173,000 in the third quarter of 2003 compared to $85,000 for the same period in 2002 with year to date expenses totaling $764,000 for 2003 compared to $477,000 in 2002. On a boe basis, general and administrative expenses remained unchanged at $0.21 per boe for the nine month period.

Financing charges for the third quarter of 2003 increased to $1.7 million from $706,000 in 2002 due to higher debt levels associated with the 2003 capital program in combination with commitment and legal fees of $601,000 incurred related to the Trust's $180 million bank line. Costs for the first nine months of 2003 were $3.6 million, up 109 percent from $1.7 million in 2002. On a per boe basis, interest charges were $1.00 per boe for the nine month period of 2003 compared to $0.77 per boe for the same period of 2002.

Trust reorganization costs of $44.2 million were incurred in the first nine months of 2003 which included $40.9 million for the cash payout of stock options, $1.8 million for bonuses paid upon the cancellation of Peyto's former bonus plan and $1.5 million for financial advisory, accounting and legal fees and the preparation and printing of the Information Circular used in connection with to the Plan of Arrangement.

Depreciation, depletion and site restoration expenses were $16.2 million in the first nine months of 2003 compared to $7.8 million for the same period in 2002 as a direct result of the Trust's increased asset base and production volumes. On a per boe basis, the average depreciation, depletion and site restoration rate were $4.48 per boe in 2003 compared to $3.49 per boe in 2002.

The 2003 provision for future income taxes decreased to $7.4 million compared to $12.7 million in 2002 due to the tax efficiency of the trust structure.

Funds from operations, before trust reorganization costs, for the first nine months of 2003 were $110.0 million compared with $38.8 million in 2002. This 184 percent increase was the result of increased production volumes combined with stronger commodity prices. On a per unit basis, the first nine months of 2003 resulted in funds from operations before trust reorganization costs of $2.49 per unit versus $0.90 per unit in 2002. The increased natural gas and liquids prices resulted in a field netback for the period of $31.80 per boe in 2003 compared to $18.37 per boe in 2002. Net earnings for the first nine months of 2003 were $42.3 million or $0.96 per unit compared with $18.2 million in 2002 or $0.43 per unit.

Liquidity and Capital Resources

At September 30, 2003, the Trust had total debt including working capital deficiency of $131.3 million for a debt to running cash flow ratio of approximately 0.9:1 based on annualized third quarter 2003 cash flow. Year to date capital expenditures of $95.7 million were funded through cash flow, working capital, long term debt and equity. Subsequent to September 30, 2003, no additional trust units have been issued.

Management expects the combination of current bank lines of $180 million and cash flow from operations to be sufficient to support Peyto's 2003 capital expenditure program anticipated to be between $125 and $130 million.

The third quarter of 2003 generated funds available for distribution as follows:

	$
Funds from operations	35,882,128
Funds from issuance of trust units	29,874,730
Reduction in working capital deficit	(9,048,963)
Funds available for distribution and capital expenditures	56,707,895
Capital expenditures	(36,280,091)
Funds available for distribution	20,427,804

Business Risks

Economic factors and risks as discussed in Peyto's 2002 annual report have not changed in 2003.

Quarterly information

	2003			2002	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	**66,827**	62,577	57,452	50,556	45,018
Oil & NGLs (bbl/d)	**2,948**	2,870	2,689	2,349	2,009
Barrels of oil equivalent (boe/d @ 6:1)	**14,086**	13,299	12,265	10,775	9,512
Average product prices					
Natural gas ($/mcf)	**7.02**	7.80	8.50	5.90	3.49
Oil & natural gas liquids ($/bbl)	**33.86**	33.94	44.23	36.52	33.67
Average operating expenses ($/boe)	**2.20**	1.88	1.01	1.12	1.36
Field netback ($/boe)	**29.24**	31.53	35.09	25.15	16.42
Financial ($000 except per unit)					
Revenue	**52,365**	53,307	54,670	35,354	20,676
Royalties (net of ARTC)	**11,622**	12,866	14,820	9,311	5,122
Funds from operations	**35,882**	(7,360)	37,309	23,746	13,474
Funds from operations per unit/share	**0.79**	(0.17)	0.86	0.55	0.31
Funds from operations before trust reorganization costs	**35,882**	36,791	37,309	23,746	13,474
Funds from operations before trust reorganization costs per unit/share	**0.79**	0.85	0.86	0.55	0.31
Cash distributions	**20,428**	-	-	-	-
Cash distributions per unit	**0.45**	-	-	-	-
Percentage of cash flow distributed	**57%**	-	-	-	-
Earnings	**25,398**	(1,642)	18,495	10,310	5,957
Earnings per unit/share	**0.56**	(0.04)	0.43	0.24	0.14
Capital expenditures	**36,280**	18,895	40,486	37,627	24,105
Weighted average trust units outstanding	**45,395,122**	43,451,522	43,446,337	43,340,812	43,277,421

