

NOTICE OF ANNUAL AND SPECIAL MEETING OF SECURITYHOLDERS

to be held June 24, 2003

and

NOTICE OF PETITION TO THE COURT OF QUEEN'S

BENCH OF ALBERTA

and

INFORMATION CIRCULAR and PROXY STATEMENT

with respect to a

PLAN OF ARRANGEMENT

involving

PEYTO EXPLORATION & DEVELOPMENT CORP.

PEYTO ACQUISITION CORP.

PEYTO ENERGY TRUST

and

PEYTO SECURITYHOLDERS

May 23, 2003

TABLE OF CONTENTS

<p>LETTER TO SHAREHOLDERS</p> <p>NOTICE OF ANNUAL AND SPECIAL MEETING</p> <p>NOTICE OF PETITION</p> <p>INFORMATION CIRCULAR..... 1</p> <p style="padding-left: 20px;">Introduction..... 1</p> <p style="padding-left: 20px;">Currency and Exchange Rates..... 1</p> <p style="padding-left: 20px;">Forward-looking Statements..... 1</p> <p style="padding-left: 20px;">Supplemental Disclosure..... 1</p> <p style="padding-left: 20px;">Information for United States Securityholders..... 2</p> <p>GLOSSARY OF TERMS..... 3</p> <p>SUMMARY INFORMATION..... 9</p> <p style="padding-left: 20px;">The Meeting..... 9</p> <p style="padding-left: 20px;">The Arrangement..... 9</p> <p style="padding-left: 20px;">Background to and Reasons for the Arrangement..... 11</p> <p style="padding-left: 20px;">Approval of Securityholders Required for the Arrangement..... 11</p> <p style="padding-left: 20px;">Optionholder Participation..... 11</p> <p style="padding-left: 20px;">Fairness Opinion..... 12</p> <p style="padding-left: 20px;">Recommendation of the Board of Directors..... 12</p> <p style="padding-left: 20px;">Final Order..... 12</p> <p style="padding-left: 20px;">AcquisitionCo..... 12</p> <p style="padding-left: 20px;">AmalgamationCo..... 12</p> <p style="padding-left: 20px;">Peyto Operating Trust..... 12</p> <p style="padding-left: 20px;">The Trust..... 13</p> <p style="padding-left: 20px;">Stock Exchange Listing Approvals..... 13</p> <p style="padding-left: 20px;">Canadian Federal Income Tax Considerations..... 13</p> <p style="padding-left: 20px;">Other Tax Considerations..... 13</p> <p style="padding-left: 20px;">Pro Forma Distributable Cash..... 14</p> <p>THE ARRANGEMENT..... 15</p> <p style="padding-left: 20px;">Background to and Reasons for the Arrangement..... 15</p> <p style="padding-left: 20px;">Effect of the Arrangement and POT Transaction..... 15</p> <p style="padding-left: 20px;">Details of the Arrangement..... 17</p> <p style="padding-left: 20px;">Arrangement Agreement..... 18</p> <p style="padding-left: 20px;">Procedure for the Arrangement Becoming Effective..... 18</p> <p style="padding-left: 20px;">Approvals..... 18</p> <p style="padding-left: 20px;">Recommendation of the Board of Directors..... 20</p> <p style="padding-left: 20px;">Fairness Opinion..... 20</p> <p style="padding-left: 20px;">Timing..... 20</p> <p style="padding-left: 20px;">Procedure for Exchange of Shares..... 21</p> <p style="padding-left: 20px;">Canadian Federal Income Tax Considerations..... 21</p> <p style="padding-left: 20px;">Exchange of Common Shares Pursuant to the Arrangement..... 21</p> <p style="padding-left: 20px;">Status of the Trust..... 22</p>	<p>ELIGIBILITY FOR INVESTMENT..... 25</p> <p style="padding-left: 20px;">Rights of Dissent..... 25</p> <p style="padding-left: 20px;">Interests of Certain Persons in the Arrangement..... 27</p> <p style="padding-left: 20px;">Expenses of the Arrangement..... 27</p> <p style="padding-left: 20px;">Stock Exchange Listings..... 27</p> <p style="padding-left: 20px;">Securities Law Matters..... 27</p> <p style="padding-left: 20px;">Legal Matters..... 28</p> <p>INFORMATION CONCERNING THE TRUST..... 28</p> <p>INFORMATION CONCERNING PEYTO OPERATING TRUST..... 28</p> <p>INFORMATION CONCERNING ACQUISITIONCO..... 28</p> <p>INFORMATION CONCERNING AMALGAMATIONCO..... 28</p> <p>INFORMATION CONCERNING PEYTO..... 29</p> <p style="padding-left: 20px;">Incorporation by Reference..... 29</p> <p>ANNUAL MEETING MATTERS..... 30</p> <p style="padding-left: 20px;">Election of Directors..... 30</p> <p style="padding-left: 20px;">Appointment of Auditors..... 31</p> <p style="padding-left: 20px;">Directors' and Officers' Compensation..... 31</p> <p style="padding-left: 20px;">Statement of Corporate Governance Practices..... 35</p> <p>GENERAL PROXY MATTERS..... 38</p> <p style="padding-left: 20px;">Solicitation of Proxies..... 38</p> <p style="padding-left: 20px;">Appointment and Revocation of Proxies..... 38</p> <p style="padding-left: 20px;">Signature of Proxy..... 38</p> <p style="padding-left: 20px;">Voting of Proxies..... 38</p> <p style="padding-left: 20px;">Exercise of Discretion of Proxy..... 39</p> <p style="padding-left: 20px;">Voting Securities and Principal Holders Thereof..... 39</p> <p style="padding-left: 20px;">Procedure and Votes Required..... 39</p> <p>CERTIFICATE..... 40</p> <p>Appendix A – Arrangement Resolution..... A-1</p> <p>Appendix B – Interim Order..... B-1</p> <p>Appendix C – Arrangement Agreement..... C-1</p> <p>Appendix D – Fairness Opinion of FirstEnergy Capital Corp..... D-1</p> <p>Appendix E – Information Concerning the Trust..... E-1</p> <p>Appendix F – Information Concerning AmalgamationCo..... F-1</p> <p>Appendix G – Information Concerning Peyto Operating Trust..... G-1</p> <p>Appendix H - Pro Forma Statement of Income and Funds Available for Distribution..... H-1</p> <p>Appendix I – Section 191 of the <i>Business Corporations Act</i> (Alberta)..... I-1</p>
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May 23, 2003

Dear Shareholders and Optionholders:

You are invited to attend the annual and special meeting (the "Meeting") of holders ("Shareholders") of common shares ("Common Shares") and holders ("Optionholders") of options to acquire Common Shares ("Options") (collectively "Securityholders") of Peyto Exploration & Development Corp. ("Peyto") to be held at the Westin Hotel, Eau Claire Room, 320 – 4th Avenue S.W., Calgary, Alberta on June 24, 2003 at 2:30 p.m. (Calgary time).

At the Meeting, in addition to the annual meeting business, you will be asked to consider, and, if thought advisable, approve a proposed plan of arrangement (the "Arrangement") involving Peyto, Peyto Acquisition Corp., Peyto Energy Trust (the "Trust") and the Securityholders. The Arrangement will result, through a series of transactions, in Shareholders receiving, in exchange for each of their Common Shares, one trust unit ("Trust Unit") of the Trust.

Optionholders may choose to either: (i) exercise their vested Options and receive the same consideration as Shareholders; or (ii) exercise their right, pursuant to the Option Plan, to have their Options cancelled in consideration of a cash payment per Option equal to the Exercise Price Differential (as defined in the attached Information Circular). All unexercised Options (other than Options held by Dissenting Securityholders), if any, will be cancelled pursuant to the Arrangement and the Optionholders thereof shall be entitled to receive from Peyto, in respect of each such Option, an amount in cash that is equal to the Exercise Price Differential of such Option. Following the completion of the Arrangement, the former Optionholders will have the option to purchase Trust Units from the Trust at the Weighted Average Trading Price pursuant to the Trust Unit Private Placement (as defined in the attached Information Circular).

The purpose of the Arrangement is to convert Peyto from a corporate entity concentrating solely on growth through the reinvestment of cash flow to a trust which will distribute a portion of cash flow to trust unitholders. It is the current intention of management to distribute, for the second half of 2003, approximately 50% of the cash flow or a minimum of \$0.15 per Trust Unit per month. The remainder of the Trust's cash flow will be used to continue to develop low risk, high quality oil and natural gas reserves. The board of directors of Peyto believes that the conversion of Peyto into a trust will maximize value for Securityholders and will provide an opportunity to enhance the value of Peyto and its assets over time for the following reasons:

- it creates a capital structure with the flexibility to allocate cash flow between oil and gas investments and distributions to unitholders in a more efficient manner;
- it maintains the entrepreneurial environment that has led to the success achieved by Peyto over the past four years; and
- it gives holders of Trust Units the ability to allocate the distributed capital in a manner that is most efficient for their situation.

The resolutions approving the Arrangement must be approved by 66 $\frac{2}{3}$ % of the votes cast by Shareholders and Optionholders, voting together as a class. The Arrangement is also subject to the approval of the Court of Queen's Bench of Alberta.

FirstEnergy Capital Corp. has provided the board of directors of Peyto with its opinion that the Arrangement is fair, from a financial point of view, to Securityholders. **The board of directors, based upon, among other things, including its consideration of the fairness opinion of FirstEnergy Capital Corp., has unanimously concluded that the Arrangement is in the best interests of Peyto and its Securityholders and recommends that Securityholders vote in favour of the Arrangement.**

The Information Circular contains a detailed description of the Arrangement, as well as detailed information regarding Peyto and the Trust. Please give this material your careful consideration and, if you require assistance, consult your financial, tax or other professional advisors. If you are unable to attend the Meeting in person, please complete and deliver the applicable form of proxy which is enclosed in order to ensure your representation at the Meeting.

Yours very truly,

(signed) "Donald T. Gray"
Donald T. Gray
President and Chief Executive Officer

**PEYTO EXPLORATION & DEVELOPMENT CORP.
NOTICE OF ANNUAL AND SPECIAL MEETING**

to be held June 24, 2003

NOTICE IS HEREBY GIVEN that, pursuant to an order (the "Interim Order") of the Court of Queen's Bench of Alberta dated May 23, 2003, an annual and special meeting (the "Meeting") of the holders of common shares ("Common Shares") and the holders of options to purchase Common Shares ("Options") (collectively "Securityholders") of Peyto Exploration & Development Corp. ("Peyto") will be held at the Westin Hotel, Eau Claire Room, 320 – 4th Avenue S.W., Calgary, Alberta on June 24, 2003, at 2:30 p.m. (Calgary time) for the following purposes:

- (a) to receive and consider the consolidated financial statements of Peyto for the year ended December 31, 2002, together with the report of the auditors thereon, and the report of the Board of Directors;
- (b) to fix the number of members of the Board of Directors of Peyto to be elected at the Meeting at six members;
- (c) to elect directors of Peyto for the ensuing year;
- (d) to appoint auditors of Peyto for the ensuing year and to authorize the directors of Peyto to fix their remuneration as such;
- (e) to consider pursuant to the Interim Order and, if thought advisable, to pass, with or without variation, a special resolution, the full text of which is set forth in Appendix A to the accompanying information circular and proxy statement dated May 23, 2003 (the "Information Circular"), to approve a plan of arrangement under section 193 of the *Business Corporations Act* (Alberta), all as more particularly described in the accompanying Information Circular;
- (f) to transact such further and other business as may properly be brought before the Meeting or any adjournment thereof.

Specific details of the matters proposed to be put before the Meeting are set forth in the accompanying Information Circular.

The record date for determination of Securityholders entitled to receive notice of and to vote at the Meeting is May 12, 2003. Only Securityholders whose names have been entered in the register of the Securityholders on the close of business on that date are entitled to notice of the Meeting and such holders, and holders of Common Shares or Options (collectively "Securities") issued by Peyto after the record date and prior to the Meeting will be entitled to vote at the Meeting, provided that, to the extent a holder of Common Shares transfers the ownership of any Common Shares after such date and the transferee establishes ownership of those Common Shares and demands, not later than 10 days before the Meeting, to be included in the list of holders of Common Shares eligible to vote at the Meeting, such transferee will be entitled to vote those Common Shares at the Meeting. The terms of the Options provide that they are not transferable and no Options will expire prior to the Meeting.

Registered Securityholders have the right to dissent with respect to the Arrangement and to be paid the fair value of their Securities in accordance with the provisions of section 191 of the *Business Corporations Act* (Alberta) and the Interim Order. A Securityholder's right to dissent is more particularly described in the accompanying Information Circular. **Failure to strictly comply with the requirements set forth in section 191 of the *Business Corporations Act* (Alberta), as modified by the Interim Order, may result in the loss of any right of dissent.**

A Securityholder may attend the Meeting in person or may be represented by proxy. Securityholders who are unable to attend the Meeting or any adjournment thereof in person are requested to date, sign and return the accompanying form of proxy (GREEN for holders of Common Shares and WHITE for holders of Options) for use at the Meeting or any adjournment thereof. To be effective, the enclosed proxy must be received by Computershare Trust Company of Canada, Suite 600, Western Gas Tower, 530 – 8th Avenue S.W., Calgary, Alberta, T2P 3S8, at least 24 hours (excluding Saturdays, Sundays and holidays) prior to the time set for the Meeting or any adjournment thereof.

Dated at the City of Calgary, in the Province of Alberta, this 23rd day of May, 2003.

**BY ORDER OF THE BOARD OF DIRECTORS OF
PEYTO EXPLORATION & DEVELOPMENT CORP.**

(signed) "Donald T. Gray"
Donald T. Gray
President and Chief Executive Officer
Peyto Exploration & Development Corp.

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL DISTRICT OF CALGARY**

**IN THE MATTER OF SECTION 193 OF THE *BUSINESS CORPORATIONS ACT*,
R.S.A. 2000, c. B-9, AS AMENDED**

**AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING PEYTO
EXPLORATION & DEVELOPMENT CORP., PEYTO ACQUISITION CORP.,
PEYTO ENERGY TRUST AND THE SECURITYHOLDERS OF PEYTO
EXPLORATION & DEVELOPMENT CORP.**

NOTICE OF PETITION

NOTICE IS HEREBY GIVEN that a petition (the "Petition") has been filed with the Court of Queen's Bench of Alberta, Judicial District of Calgary (the "Court") on behalf of Peyto Exploration & Development Corp. ("Peyto") with respect to a proposed arrangement (the "Arrangement") under section 193 of the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended (the "ABCA"), involving Peyto, Peyto Acquisition Corp., Peyto Energy Trust, and the holders of common shares ("Common Shares") and options to acquire Common Shares ("Options") of Peyto (collectively, the "Securityholders"), which Arrangement is described in greater detail in the Information Circular and Proxy Statement of Peyto dated May 23, 2003, accompanying this Notice of Petition. At the hearing of the Petition, Peyto intends to seek:

- (a) a declaration that the terms and conditions of the Arrangement are fair to Securityholders;
- (b) an order approving the Arrangement pursuant to the provisions of section 193 of the ABCA;
- (c) a declaration that the Arrangement will, upon the filing of the Articles of Arrangement pursuant to the provisions of section 193 of the ABCA, become effective in accordance with its terms and will be binding on and after the Effective Date (as defined in the Arrangement); and
- (d) such other and further orders, declarations and directions as the Court may deem just.

The Court has been advised that its order approving the Arrangement, if granted, will constitute the basis for an exemption from the registration requirements of the *Securities Act of 1933*, as amended, of the United States of America with respect to the securities to be issued pursuant to the Arrangement.

AND NOTICE IS FURTHER GIVEN that the said Petition was directed to be heard before the Honourable Justice A.G. Park at the Court of Queen's Bench of Alberta, 611 - 4th Street S.W., Calgary, Alberta, on the 23rd day of May, 2003 at 9:30 a.m. (Calgary time), or as soon thereafter as counsel may be heard. Any Securityholder or any other interested party desiring to support or oppose the Petition, may appear at the time of hearing in person or by counsel for that purpose. **Any Securityholder or any other interested party desiring to appear at the hearing is required to file with the Court of Queen's Bench of Alberta, Judicial District of Calgary, and serve upon Peyto on or before 12:00 p.m. (Calgary time) on June 26, 2003, a notice of intention to appear, including an address for service in the Province of Alberta together with any evidence or materials which are to be presented to the Court.** Service on Peyto is to be effected by delivery to the solicitors for Peyto at the address below. If any Securityholder or any other interested party does not attend, either in person or by counsel, at that time, the Court may approve the Arrangement as presented, or may approve it subject to such terms and conditions as the Court shall deem fit, without any further notice.

AND NOTICE IS FURTHER GIVEN that no further notice of the Petition will be given by Peyto and that in the event the hearing of the Petition is adjourned only those persons who have appeared before the Court for the application at the hearing shall be served with notice of the adjourned date.

AND NOTICE IS FURTHER GIVEN that the Court, by Order dated May 23, 2003, has given directions as to the calling of a meeting of Securityholders for the purpose of such holders voting upon resolutions to approve the Arrangement and has directed that for registered holders of Common Shares of Peyto the right to dissent with respect to the Arrangement under the provisions of section 191 of the ABCA, as amended by such Order, shall be applicable, and analogous rights of dissent shall apply to the holders of Options of Peyto.

AND NOTICE IS FURTHER GIVEN that a copy of the said Petition and other documents in the proceedings will be furnished to any Securityholder or other interested party requesting the same by the undermentioned solicitors for Peyto upon written request delivered to such solicitors as follows:

Burnet, Duckworth & Palmer LLP
1400, 350 – 7th Avenue S.W.
Calgary, Alberta
T2P 3N9

Attention: D.J. McDonald, Q.C.

DATED at the City of Calgary, in the Province of Alberta, this 23rd day of May, 2003.

**BY ORDER OF THE BOARD OF DIRECTORS OF
PEYTO EXPLORATION & DEVELOPMENT CORP.**

(signed) "*Donald T. Gray*"
Donald T. Gray
President and Chief Executive Officer
Peyto Exploration & Development Corp.

INFORMATION CIRCULAR

Introduction

This Information Circular is furnished in connection with the solicitation of proxies by and on behalf of the management of Peyto for use at the Meeting and any adjournments thereof. No Person has been authorized to give any information or make any representation in connection with the Arrangement or any other matters to be considered at the Meeting other than those contained in this Information Circular and, if given or made, any such information or representation must not be relied upon as having been authorized.

All summaries of, and references to, the Arrangement in this Information Circular are qualified in their entirety by reference to the complete text of the Plan of Arrangement, a copy of which is attached as Exhibit 1 to the Arrangement Agreement which is attached as Appendix C to this Information Circular. **You are urged to carefully read the full text of the Plan of Arrangement.**

All capitalized terms used in this Information Circular but not otherwise defined herein have the meanings set forth under "Glossary of Terms". Information contained in this Information Circular is given as of May 23, 2003 unless otherwise specifically stated.

Currency and Exchange Rates

All dollar references in the Information Circular are in Canadian dollars, unless otherwise indicated. On May 22, 2003, the rate of exchange for the Canadian dollar, expressed in United States dollars, based on the noon rate as provided by the Bank of Canada was Canadian \$1.00 = United States \$0.7310.