Financial statements

Consolidated Balance Sheets

As at	Sept. 30 2003 (unaudited) $	Dec. 31 2002 (audited) $
Assets		
Current		
Cash	**8,261,596**	205,558
Accounts receivable	**28,032,392**	18,860,110
Prepaids and deposits	**807,622**	894,553
	37,101,610	19,960,221
Property, plant and equipment *(Notes 3 and 4)*	**302,013,357**	222,206,233
	339,114,967	242,166,454
Liabilities and Unitholders' Equity		
Current		
Accounts payable and accrued liabilities	**61,470,986**	50,778,415
Current taxes payable	**75,280**	166,922
Cash distributions payable	**6,809,268**	-
	68,355,534	50,945,337
Commitments *(Note 6)*	**-**	-
Long-term debt *(Note 4)*	**100,000,000**	80,000,000
Future site restoration and abandonment	**693,713**	380,914
Future income taxes	**47,179,179**	39,773,845
	147,872,892	120,154,759
Unitholders' equity		
Unitholders’ capital/share capital*(Note 5)*	**49,227,530**	19,230,677
Retained earnings	**94,086,815**	51,835,681
Accumulated cash distributions	**(20,427,804)**	-
	122,886,541	71,066,358
	339,114,967	242,166,454

See accompanying notes

Financial statements

Consolidated Statements of Earnings and Retained Earnings
(unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2003	2002	**2003**	2002
	$	$	**$**	$
Revenue				
Petroleum and natural gas sales, net	**40,743,379**	15,553,798	**121,033,586**	44,564,995
Expenses				
Operating *(Note 7)*	**2,848,012**	1,187,755	**6,244,077**	3,326,069
General and administrative	**173,493**	84,969	**764,342**	477,247
Trust reorganization *(Note 10)*	**-**	-	**44,206,442**	-
Interest	**1,729,125**	706,351	**3,608,466**	1,736,669
Depletion, depreciation and site restoration	**5,897,690**	2,995,858	**16,165,970**	7,823,262
	10,648,320	4,974,933	**70,989,297**	13,363,247
Earnings before taxes	**30,095,059**	10,578,865	**50,044,289**	31,201,748
Future income tax expense *(Note 8)*	**4,586,384**	4,521,245	**7,413,021**	12,689,714
Capital tax expense	**110,621**	101,110	**380,134**	267,833
	4,697,005	4,622,355	**7,793,155**	12,957,547
Earnings for the period	**25,398,054**	5,956,510	**42,251,134**	18,244,201
Retained earnings, beginning of period	**68,688,761**	35,569,313	**51,835,681**	23,281,622
Retained earnings, end of period	**94,086,815**	41,525,823	**94,086,815**	41,525,823
Earnings per unit/common share *(Note 5)*				
Basic	**0.56**	0.14	**0.96**	0.43
Diluted	**0.56**	0.13	**0.96**	0.43