Forward-looking Statements

This Information Circular, including documents incorporated by reference herein, contains forward-looking statements. All statements other than statements of historical fact contained in this Information Circular are forward-looking statements, including, without limitation, statements regarding the future financial position, business strategy, proposed acquisition, budgets, litigation, projected costs and plans and objectives of or involving Peyto, AmalgamationCo, POT or the Trust. Securityholders can identify many of these statements by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. These forward-looking statements include statements with respect to: amounts to be retained by POT and AmalgamationCo for growth capital expenditures; the amount and timing of the payment of the distributions of the Trust; production rates; reserve estimates, the timing of the Final Order and the Effective Date of the Arrangement; and the satisfaction of listing conditions. There can be no assurance that the plan, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions, including those discussed elsewhere in this Information Circular. Although Peyto believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Some of the risks which could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include: risks inherent in the future prices for oil and natural gas, risks inherent in the United States to Canadian dollar exchange rates, risks inherent in the prices for services and government fiscal regimes and the risk that actual results will vary from the results forecasted and such variations may be material.

The information contained in this Information Circular, including documents incorporated by reference herein, identifies additional factors that could affect the operating results and performance of Peyto, AmalgamationCo, POT and the Trust. We urge you to carefully consider those factors.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this Information Circular are made as of the date of this Information Circular and Peyto undertakes no obligation to publicly update such forward-looking statements to reflect new information, subsequent events or otherwise.

Supplemental Disclosure

Distributable cash available for distribution and cash on cash yield are not recognized generally accepted accounting principles. Management believes that in addition to net income and net income per Trust Unit, distributable cash and cash available for distribution are useful supplemental measures as they provide investors with information on cash available for distribution. Cash on cash yield is a useful and widely used supplemental measure that provides investors with information on cash actually

distributed relative to trading price. Investors are cautioned that distributable income, income available for distribution and cash on cash yield should not be construed as an alternate to net income as determined by Canadian generally accepted accounting principles. Investors are also cautioned that cash on cash yield represents a blend of return *of* investors initial investment and a return *on* investors initial investment and is not comparable to traditional yield on debt instruments where investors are entitled to full return of the principal amount of debt on maturity in addition to a return on investment through interest payments.

Information for United States Securityholders

The Trust Units to be issued under the Arrangement have not been registered under the United States *Securities Act* of 1933, as amended (the "1933 Act"), and are being issued in reliance upon the exemption from registration set forth in section 3(a)(10) thereof. The solicitation of proxies for the Meeting is not subject to the requirements of section 14(a) of the *Securities Exchange Act of 1934*, as amended (the "1934 Act"). The Trust Units will not be listed for trading on any United States stock exchange. Accordingly, this Information Circular has been prepared solely in accordance with disclosure requirements applicable in Canada. Securityholders in the United States should be aware that such requirements are different from those of the United States applicable to registration statements under the 1933 Act and proxy statements under the 1934 Act. The unaudited pro forma financial statements of the Trust and the audited and unaudited historical financial statements of Peyto included or incorporated by reference in this Information Circular have been prepared in accordance with Canadian generally accepted accounting principles and are subject to Canadian auditing and auditor independence standards, and thus are not comparable in all respects to financial statements prepared in accordance with United States generally accepted accounting principles. Likewise, information concerning the operations of Peyto, AcquisitionCo, POT, AmalgamationCo and the Trust contained herein has been prepared in accordance with Canadian disclosure standards, which are not comparable in all respects to United States disclosure standards.

Tax considerations applicable to United States Securityholders have not been included in this Information Circular. United States Securityholders are advised to consult their tax advisors to determine the particular tax consequences to them of the Arrangement.

The enforcement by investors of civil liabilities under the United States securities laws may be affected adversely by the fact that Peyto, AcquisitionCo, POT, AmalgamationCo and the Trust are organized or settled, as applicable, under the laws of Alberta, Canada, that their officers and the directors and trustees, respectively, are residents of countries other than the United States, that the experts named in this Information Circular are residents of countries other than the United States, and that a substantial portion of the assets of Peyto, AcquisitionCo, POT, AmalgamationCo and the Trust and such persons are located outside the United States.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES REGULATORY AUTHORITY IN ANY STATE OF THE UNITED STATES, NOR HAS THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY SUCH STATE AUTHORITY PASSED UPON THE ADEQUACY OR ACCURACY OF THIS INFORMATION CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE.

GLOSSARY OF TERMS

The following is a glossary of certain terms used in this Information Circular including the Summary hereof.

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AcquisitionCo**" means Peyto Acquisition Corp., a wholly owned subsidiary of the Trust;

"**Administrator**" means AmalgamationCo in its capacity as administrator for the Trust and POT as the context provides;

"**Affiliate**" or "**Associate**" when used to indicate a relationship with a person or company, has the same meaning as set forth in the *Securities Act* (Alberta);

"**AmalgamationCo**" means Peyto Exploration & Development Corp., the corporation resulting from the amalgamation of Peyto and AcquisitionCo pursuant to the Arrangement;

"**AmalgamationCo Securities**" means, collectively, the Notes and AmalgamationCo Shares;

"**AmalgamationCo Shares**" means the common shares of AmalgamationCo;

"**Applicable Laws**" means applicable corporate and securities laws and rules of applicable stock exchanges;

"**Arrangement**" means the proposed arrangement, under the provisions of section 193 of the ABCA, on the terms and conditions set forth in the Plan;

"**Arrangement Agreement**" means the arrangement agreement dated as of May 23, 2003, among Peyto, AcquisitionCo and the Trust pursuant to which Peyto, AcquisitionCo and the Trust have proposed to implement the Arrangement, a copy of which is attached as Appendix C to this Information Circular, including any amendments thereto;

"**Arrangement Resolution**" means the special resolution in respect of the Arrangement in substantially the form attached as Appendix A to this Information Circular to be voted upon by Securityholders at the Meeting;

"**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement required under subsection 193(10) of the ABCA to be filed with the Registrar after the Final Order has been made giving effect to the Arrangement;

"**board of directors**" or "**Board**" means the board of directors of Peyto;

"**business day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the city of Calgary, in the Province of Alberta, for the transaction of banking business;

"**Certificate**" means the certificate or certificates or other confirmation of filing to be issued by the Registrar, pursuant to subsection 193(11) of the ABCA giving effect to the Arrangement;

"**Closing**" means the completion of the transactions contemplated in the Arrangement Agreement;

"**Common Shares**" means common shares in the capital of Peyto;

"**control**" means, with respect to control of a body corporate by a person, the holding (other than by way of security) by or for the benefit of that person of securities of that body corporate to which are attached more than 50% of the votes that may be cast to elect directors of the body corporate (whether or not securities of any other class or classes shall or might be entitled to vote upon the happening of any event or contingency) provided that such votes, if exercised, are sufficient to elect a majority of the board of directors of the body corporate;

"**Court**" means the Court of Queen's Bench of Alberta;

"**Depository**" means Valiant Trust Company at its offices referred to in the Letter of Transmittal;

"Dissent Rights" means the right of a Shareholder and an Optionholder pursuant to section 191 of the ABCA and the Interim Order to dissent to the Arrangement Resolution and to be paid the fair value of the securities in respect of which the holder dissents, all in accordance with section 191 of the ABCA as modified by the Interim Order;

"Dissenting Securityholders" means registered holders of Securities who validly exercise the rights of dissent provided to them under section 191 of the ABCA and the Interim Order;

"Distributable Cash" means all amounts available for distribution during any applicable period to holders of Trust Units;

"Distribution" means a distribution paid by the Trust in respect of the Trust Units, expressed as an amount per Trust Unit;

"Distribution Record Date" means the last day of each calendar month or such other date as may be determined from time to time by the Trustee, except that December 31 shall in all cases be a Distribution Record Date;

"Effective Date" means the date the Arrangement is effective under the ABCA;

"Effective Time" means the time at which the Articles of Arrangement are filed with the Registrar on the Effective Date;

"Eligible Institution" means: (i) in Canada and the United States, a Canadian chartered bank, a trust company in Canada, a commercial bank or trust company having an office, branch or agency in the United States, or a member firm of the TSX, the Montreal Exchange, the TSX Venture Exchange, a national securities exchange in the United States or the National Association of Securities Dealers, Inc.; (ii) in the United Kingdom, a member of the London Stock Exchange or a national banking institution; (iii) in continental Europe, a commercial bank or trust company having an office or agency in continental Europe and a firm that is a member of the Paris Stock Exchange, the Frankfurt Stock Exchange, the Amsterdam Stock Exchange or the Brussels Stock Exchange; or (iv) a member of a recognized Medallion Program (STAMP), (SEMP) or (MSP);

"Exercise Price Differential" means, in respect of an Option, the amount by which the Weighted Average Trading Price exceeds the exercise price of such Option, if any, multiplied by the number of Common Shares to which such Option relates;

"Fairness Opinion" means the opinion of FirstEnergy Capital Corp. dated May 23, 2003, a copy of which is attached as Appendix D to this Information Circular;

"Final Order" means the order of the Court approving the Arrangement to be applied for following the Meeting and to be granted pursuant to the provisions of subsection 193(9) of the ABCA, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

"Final Trust Structure" means the Trust's organizational structure described more particularly in the Information Circular under the heading "The Arrangement – Effect of the Arrangement and POT Transaction";

"Holder" means a registered holder of Securities immediately prior to the Effective Date or any person who surrenders to Valiant Trust Company certificates representing Securities duly endorsed for transfer to such person;

"Income Tax Act" or **"Tax Act"** means the *Income Tax Act* (Canada), R.S.C. 1985, c. 1. (5th Supp), as amended, including the regulations promulgated thereunder;

"Information Circular" means this information circular and proxy statement dated May 23, 2003, together with all appendices hereto, distributed by Peyto in connection with the Meeting;

"Interim Order" means the Interim Order of the Court dated May 23, 2003 under subsection 193(4) of the ABCA containing declarations and directions with respect to the Arrangement and the Meeting and issued pursuant to the petition of Peyto therefor, a copy of which order is attached as Appendix B to this Information Circular;

"Letter of Transmittal" means the Letter of Transmittal enclosed with this Information Circular pursuant to which a Shareholder is required to deliver certificates representing Common Shares in order to receive, on completion of the Arrangement, Trust Units for its Common Shares;

"Market Redemption Price" means the price per Trust Unit equal to the lesser of (i) 90% of the "market price", as calculated under the Trust Indenture, of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10 day trading period commencing immediately after the date on which the Trust Units are tendered to the Trust for redemption; and (ii) the "closing market price", as calculated under the Trust Indenture, on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are so tendered for redemption;

"Meeting" means the special meeting of Shareholders and Optionholders to be held on June 24, 2003 and any adjournment(s) thereof to consider and to vote on the Arrangement Resolution;

"Non-Resident" means (i) a Person who is not a resident of Canada for the purposes of the Tax Act or (ii) a partnership that is not a Canadian partnership for the purposes of the Tax Act;

"Notes" means the unsecured, subordinate promissory notes issuable by AcquisitionCo under the Arrangement having substantially the terms summarized in Schedule A to Exhibit 1 to the Plan;

"Notice of Meeting" means the Notice of Annual and Special Meeting which accompanies this Information Circular;

"Notice of Petition" means the Notice of Petition by Peyto to the Court for the Final Order which accompanies this Information Circular;

"NPI" means the net profits interest granted under the NPI Agreement;

"NPI Agreement" means the net profits interest agreement to be entered into between AmalgamationCo and POT, pursuant to the POT Transaction;

"Oil and Natural Gas Properties" or **"properties"** means the working interests, royalty or other interests of Peyto, POT or AmalgamationCo, as the case may be, in any petroleum and natural gas rights, tangibles and miscellaneous interests, including properties which may be acquired by Peyto, POT or AmalgamationCo, as the case may be, from time to time;

"Optionholders" means the holders of Options;

"Option Plan" means Peyto's amended and restated 2002 Share Option Plan dated May 1, 2002;

"Options" means, collectively, all outstanding options to purchase Common Shares pursuant to the Option Plan or otherwise;

"Ordinary Resolution" means a resolution approved at a meeting of Unitholders and the holder of the Special Voting Right, if any, by more than 50% of the votes cast in respect of the resolution by or on behalf of Unitholders and the holder of the Special Voting Right, if any, voting together present in person or represented by proxy at the meeting;

"Paddock" means Paddock Lindstrom & Associates Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

"Paddock Report" means the independent engineering evaluation of Peyto's oil, NGL and natural gas interests prepared by Paddock dated January 27, 2003 and effective December 31, 2002, a summary of which is contained in Peyto's AIF;

"Permitted Investments" means (i) loan advances to the POT and the Corporation, as the case may be, including loans made in connection with the Capital Fund (as defined in the Trust Indenture); (ii) interest bearing accounts of certain financial institutions, including Canadian chartered banks and the Trustee; (iii) obligations issued or guaranteed by the Government of Canada or any province of Canada or any agency or instrumentality thereof; (iv) term deposits, guaranteed investment certificates of deposit or bankers' acceptances of or guaranteed or accepted by any Canadian chartered bank or other financial institution (including the Trustee and any Affiliate of the Trustee), the short term debt or deposits of which have been rated at least A by Standard & Poor's Corporation or the equivalent by Moody's Investors Service, Inc. or Dominion Bond Rating Service Limited; (v) commercial paper rated at least A by Standard & Poor's Corporation or the equivalent by Canadian Bond Rating Service Inc. or Dominion Bond Rating Service Limited; and (vi) investments in bodies corporate, partnerships or trusts engaged in the oil and natural gas business, including POT Units; provided that any investment of the type referred to in Section 4.3 shall not be a Permitted Investment, subject to certain exceptions;

"Person" means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

"**Peyto**" or the "**Corporation**" means Peyto Exploration & Development Corp., a corporation amalgamated pursuant to the ABCA;

"**Peyto's AIF**" means the annual information form of Peyto for the year ended December 31, 2002, dated April 9, 2003, which is incorporated by reference herein;

"**Plan**" means the plan of arrangement attached as Exhibit 1 to Appendix C to this Information Circular, as amended or supplemented from time to time in accordance with the terms thereof;

"**POT**" means Peyto Operating Trust, a trust established under the laws of Alberta pursuant to the POT Indenture;

"**POT Indenture**" means the trust indenture to be dated the Effective Date between Valiant Trust Company and the Trust;

"**POT Notes**" means the unsecured, subordinated promissory notes issuable by POT to the Trust in connection with the POT Transaction;

"**POT Securities**" means, collectively, the POT Notes and POT Units;

"**POT Transaction**" means the transaction or series of transactions that results in the Final Trust Structure, as more particularly described in the Information Circular under "*The Arrangement – Effect of the Arrangement and POT Transaction*";

"**POT Unit**" means a trust unit of POT;

"**Proven Reserves and Probable Reserves**" have the meaning ascribed thereto in the Paddock Report;

"**Record Date**" means the close of business on May 12, 2003;

"**Redemption Notes**" means the promissory notes issuable by the Trust under the Trust Indenture having terms and conditions substantially identical to those of the Notes as more particularly described in Appendix E to this Information Circular;

"**Registrar**" means the Registrar of Corporations duly appointed under the ABCA;

"**Regulation S**" means Regulation S under the 1933 Act;

"**Securities**" means the Common Shares and the Options;

"**Securityholders**" means the Shareholders and Optionholders;

"**Shareholders**" means the holders of Common Shares;

"**Special Resolution**" means a resolution proposed to be passed as a special resolution at a meeting of Trust Unitholders (including an adjourned meeting) duly convened for the purpose and held in accordance with the provisions of the Trust Indenture passed by the affirmative votes of the holders of not less than 66⅔% of the Trust Units represented at the meeting and voted on a poll upon such resolution. For the purposes of determining such percentage, the holder of any Special Voting Right who is present at the meeting shall be regarded as representing outstanding Trust Units equivalent in number to the votes attaching to such Special Voting Right;

"**Special Voting Right**" means the special voting right of the Trust, issued and certified under the Trust Indenture for the time being outstanding and entitled to the benefits and subject to the limitations set forth therein;

"**Subsequent Investment**" means those investments which the Trust is permitted to make pursuant to the Trust Indenture;

"**Subsidiary**" means, in relation to any person, any body corporate, partnership, joint venture, association or other entity of which more than 50% of the total voting power of shares or units of ownership or beneficial interest entitled to vote in the election of directors (or members of a comparable governing body) is owned or controlled, directly or indirectly, by such person;

"**\$000s**" means thousands of dollars;

"**Trust**" means Peyto Energy Trust, a trust established under the laws of Alberta pursuant to the Trust Indenture;

"**Trust Indenture**" means the trust indenture dated as of May 22, 2003 between Valiant Trust Company and Peyto;

"**Trust Unit**" or "**Unit**" means a unit of the Trust;

"**Trust Unit Private Placement**" means the proposed sale by private placement of up to 2,400,000 Trust Units shortly after the completion of the Arrangement;

"**Trust Unitholders**" or "**Unitholders**" means holders from time to time of the Trust Units;

"**Trustee**" means Valiant Trust Company, the initial trustee of the Trust, or such other trustee, from time to time, of the Trust;

"**TSX**" means the Toronto Stock Exchange;

"**Undeveloped Properties**" means raw undeveloped land;

"**United States**" or "**U.S.**" means the United States, as defined in Rule 902(1) under Regulation S; and

"**Weighted Average Trading Price**" shall be determined by dividing (i) the aggregate dollar trading value of all Common Shares sold on the TSX over the five (5) consecutive trading days ending on the trading day next preceding the Effective Date by (ii) the total number of Common Shares sold on such stock exchange during such period.

Conventions

Certain terms used herein are defined in the "Glossary of Terms". Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars. All financial information herein has been presented in Canadian dollars in accordance with generally accepted accounting principles in Canada.

Abbreviations

<u>Oil and Natural Gas Liquids</u>		<u>Natural Gas</u>	
bbl	Barrel	mcf	thousand cubic feet
bbls	Barrels	mmcf	million cubic feet
mbbls	thousand barrels	mcf/d	thousand cubic feet per day
mmbbls	million barrels	mmcf/d	million cubic feet per day
bbls/d	barrels of oil per day	mmbtu	million British Thermal Units
NGLs	natural gas liquids	bcf	billion cubic feet

Other

AECO	Alberta Energy Company's natural gas storage facility located at Suffield, Alberta
API	American Petroleum Institute
°API	an indication of the specific gravity of crude oil measured on the API gravity scale. Liquid petroleum with a specified gravity of 28° API or higher is generally referred to as light crude oil
ARTC	Alberta Royalty Tax Credit
boe	barrel of oil equivalent of natural gas and crude oil on the basis of 1 bbl of oil for 6 mcf of natural gas (this conversion factor is an industry accepted norm and is not based on either energy content or current prices)
boe/d	barrel of oil equivalent per day
m ³	cubic metres
mboe	1,000 barrels of oil equivalent
mmboe	1,000,000 barrels of oil equivalent
WTI	West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for crude oil of standard grade

Conversion

The following table sets forth certain standard conversions from Standard Imperial Units to the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
mcf	Cubic metres	28.174
Cubic metres	Cubic feet	35.494
bbls	Cubic metres	0.159
Cubic metres	bbls	6.290
Feet	Metres	0.305
Metres	Feet	3.281
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Acres	Hectares	0.405
Hectares	Acres	2.471

SUMMARY INFORMATION

The following is a summary of certain information contained elsewhere in this Information Circular, including the Appendices hereto, and is qualified in its entirety by reference to the more detailed information contained or referred to elsewhere in this Information Circular or in the Appendices hereto. Terms with initial capital letters used in this summary are defined in the "Glossary of Terms".