See accompanying notes

Financial statements

Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2003	2002	**2003**	2002
	$	$	**$**	$
Cash provided by (used in)				
Operating Activities				
Earnings for the period	**25,398,054**	5,956,510	**42,251,134**	18,244,201
Items not requiring cash:				
Future income tax expense	**4,586,384**	4,521,245	**7,413,021**	12,689,714
Depletion, depreciation and site restoration	**5,897,690**	2,995,690	**16,165,970**	7,823,262
Funds from operations	**35,882,128**	13,473,613	**65,830,125**	38,757,177
Change in non-cash working capital related to operating activities	**1,960,321**	(90,105)	**2,174,014**	152,622
	37,842,449	13,383,508	**68,004,139**	38,909,647
Financing Activities				
Issue of trust units, net of costs	**29,874,730**	467,799	**29,989,166**	2,581,088
Distribution payments	**(13,618,536)**	-	**(13,618,536)**	-
Increase (decrease) in bank debt	**(23,178,369)**	(1,125,882)	**20,000,000**	19,180,750
	(6,922,175)	(658,083)	**36,370,630**	21,761,838
Investing Activities				
Additions to property, plant and equipment	**(36,280,091)**	(24,280,091)	**(95,660,295)**	(74,924,051)
Change in non-cash working capital related to investing activities	**13,562,777**	11,394,036	**(658,436)**	14,297,325
	(22,717,314)	(12,710,623)	**(96,318,731)**	(60,626,726)
Net increase in cash	**8,202,960**	14,802	**8,056,038**	44,759
Cash, beginning of period	**58,636**	31,177	**205,558**	1,220
Cash, end of period	**8,261,596**	45,979	**8,261,596**	45,979

See accompanying notes

Notes to consolidated financial statements

1. Organization and restructuring costs

Effective July 1, 2003 Peyto Exploration & Development Corp. was reorganized into Peyto Energy Trust (the "Trust"). Shareholders of Peyto Exploration & Development Corp. ("Peyto") received one Peyto Energy Trust unit for each common share held. All outstanding common share options were settled for cash prior to the completion of the reorganization. The unitholders of the Trust are entitled to receive cash distributions paid by the Trust and are entitled to one vote for each Trust unit held at unitholder meetings. The Trust units of the Trust commenced trading on the TSX under the symbol "PEY.UN" on July 4, 2003. The Trust is an unincorporated open-ended limited purpose trust established under the laws of the Province of Alberta. The Trust indirectly owns all the securities of Peyto Exploration & Development Corp. which entitles the Trust to receive all cash flow available for distribution from the business of Peyto after debt service payments, maintenance capital expenditures and other cash requirements.

The costs of the reorganization, amounting to $44,206,442, have been expensed (see note 10).

2. Basis of Presentation

The interim consolidated financial statements of the Trust have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), and on the same basis as the audited financial statements as at and for the year ended December 31, 2002. The interim financial statement disclosures are incremental to those included with the annual financial statements and certain disclosures, which are normally required to be included in the notes to the annual financial statements, have been condensed or omitted. These interim financial statements should be read in conjunction with the financial statements and notes in the Peyto Exploration & Development Corp. annual report for the year ended December 31, 2002.

While the Trust commenced operations on July 1, 2003, these unaudited consolidated financial statements follow the continuity of interest basis of accounting as if the Trust had always existed. This basis is intended to provide unitholders with meaningful and comparative financial information. As a result, the comparative figures are those of Peyto Exploration & Development Corp., while the results of operations include Peyto Exploration & Development Corp.'s results for the period up to and including June 30, 2003, and the Trust's results of operations from July 1, 2003 to September 30, 2003. Also, certain comparative figures have been reclassified to conform to the current presentation.

3. Property, Plant and Equipment

	September 30, 2003 $	December 31, 2002 $
Property, plant and equipment	**338,775,368**	243,180,014
Office furniture and equipment	**349,176**	284,236
	339,124,544	243,464,250
Accumulated depletion and depreciation	**(37,111,187)**	(21,258,017)
	302,013,357	222,206,233

At September 30, 2003, costs of $30,705,600 (December 31, 2002 - $20,122,240) related to undeveloped land have been excluded from the depletion and depreciation calculation. No general and administrative expenses relating to the Trust's exploration, development and acquisition programs were capitalized. During the three and nine months ended September 30, 2003, the Trust charged $120,151 and $312,798 respectively, to earnings related to its future site restoration and abandonment obligation.

4. Long-Term Debt

Prior to the conversion to an energy trust, the Company had a revolving credit facility to a maximum of $105,000,000. Outstanding amounts bore interest at bank prime and were due on demand. A General Security Agreement with a floating charge on land registered in Alberta was held as collateral by the bank.