The Meeting

The Meeting will be held at the Westin Hotel, Eau Claire Room, 320 – 4th Avenue S.W., Calgary, Alberta, on June 24, 2003, at 2:30 p.m. (Calgary time) for the purposes set forth in the accompanying Notice of Meeting. The business of the Meeting will be: (i) to consider and vote upon the annual meeting business and (ii) to consider and vote upon the Arrangement. See "*The Arrangement*" and "*Annual Meeting Matters*".

The Arrangement

The purpose of the Arrangement is to convert Peyto from a corporate entity concentrating solely on growth through the reinvestment of cash flow to a trust which will distribute a portion of cash flow to Trust Unitholders. The board of directors of Peyto believes that the conversion of Peyto into a trust will maximize value for Securityholders and represents the best alternative to enhance the value of Peyto and its assets over time.

The Arrangement involves a number of steps, including the following, which will be deemed to occur sequentially:

- (a) the Common Shares and Options held by Dissenting Securityholders who have exercised Dissent Rights which remain valid immediately prior to the Effective Time shall, as of the Effective Time, be deemed to have been transferred to Peyto and be cancelled and cease to be outstanding, and as of the Effective Time, such Dissenting Securityholders shall cease to have any rights as securityholders of Peyto other than the right to be paid the fair value of their Common Shares or Options;
- (b) each issued and outstanding Common Share (other than a Common Share held by a Dissenting Securityholder) will be transferred to AcquisitionCo in exchange for one (1) Note;
- (c) all unexercised Options (other than Options held by Dissenting Securityholders), if any, will be cancelled and the Optionholders thereof shall be entitled to receive from Peyto in respect of each such Option an amount in cash that is equal to the Exercise Price Differential of such Option;
- (d) each Note shall be transferred by the holder thereof to the Trust in exchange for one (1) Trust Unit; and
- (e) Peyto and AcquisitionCo shall be amalgamated to form AmalgamationCo.

Following these exchanges, Shareholders will own all of the issued and outstanding Trust Units of the Trust and the Trust will own all of the issued and outstanding AmalgamationCo Securities. Upon the completion of the Arrangement, an aggregate of approximately 43,451,522 Trust Units will be issued and outstanding, assuming that no Securityholders exercise their right of dissent and that all of the outstanding Options have been cancelled and paid-out pursuant to the Arrangement prior to the Effective Date. See "*The Arrangement - Effect of the Arrangement and POT Transaction*", Appendix E, "*Information Concerning the Trust*" and Appendix F, "*Information Concerning AmalgamationCo*".

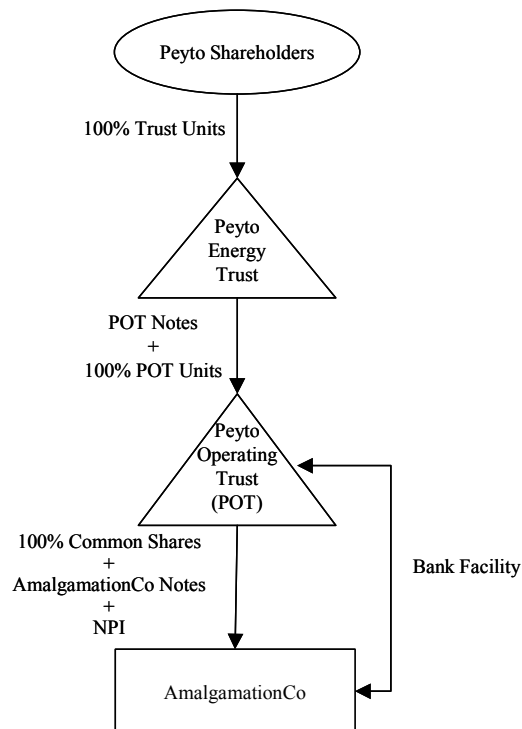
Subsequent to the completion of the Arrangement, the POT Transaction will occur, which will result in the Trust holding, directly all of the POT Securities and through POT, the AmalgamationCo Securities and the NPI. The following is a summary of the POT Transaction:

1. The Trust will sell the AmalgamationCo Shares and the AmalgamationCo Notes for fair market value to POT, in consideration for POT Notes and POT Units in a 95:5 ratio;
2. AmalgamationCo will enter into the NPI Agreement with POT for fair market value consideration, with the purchase price being satisfied through the reduction of the principal amount of the AmalgamationCo Notes owing by AmalgamationCo to POT; and

3. AmalgamationCo will transfer its Undeveloped Land to POT for fair market value consideration, with the purchase price being satisfied through the reduction of the principal amount of the AmalgamationCo Notes owing by AmalgamationCo to POT.

All new exploration and development in respect of the Undeveloped Lands and any new interests will be conducted directly by POT and AmalgamationCo will continue to hold Peyto's producing properties and will develop Peyto's existing Proven and Probable Reserves.

The following diagram illustrates the Final Trust Structure following the implementation of the Arrangement and the POT Transaction.



Notes:

- (1) Upon completion of the Arrangement, the previous Shareholders will own 100% of the Trust.
- (2) AmalgamationCo will be the resulting entity from the amalgamation of Peyto and AcquisitionCo. The amalgamation will occur pursuant to the Arrangement on the Effective Date.
- (3) Distributable Cash will be derived from payments made by POT to the Trust in respect of interest, principal repayments, if any, and income from the POT Securities and interest and income received indirectly from the AmalgamationCo Securities and under the NPI Agreement.
- (4) The Trust will invest funds raised through any subsequent issuance of Trust Units in additional securities of POT to enable POT to make capital expenditures. In addition, the Trust may reinvest a portion of the income received from POT as well as any repayments of principal on the POT Notes in securities of POT to enable POT to make capital expenditures. POT may also retain income earned to make capital expenditures.

As holders of Trust Units after the Arrangement, Unitholders will receive monthly distributions of the cash flow generated by POT and AmalgamationCo and distributed to Unitholders through the Trust. The Trust will employ a strategy to provide Unitholders with a competitive annual cash on cash yield by making monthly cash distributions to such Unitholders, while ensuring that Peyto's existing assets are maintained at a level that ensures ongoing cash flow is sustained, and continuing to expand the business of the Trust through the development of growth opportunities that will provide long-term stable cash flows and be accretive to Unitholders. See Appendix E, "Information Concerning the Trust - Risk Factors". It is currently intended to finance future growth through retained cash, bank financing and, if required, the issuance of additional Trust Units from treasury, while maintaining prudent leverage.

The Trust will make cash distributions to holders of Trust Units from the interest, principal repayments, if any, and income received directly and indirectly, as applicable, from the POT Securities, AmalgamationCo Securities and the NPI. It is the current intention of management to distribute, for the second half of 2003, approximately 50% of the Distributable Cash or a minimum of

\$0.15 per Trust Unit per month. The remainder of the Trust's Distributable Cash will be used to continue to develop low risk, high quality oil and natural gas reserves. See *"The Arrangement - Effect of the Arrangement and POT Transaction"*.

Background to and Reasons for the Arrangement

Peyto management continuously reviews available options to ensure that its capital structure is efficient and that Shareholder value is being maximized. Peyto's success in effectively investing capital has resulted in significant returns compounded over its four year life. To ensure that Peyto continues to execute its business in the most efficient manner, the board of directors is recommending the conversion to a trust structure. The board of directors believes that the ability to efficiently direct a portion of the cash flow to the Unitholders in the form of a distribution will maximize value in the long term.

The board of directors is of the view that the trust structure will allow, among other things: (a) Unitholders to receive the income of Peyto in a more tax-efficient manner; (b) a portion of the taxable income of Peyto to be distributed to the Unitholders of the trust on a monthly basis in cash, thereby shifting the tax liability of Peyto to Unitholders, who may enjoy a lower effective tax rate than Peyto itself; and (c) Unitholders to continue to participate in the disciplined growth of the continuing entity. The board of directors believe that the trust structure will be beneficial to Shareholders, and will be particularly attractive to Unitholders who hold Trust Units in a registered retirement savings plan, a registered retirement income fund or in another form of tax-deferred plan.

The board of directors approved proceeding with the reorganization of Peyto into a trust and an announcement to this effect was made by Peyto on April 14, 2003.

The board of directors, in recommending the Arrangement, believes the Arrangement has the following advantages:

- It is expected that many Securityholders and future Unitholders are or will become "tax-exempt" financial institutions such as pension plans and individuals holding Trust Units in registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans and will therefore retain the full amount of distributions on a tax-deferred basis.
- It is anticipated that the tax effectiveness of the trust structure will facilitate the efficient and disciplined continuation and expansion of Peyto's business relative to Peyto continuing as a corporate entity.
- Cash distributions to Unitholders are anticipated to provide an attractive return to Unitholders without impairing the ability of the Trust to sustain and grow its existing assets and finance capital expenditures and the expansion of the business of the Trust.
- It is anticipated that the combined value of distributions plus the market value of the Trust Units will be greater than the combined value of dividends that could otherwise be paid on the Common Shares plus the market value of the Common Shares.
- It is anticipated that the reorganized structure of Peyto as an income trust will attract new investors and provide, in the aggregate, a more active and liquid market for the Trust Units than exists for Common Shares.

See *"The Arrangement - Background to and Reasons for the Arrangement"*.

Approval of Securityholders Required for the Arrangement

Pursuant to the Interim Order, the majority required to pass the Arrangement Resolution shall be not less than two thirds of the votes cast by Shareholders and Optionholders, voting together as a class, either in person or by proxy, at the Meeting. See *"General Proxy Matters - Procedure and Votes Required"*.

Optionholder Participation

Optionholders may choose to either: (i) exercise their vested Options and receive the same consideration as Shareholders; or (ii) exercise their right, pursuant to the Option Plan, to have their Options cancelled in consideration of a cash payment per Option equal to the Exercise Price Differential, subject to certain terms and conditions. All unexercised Options (other than Options held by Dissenting Securityholders), if any, will, pursuant to the Arrangement, be cancelled and the Optionholders thereof shall be entitled to receive from Peyto, in respect of each Option, an amount in cash that is equal to the Exercise Price Differential of such Option.

Following the completion of the Arrangement, the former Optionholders will have the option to purchase Trust Units from the Trust at the Weighted Average Trading Price pursuant to the Trust Unit Private Placement.

Fairness Opinion

The board of directors retained FirstEnergy Capital Corp. to address the fairness, from a financial point of view, of the Arrangement to Securityholders. In connection with this mandate, FirstEnergy Capital Corp. has prepared the Fairness Opinion. The Fairness Opinion states that, in FirstEnergy Capital Corp.'s opinion, as of May 23, 2003, the Arrangement is fair, from a financial point of view, to Securityholders. The Fairness Opinion is subject to the assumptions and limitations contained therein and should be read in its entirety. See "*The Arrangement - Fairness Opinion*" and Appendix D, "*Fairness Opinion of FirstEnergy Capital Corp.*".

Recommendation of the Board of Directors

The board of directors has unanimously concluded that the Arrangement, in its opinion, is in the best interests of Peyto and the Securityholders and recommends that Securityholders vote in favour of the Arrangement Resolution.

Each member of the board of directors intends to vote all Securities held by him in favour of the Arrangement Resolution.

Holders of an aggregate of 9,311,406 Common Shares and 3,201,333 Options (including all of the directors and officers of Peyto) representing 21.4% of the outstanding Common Shares and 89.4% of the outstanding Options, respectively, have agreed to vote all of the Common Shares and Options beneficially owned by them in favour of the Arrangement and all other matters to be considered at the Meeting.

Final Order

Implementation of the Arrangement requires the satisfaction of several conditions and the approval of the Court. See "*The Arrangement - Procedure for the Arrangement Becoming Effective*". An application for the Final Order approving the Arrangement is expected to be made on June 27, 2003 at 9:45 a.m. at the Court House, 611 - 4th Street S.W., Calgary, Alberta. On the application, the Court will consider the fairness of the Arrangement.

AcquisitionCo

AcquisitionCo is a corporation incorporated pursuant to the provisions of the ABCA for purposes of participating in the Arrangement, including creating and issuing the Notes required to implement the Arrangement.

The Trust owns all of the issued and outstanding common shares in the capital of AcquisitionCo. As part of the Arrangement, AcquisitionCo will amalgamate with Peyto to form AmalgamationCo.

AmalgamationCo

AmalgamationCo will be the resulting corporation from the amalgamation of Peyto and AcquisitionCo. After the Arrangement and the POT Transaction, POT will own all of the AmalgamationCo Securities. AmalgamationCo will hold, directly or indirectly, all of Peyto's properties other than the Undeveloped Properties transferred to POT pursuant to the POT Transaction. AmalgamationCo will be managed by the current Peyto management team. See Appendix F, "*Information Concerning AmalgamationCo*".

Peyto Operating Trust

POT is an unincorporated open-end investment trust governed by the laws of the Province of Alberta pursuant to the POT Indenture. POT was established for the purposes of conducting exploration and development activities in respect of Peyto's Undeveloped Properties and properties acquired in the future as well as investing in the securities of AmalgamationCo or any other Subsidiary of POT.

The Trust will be the sole beneficiary of POT Units and will hold all POT Notes.

Valiant Trust Company is the initial trustee of the Trust. POT will be managed by the management of AmalgamationCo. See Appendix G, "*Information Concerning Peyto Operating Trust*".

The Trust

The Trust is an unincorporated open-end investment trust governed by the laws of the Province of Alberta pursuant to the Trust Indenture. The Trust was established for the purpose of investing in the securities of POT, AcquisitionCo, AmalgamationCo or any other Subsidiary to fund the business of the Trust.

The Trust Unitholders will be the sole beneficiaries of the Trust.

The Trust will permit individual Trust Unitholders to participate in the cash flow from POT's and AmalgamationCo's business to the extent such cash flow is distributed by the Trustee. Each Trust Unit will entitle the holder thereof to receive monthly cash distributions. It is the current intention of management to distribute, for the second half of 2003, 50% of Distributable Cash or a minimum of \$0.15 per Trust Unit per month. The remainder of the Trust's Distributable Cash will be used to continue to develop low risk, high quality oil and natural gas reserves.

Valiant Trust Company is the initial trustee of the Trust. The Trust will be managed by the management of AmalgamationCo. See Appendix E, *"Information Concerning the Trust"*.

Stock Exchange Listing Approvals

The Trust Units to be issued in connection with the Arrangement have been conditionally approved for listing on the TSX subject to the requirements of such exchange, which are expected to be met on the Effective Date or as soon as reasonably practicable thereafter. Listing will be subject to the Trust and AmalgamationCo, as the case may be, fulfilling all of the requirements of the TSX. See *"The Arrangement - Stock Exchange Listings"*.

Canadian Federal Income Tax Considerations

The combined Canadian federal income tax consequences of the transactions comprising the Arrangement will generally result in a Shareholder resident in Canada realizing a capital gain (or a capital loss) equal to the amount by which the fair market value of the Trust Units received on completion of the Arrangement exceeds (or is less than) the aggregate of such Shareholder's adjusted cost base of the Common Shares and any reasonable costs of disposition.

Holders of Trust Units who are resident in Canada will generally be required to include in their income the proportionate share of income of the Trust, to the extent the income is made payable to them. Any amount paid to holders of Trust Units in excess of their share of Trust income (subject to certain exceptions) will not be included in income but will reduce the adjusted cost base of their Trust Units for purposes of computing any capital gain or capital loss from a subsequent disposition thereof.

The Information Circular contains a summary of the principal Canadian federal income tax considerations relevant to residents and non-residents of Canada and which relate to the Arrangement, and the above comments are qualified in their entirety by reference to such summary. See *"The Arrangement – Canadian Federal Income Tax Considerations"*.

Other Tax Considerations

This Information Circular does not address any tax considerations of the Arrangement other than Canadian federal income tax considerations. Securityholders who are resident in jurisdictions other than Canada should consult their tax advisors with respect to the tax implications of the Arrangement, including any associated filing requirements, in such jurisdictions and with respect to the tax implications in such jurisdictions of owning Trust Units after the Arrangement. Securityholders should also consult their own tax advisors regarding provincial or territorial tax considerations of the Arrangement or of holding Trust Units.

Pro Forma Distributable Cash

The following is a summary of selected financial information for the oil and natural gas assets owned, directly or indirectly, by the Trust following the completion of the Arrangement, for the periods indicated. See Appendix H, "Pro Forma Statement of Income and Funds Available for Distribution".

Management of the Trust and Peyto have provided the following analysis to assist Securityholders in analyzing the income of the Trust and the amounts of Distributable Cash that would be available to the Trust for distribution to Unitholders had the Trust been in existence for the three month period ended March 31, 2003. This analysis was prepared on the assumption that the Arrangement had been completed, that the Trust had retained, directly or indirectly, all of Peyto's oil and natural gas producing properties and that the other transactions contemplated by the Arrangement had all been completed at the beginning of such period. Although firm commitments do not exist for all of the administrative expenses and, accordingly, the financial effect of the inclusion of all necessary administrative expenses is not at present determinable, management of Peyto and the Trust have, based upon their review of the amounts of these expenses in similar circumstances, estimated that these expenses would not deviate materially from the amount shown below.

The pro forma information is not a forecast or a projection of future results. The actual results of operations of the Trust for any period following the Effective Date will vary from the amount set forth in the following analysis, and such variation may be material.

	Pro Forma Three Months Ended March 31, 2003 ⁽²⁾
	(unaudited)
Funds from operations	\$37,498,867
Add (deduct):	
Funds drawn from revolving credit facility	2,986,826
Funds available for distribution and capital expenditures ⁽¹⁾	\$40,485,693
Funds available for distribution and capital expenditures per Trust Unit for the period	\$0.93
Weighted average number of Trust Units	43,446,337

Notes:

- (1) Funds available for distribution is not an earnings measure recognized by generally accepted accounting principles and is not necessarily comparable to the measurement of distributable cash available for distribution in other similar trust entities.
- (2) Assumes no Dissenting Securityholders. Does not reflect the payout of Options or the completion of the Trust Unit Private Placement.
- (3) See Appendix H, "Pro Forma Statement of Income and Funds Available for Distribution" for a more complete description of the assumptions and estimates associated with the pro forma information.

THE ARRANGEMENT

Background to and Reasons for the Arrangement

Peyto management continuously reviews available options to ensure that its capital structure is efficient and that Shareholder value is being maximized. Peyto's success in effectively investing capital has resulted in significant returns compounded over its four year life. To ensure that Peyto continues to execute its business in the most efficient manner, the board of directors is recommending the conversion to a trust structure. The board of directors believes that the ability to efficiently direct a portion of the cash flow to the Securityholders in the form of a distribution will maximize shareholder value in the long term.

The board of directors is of the view that the trust structure will allow, among other things: (a) Shareholders to receive the income of Peyto in a more tax-efficient manner; (b) a portion of the taxable income of Peyto to be distributed to the Unitholders of the trust on a monthly basis in cash, thereby shifting the tax liability of Peyto to Unitholders, who may enjoy a lower effective tax rate than Peyto itself; and (c) Shareholders to continue to participate in the disciplined growth of the continuing entity. The board of directors believe that the trust structure will be beneficial to Shareholders, and will be particularly attractive to Shareholders who hold Trust Units in a registered retirement savings plan, a registered retirement income fund or in another form of tax-deferred plan.

The board of directors approved proceeding with the reorganization of Peyto into a trust and an announcement to this effect was made by Peyto on April 14, 2003.