Effective with the conversion, the Trust has a syndicated $180,000,000 extendible, 364 day revolving credit facility. Outstanding amounts on this facility bear interest at rates determined by the Trust's debt to cash flow ratio. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank. For the nine months ended September 30, 2003 the combined effective interest rate on amounts outstanding on this facility was 2.8% (September 30, 2002 – 1.9%).

5. Unitholders' Capital/Share Capital

Authorized

Unlimited number of voting trust units

Issued and Outstanding

Trust Units/Common Shares (no par value)	Number of Shares/Units	Amount $
Balance, December 31, 2002	43,418,188	19,230,677
Share issue costs, net of tax	-	(10,615)
Exercise of stock options	33,334	134,336
Shares converted to trust units ***	(43,451,522)	(19,354,398)
Trust units issued on conversion of shares ***	43,451,522	19,354,398
Trust units issued by private placement	1,943,600	29,873,132
Balance, September 30, 2003	45,395,122	49,227,530

*** Conversion of common shares for trust units

Upon completion of the reorganization discussed in note 1, each outstanding common share was converted into one Trust Unit.

Stock Options

As part of the plan of arrangement to convert Peyto into a trust, all common share options were cancelled and the optionholders received a cash payment for the intrinsic value of the options.

Per Unit/Share Amounts

Earnings per unit/common share have been calculated based upon the weighted average number of units or common shares outstanding during the three and nine month periods ended September 30, 2003 of 45,395,122 and 44,104,799, respectively (September 30, 2002 – 43,227,421 and 42,856,189). Diluted per unit/common share amounts are calculated using the treasury stock method. The weighted average number of units/common shares used to determine the diluted per unit/share amount for the three and nine month periods ended September 30, 2003 was 45,395,122 and 44,104,799 respectively (September 30, 2002 – 44,929,603 and 42,902,468).

Stock Based Compensation

Prior to the conversion to an energy trust, Peyto had an employee and director stock option plan where no compensation expense was recognized when the stock options were issued. Had compensation expense for the stock options granted subsequent to January 1, 2002 been determined and expensed, the following pro forma amounts would have resulted.

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2003	2002	**2003**	2002
	$	$	**$**	$
Earnings				
As reported	25,398,054	5,956,510	42,251,134	18,244,201
Pro forma	25,398,054	5,722,790	42,251,134	17,761,703
Earnings per unit/common share – basic				
As reported	0.56	0.14	0.96	0.43
Pro forma	0.56	0.13	0.96	0.41
Earnings per unit/common share – diluted				
As reported	0.56	0.13	0.96	0.43
Pro forma	0.56	0.13	0.96	0.41

6. Commitments

The Trust has a bonus plan made up of market and value based components. The market based component is calculated based on the market appreciation of the units and cash distributions over the period. Under the value component, the bonus pool will be initially comprised of 3% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity and distributions, of proved producing reserves calculated using a discount rate of 8%. The bonus will be paid in cash and will be recorded in the fourth quarter as an expense.

7. Operating Expenses

The Trust's operating expenses include all costs with respect to day-to-day well and facility operations and the cost of transportation of natural gas. Processing and gathering income related to joint venture and third party gas is included in operating expenses.

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2003	2002	**2003**	2002
	$	$	**$**	$
Field expenses	**3,031,827**	1,222,090	**6,875,580**	3,115,734
Transmission	**707,178**	498,203	**2,029,115**	1,332,472
Processing & gathering income	**(890,993)**	(532,538)	**(2,660,618)**	(1,122,137)
Total operating costs	**2,848,012**	1,187,755	**6,244,077**	3,326,069