The board of directors, in recommending the Arrangement, believes the Arrangement has the following advantages:

- It is expected that many Securityholders and future Unitholders are or will become "tax-exempt" financial institutions such as pension plans and individuals holding Trust Units in registered retirement savings plans, registered retirement income funds, registered education savings plans and deferred profit sharing plans and will therefore retain the full amount of distributions on a tax-deferred basis.
- It is anticipated that the tax effectiveness of the trust structure will facilitate the efficient and disciplined continuation and expansion of Peyto's business relative to Peyto continuing as a corporate entity.
- Cash distributions to Unitholders are anticipated to provide an attractive return to Unitholders without impairing the ability of the Trust to sustain and grow its existing assets and finance capital expenditures and the expansion of the business of the Trust.
- It is anticipated that the combined value of distributions plus the market value of the Trust Units will be greater than the combined value of dividends that could otherwise be paid on the Common Shares plus the market value of the Common Shares.
- It is anticipated that the reorganized structure of Peyto as an income trust will attract new investors and provide, in the aggregate, a more active and liquid market for the Trust Units than exists for Common Shares.

Effect of the Arrangement and POT Transaction

The Arrangement will result in Shareholders (excluding Dissenting Securityholders) ultimately receiving Trust Units for their Common Shares held on the Effective Date.

On May 23, 2003 there were 43,451,522 Common Shares outstanding. In addition, 3,581,999 Common Shares are issuable pursuant to currently outstanding Options.

After giving effect to the Arrangement, the current Shareholders effectively will have exchanged their Common Shares for Trust Units. In addition, Peyto will have amalgamated with AcquisitionCo to form AmalgamationCo, all the common shares and Notes of which will be owned by the Trust. Subsequent to the completion of the Arrangement, the POT Transaction will occur, which will result in the Final Trust Structure. For details regarding the Trust Units, see Appendix E, *"Information Concerning the Trust"*.

As a result of a Shareholder's Common Shares being exchanged for Trust Units pursuant to the Arrangement, the nature of a Shareholder's investment will be changed. See Appendix E, *"Information Concerning the Trust"*, Appendix F, *"Information Concerning AmalgamationCo"* and Appendix G, *"Information Concerning Peyto Operating Trust"*.

Optionholders may choose to either: (i) exercise their vested Options and receive the same consideration as Shareholders; or (ii) exercise their right, pursuant to the Option Plan, to have their Options cancelled in consideration of a cash payment per Option equal to the Exercise Price Differential, subject to certain terms and conditions. All unexercised Options (other than Options held by Dissenting Securityholders), if any, will be cancelled and the Optionholders thereof shall be entitled to receive from Peyto in respect of each Option, an amount in cash that is equal to the Exercise Price Differential of such Option.

Following the completion of the Arrangement the former Optionholders will have the option to purchase Trust Units from the Trust at the Weighted Average Trading Price pursuant to the Trust Unit Private Placement.

The Trust will employ a strategy to provide Unitholders with a competitive annual cash on cash yield by making monthly cash distributions to such Unitholders, while ensuring that Peyto's existing assets are maintained at a level that ensures ongoing cash flow is sustained and grown, and continuing to expand the business through the development of growth opportunities that will provide long-term stable cash flows and be accretive to Unitholders. It is the current intention that the senior management of AmalgamationCo will manage the business of the Trust following the completion of the Arrangement.

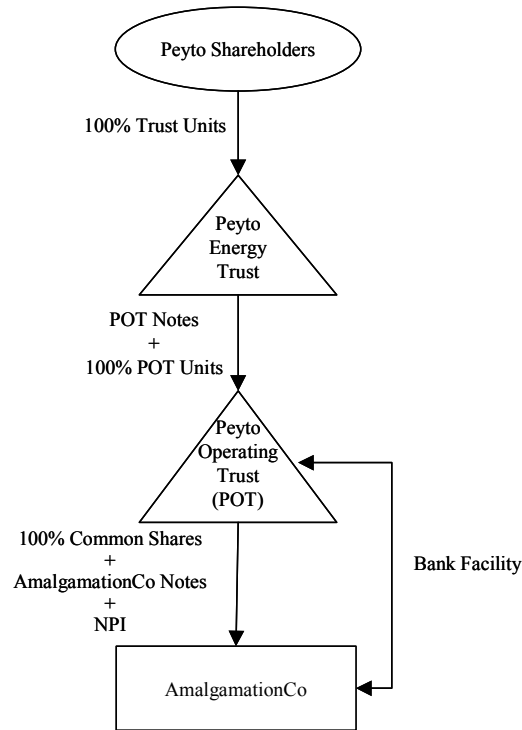
It is currently intended that the Trust will make monthly cash distributions to Trust Unitholders from the cash flow received on the POT Securities. It is the current intention of management to distribute, for the second half of 2003, approximately 50% of the Distributable Cash or a minimum of \$0.15 per Trust Unit per month. The remainder of the Trust's Distributable Cash will be used to continue to develop low risk, high quality oil and natural gas reserves. In addition, Trust Unitholders may, at the discretion of the board of directors of AmalgamationCo, receive distributions in respect of repayments of principal on the POT Notes and AmalgamationCo Notes to the Trust and POT, respectively, before the maturity of such notes.

The following is a summary description of the POT Transaction:

1. The Trust will sell the AmalgamationCo Shares and the AmalgamationCo Notes to POT, in consideration for POT Notes and POT Units in a 95:5 ratio;
2. AmalgamationCo will enter into the NPI Agreement with POT for fair market value consideration, with the purchase price being satisfied through the reduction of the principal amount of the AmalgamationCo Notes owing by AmalgamationCo to POT; and
3. AmalgamationCo will transfer its Undeveloped Land to POT for fair market value consideration, with the purchase price being satisfied through the reduction of the principal amount of the AmalgamationCo Notes owing by AmalgamationCo to POT.

All new exploration and development in respect of the Undeveloped Lands and any new interests will be conducted directly by POT and AmalgamationCo will continue to hold Peyto's producing properties and will develop Peyto's existing Proven and Probable Reserves.

The following diagram illustrates the Final Trust Structure following the implementation of the Arrangement and the POT Transaction.



Notes:

- (1) Upon completion of the Arrangement, the previous Shareholders will own 100% of the Trust.
- (2) AmalgamationCo will be the resulting entity from the amalgamation of Peyto and AcquisitionCo. The amalgamation will occur pursuant to the Arrangement on the Effective Date.
- (3) Distributable Cash will be derived from payments made by POT to the Trust in respect of interest, principal repayments, if any, and income from the POT Securities and interest and income received indirectly from the AmalgamationCo Securities and under the NPI Agreement.
- (4) The Trust will invest funds raised through any subsequent issuance of Trust Units in additional securities of POT to enable POT to make capital expenditures. In addition, the Trust may reinvest a portion of the income received from POT as well as any repayments of principal on the POT Notes in securities of POT to enable POT to make capital expenditures. POT may also retain income earned to make capital expenditures.

For further information regarding the Trust, AmalgamationCo and POT please refer to Appendix E, "Information Concerning the Trust", Appendix F, "Information Concerning AmalgamationCo" and Appendix G, "Information Concerning Peyto Operating Trust".

Management Arrangements

Neither the Trust nor POT will be managed by a third party manager. Following completion of the Arrangement, the Trust and POT will be managed by the management of AmalgamationCo. The Trustee, on behalf of each of the Trust and POT, will enter into an administration agreement pursuant to which AmalgamationCo will provide certain administrative services and facilities to the Trust and POT. See also Appendix E, "Information Concerning the Trust – Delegation of Authority, Administration and Trust Governance", Appendix F, "Information Concerning AmalgamationCo – Directors and Officers" and Appendix G, "Information Concerning Peyto Operating Trust – Delegation of Authority, Administration and Trust Governance".

Details of the Arrangement

The following description of the Arrangement is qualified in its entirety by reference to the full text of the Plan set forth in Exhibit 1 to the Arrangement Agreement which is attached as Appendix C to this Information Circular.

Peyto, AcquisitionCo and the Trust have entered into the Arrangement Agreement which provides for the implementation of the Arrangement pursuant to section 193 of the ABCA. The Arrangement will become effective on the date of filing of the Final

Order and the Articles of Arrangement and related documents in the form prescribed by the ABCA with the Registrar. On the Effective Date, each of the events below shall occur and shall be deemed to occur in the following sequence without further act or formality:

- (a) the Common Shares and Options held by Dissenting Securityholders who have exercised Dissent Rights which remain valid immediately prior to the Effective Time shall, as of the Effective Time, be deemed to have been transferred to Peyto and be cancelled and cease to be outstanding, and as of the Effective Time, such Dissenting Securityholders shall cease to have any rights as securityholders of Peyto other than the right to be paid the fair value of their Common Shares or Options;
- (b) each issued and outstanding Common Share (other than a Common Share held by a Dissenting Securityholder) will be transferred to AcquisitionCo in exchange for one (1) Note;
- (c) all unexercised Options (other than Options held by Dissenting Securityholders), if any, will be cancelled and the Optionholders thereof shall be entitled to receive from Peyto in respect of each such Option an amount in cash that is equal to the Exercise Price Differential of such Option;
- (d) each Note shall be transferred by the holder thereof to the Trust in exchange for one (1) Trust Unit; and
- (e) Peyto and AcquisitionCo shall be amalgamated to form AmalgamationCo.

For details respecting the terms of the Notes, please refer to Appendix F, "*Information Concerning AmalgamationCo*" and for details respecting the terms of the Trust Units, please refer to Appendix E, "*Information Concerning the Trust*".

Arrangement Agreement

The Arrangement is being effected pursuant to the Arrangement Agreement. The Arrangement Agreement contains covenants, representations and warranties of and from each of Peyto, AcquisitionCo and the Trust and various conditions precedent, both mutual and with respect to each corporation and the Trust.

The Arrangement Agreement is attached as Appendix C to this Information Circular and reference is made thereto for the full text thereof.