8. Future Income Tax Expense

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	**2003**	2002
	$	$	**$**	$
Income before income taxes	30,095,052	10,641,620	50,044,291	31,201,748
Statutory income tax rate	40.75%	42.12%	40.75%	42.12%
Expected income taxes	12,263,734	4,482,250	20,393,049	13,142,176
Increase (decrease) in income taxes from:				
Non-deductible crown charges	3,985,457	2,183,535	13,852,114	5,545,311
Resource allowance	(4,348,296)	(1,962,566)	(9,659,559)	(5,450,563)
Corporate income tax rate change	-	-	(8,242,201)	(224,302)
Attributed Canadian Royalty income	(54,552)	(124,534)	(1,646,971)	(171,748)
Trust distributions	(7,287,443)	-	(7,267,443)	-
Other	7,484	(57,440)	(15,968)	(151,159)
Income tax expense	4,586,384	4,521,245	7,413,021	12,689,714

9. Financial Instruments

The Trust is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Trust enters into these contracts for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of natural gas commodity prices. A summary of contracts outstanding in respect of the hedging activities at September 30, 2003 were as follows:

Period Hedged	Type	Daily Volume	Floor	Ceiling
April 1 to October 31, 2003	Costless collar	6,000 GJ	$3.50/GJ	$7.25/GJ
April 1 to October 31, 2003	Costless collar	8,000 GJ	$3.50/GJ	$6.85/GJ
April 1 to October 31, 2003	Costless collar	6,000 GJ	$3.50/GJ	$7.00/GJ
April 1 to October 31, 2003	Costless collar	5,000 GJ	$5.50/GJ	$7.61/GJ
Nov. 1, 2003 to March 31, 2004	Costless collar	5,000 GJ	$5.50/GJ	$8.45/GJ
Nov. 1, 2003 to March 31, 2004	Costless collar	5,000 GJ	$7.00/GJ	$9.00/GJ
April 1 to October 31, 2003	Fixed Price	5,000 GJ	$7.40/GJ	
April 1 to October 31, 2003	Fixed Price	5,000 GJ	$8.20/GJ	
July 1 to October 31, 2003	Fixed price	5,000 GJ	$7.15/GJ	
Nov. 1, 2003 to March 31, 2004	Fixed price	5,000 GJ	$7.49/GJ	
Nov. 1, 2003 to March 31, 2004	Fixed price	5,000 GJ	$7.90/GJ	
Nov. 1, 2003 to March 31, 2004	Fixed price	5,000 GJ	$7.70/GJ	
Nov. 1, 2003 to March 31, 2004	Fixed price	5,000 GJ	$7.47/GJ	
Nov. 1, 2003 to March 31, 2004	Fixed price	5,000 GJ	$6.42/GJ	
Nov. 1, 2003 to March 31, 2004	Fixed price	5,000 GJ	$6.38/GJ	

Based on dealer quotes, had these contracts been closed on September 30, 2003, a gain in the amount of $8,892,350 would have been realized.

10. Peyto Energy Trust Reorganization

The following costs were incurred as part of the plan to reorganize Peyto Exploration & Development Corp. into a trust which was effective July 1, 2003.

	$
Cash payout of stock options	40,896,442
Bonuses on cancellation of former Peyto plan	1,810,000
Financial advisory, accounting and legal fees, and preparation and printing of the Information Circular	1,500,000
	44,206,442

11. Cash Interest and Taxes Paid

	Three Months Ended September 30		**Nine Months Ended September 30**	
	2003	2002	**2003**	2002
	$	$	**$**	$
Cash interest paid	**1,128,125**	706,351	**3,007,466**	1,736,669
Cash taxes paid	**101,436**	179,874	**471,776**	425,423

Peyto Exploration & Development Corp. information

Officers

Don Gray
President and Chief Executive Officer

Roberto Bosdachin
Vice-President, Exploration

Darren Gee
Vice President, Engineering

Lyle Skaien
Vice President, Operations

Sandra Brick
Vice President, Finance

Stephen Chetner
Corporate Secretary

Directors

Rick Braund
Don Gray
Brian Craig
Stephen Chetner
John Boyd
Michael MacBean
Ian Mottershead

Auditors
Ernst & Young LLP

Solicitors
Burnet, Duckworth & Palmer LLP

Bankers
Bank of Montreal
National Bank of Canada
Union Bank of California
Canadian Imperial Bank of Commerce

Transfer Agent
Valiant Trust Company

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

Phone: 403.261.6081
Fax: 403.261.8976
Web: www.peyto.com

Stock Listing Symbol: PEY.un
Toronto Stock Exchange