Procedure for the Arrangement Becoming Effective

Procedural Steps

The Arrangement is proposed to be carried out pursuant to section 193 of the ABCA. The following procedural steps must be taken for the Arrangement to become effective:

- (a) the Arrangement must be approved by the Securityholders of Peyto voting at the Meeting;
- (b) the Arrangement must be approved by the Court pursuant to the Final Order;
- (c) all conditions precedent to the Arrangement, including those set forth in the Arrangement Agreement, must be satisfied or waived by the appropriate parties; and
- (d) the Final Order, Articles of Arrangement and related documents, in the form prescribed by the ABCA, must be filed with the Registrar and the Certificate must be issued by the Registrar.

Approvals

Securityholder Approval

Pursuant to the Interim Order, the Arrangement Resolution must be approved by at least two-thirds of the votes cast by Shareholders and Optionholders, voting together as a class, who vote in respect of the Arrangement Resolution, in person or by proxy, at the Meeting.

Court Approvals

Interim Order

On May 23, 2003 the Court granted the Interim Order facilitating the calling of the Meeting and prescribing the conduct of the Meeting and other matters. The Interim Order is attached as Appendix B to this Information Circular.

Final Order

The ABCA provides that an arrangement requires Court approval. Subject to the terms of the Arrangement Agreement, and if the Arrangement and the Arrangement Agreement are approved by Securityholders at the Meeting in the manner required by the Interim Order, Peyto will make application to the Court for the Final Order.

The application for the Final Order approving the Arrangement is scheduled for June 27, 2003 at 9:45 a.m. (Calgary time), or as soon thereafter as counsel may be heard, at The Court House, 611 - 4th Street S.W., Calgary, Alberta. At the hearing, any Securityholder and any other interested party who wishes to participate or to be represented or to present evidence or argument may do so, subject to filing with the Court and serving upon Peyto a Notice of Intention to Appear together with any evidence or materials which such party intends to present to the Court on or before noon (Calgary time) on June 26, 2003. Service of such notice shall be effected by service upon the solicitors for Peyto: Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, Attention: D.J. McDonald, Q.C. See "*Notice of Petition*".

The Trust Units to be issued pursuant to the Arrangement will not be registered under the 1933 Act, in reliance upon the exemption from registration provided by section 3(a)(10) thereof. The Court will be advised at the hearing of the application for the Final Order that if the terms and conditions of the Arrangement are approved by the Court, the securities issued pursuant to the Arrangement will not require registration under the 1933 Act.

Peyto has been advised by its counsel, Burnet, Duckworth & Palmer LLP, that the Court has broad discretion under the ABCA when making orders with respect to the Arrangement and that the Court will consider, among other things, the fairness and reasonableness of the Arrangement, both from a substantive and a procedural point of view. The Court may approve the Arrangement either as proposed or as amended in any manner the Court may direct, subject to compliance with such terms and conditions, if any, as the Court thinks fit. Depending upon the nature of any required amendments, Peyto, AcquisitionCo or the Trust may determine not to proceed with the Arrangement.

Conditions Precedent to the Arrangement

The respective obligations of Peyto, AcquisitionCo and the Trust to complete the Arrangement are subject to a number of conditions which must be satisfied on or before the Effective Date. These conditions include:

- (a) the Arrangement Resolution shall have been approved by the requisite number of votes cast by the Shareholders and Optionholders at the Meeting in accordance with the provisions of the Interim Order and any applicable regulatory requirements;
- (b) the Final Order shall have been granted in form and substance satisfactory to Peyto, AcquisitionCo and the Trust acting reasonably not later than July 31, 2003 or such later date as the parties may agree;
- (c) the Articles of Arrangement and all necessary related documents, in form and substance satisfactory to Peyto, AcquisitionCo and the Trust, acting reasonably, shall have been accepted for filing by the Registrar together with the Final Order in accordance with subsection 193(10) of the ABCA;
- (d) there shall not be in force any order or decree of a court of competent jurisdiction or of any federal, provincial, municipal or other governmental department, commission, board, agency or regulatory body restraining, interfering with or enjoining the consummation of the transactions contemplated by the Arrangement Agreement;
- (e) all necessary third party and regulatory and similar reviews, consents and approvals with respect to the transactions contemplated by the Arrangement Agreement shall have been completed or obtained including, without limitation, consents and approvals from Peyto's principal lenders;

- (f) there shall not, as of the Effective Date, be Securityholders that hold, in aggregate, in excess of 5% of all Securities that have validly exercised their rights of dissent under the ABCA and the Interim Order; and
- (g) the approval of the TSX of the conditional listing of the Trust Units to be issued pursuant to the Arrangement shall be obtained, subject only to the filing of required documents which cannot be filed prior to the Effective Date.

Upon the conditions being fulfilled or waived, Peyto intends to file a copy of the Final Order and the Articles of Arrangement with the Registrar under the ABCA, together with such other materials as may be required by the Registrar, in order to give effect to the Arrangement.

Notwithstanding the foregoing, the Arrangement Resolution proposed for consideration by the Securityholders authorizes the board of directors, without further notice to or approval of such Securityholders, subject to the terms of the Arrangement, to amend the Arrangement, to decide not to proceed with the Arrangement and to revoke the Arrangement Resolution at any time prior to the Arrangement becoming effective pursuant to the provisions of the ABCA. See Appendix A for the text of the Arrangement Resolution.

Recommendation of the Board of Directors

The board of directors has unanimously concluded that the Arrangement, in its opinion, is in the best interests of Peyto and the Securityholders and recommends that Securityholders vote in favour of the Arrangement Resolution.

Each member of the board of directors intends to vote all Securities held by him in favour of the Arrangement Resolution.

Holders of an aggregate of 9,311,406 Common Shares and 3,201,333 Options (including all of the directors and officers of Peyto) representing 21.4% of the outstanding Common Shares and 89.4% of the outstanding Options, respectively, have agreed to vote all of the Common Shares and Options beneficially owned by them in favour of the Arrangement and all other matters to be considered at the Meeting.

Fairness Opinion

The board of directors received an opinion dated May 23, 2003 from FirstEnergy Capital Corp., its independent financial advisor, stating that, in the opinion of FirstEnergy Capital Corp., as of May 23, 2003, the Arrangement is fair, from a financial point of view, to Securityholders.

A copy of the Fairness Opinion is attached as Appendix D to this Information Circular. The Fairness Opinion is subject to the assumptions and limitations contained therein and should be read in its entirety.

The board of directors unanimously concurs with the views of FirstEnergy Capital Corp. and such views were an important consideration in the board's decision to proceed with the Arrangement.

Timing

If the Meeting is held as scheduled and is not adjourned and the other necessary conditions at that point in time are satisfied or waived, Peyto will apply for the Final Order approving the Arrangement. If the Final Order is obtained on June 27, 2003 in form and substance satisfactory to Peyto, AcquisitionCo and the Trust, and all other conditions set forth in the Arrangement Agreement are satisfied or waived, Peyto expects the Effective Date will be on or about July 1, 2003. It is not possible, however, to state with certainty when the Effective Date will occur.

The Arrangement will become effective upon the filing with the Registrar of the Articles of Arrangement and a copy of the Final Order, together with such other materials as may be required by the Registrar.

Peyto's objective is to have the Effective Date occur on or about July 1, 2003 or as soon as is practicable thereafter. The Effective Date could be delayed, however, for a number of reasons, including an objection before the Court at the hearing of the application for the Final.

Procedure for Exchange of Shares

Shareholders

Shareholders must complete and return the enclosed Letter of Transmittal, together with the certificate(s) representing their Common Shares, to the Depository at one of the offices specified in the Letter of Transmittal in order to receive Trust Units for their Common Shares under the Arrangement.

General

Shareholders whose Common Shares are registered in the name of a broker, dealer, bank, trust company or other nominee must contact their nominee to deposit their Common Shares.

The use of the mail to transmit certificates representing Common Shares and the Letter of Transmittal is at each Securityholder's risk. Peyto recommends that such certificates and documents be delivered by hand to the Depository and a receipt therefor be obtained or that registered mail be used.

All signatures on (i) the Letter of Transmittal and (ii) certificates representing Common Shares must be guaranteed by an Eligible Institution, unless otherwise provided. In order to receive Trust Units after the Effective Date, Shareholders must submit their share certificate(s) to the Depository.

Canadian Federal Income Tax Considerations

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to Peyto and the Trust ("Counsel"), the following summary fairly describes the principal Canadian federal income tax considerations pursuant to the *Income Tax Act* (Canada) and the regulations thereunder (the "Tax Act") generally applicable to a Shareholder who holds Common Shares and will hold the Notes and Trust Units to be acquired pursuant to the Arrangement as capital property and who deals at arm's length with and is not affiliated with Peyto, POT or the Trust. Generally, the Common Shares and the Trust Units will be considered to be capital property to a holder provided that the holder does not hold the Common Shares or the Trust Units in the course of carrying on a business and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain holders who might not otherwise be considered to hold their Common Shares or Trust Units as capital property may, in certain circumstances, be entitled to treat the Common Shares and the Trust Units as capital property by making an irrevocable election under subsection 39(4) of the Tax Act. This summary is not applicable to a Shareholder that is a "financial institution", a "specified financial institution" or to a Shareholder interest in which would be a "tax shelter investment", in each case as defined in the Tax Act.

This summary is based upon the provisions of the Tax Act in force as of the date hereof, all specific proposals to amend the Tax Act that have been publicly announced by or on behalf of the Minister of Finance prior to the date hereof (the "Proposed Amendments"), Counsel's understanding of the current published administrative practices of the CCRA and certificates as to certain factual matters provided by the Administrator. This summary assumes that the Proposed Amendments will be enacted substantially in the form proposed, although no assurance can be given in this regard.

This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Proposed Amendments, does not take into account or anticipate any changes in the law, whether by legislative, governmental or judicial action nor any changes in the administrative practices of the CCRA. This summary is not exhaustive of all Canadian federal income tax consequences of the Arrangement, nor does it take into account provincial, territorial, or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is of a general nature only and is not intended to be nor should it be construed to be legal or tax advice to any particular Shareholder and no representations with respect to the income tax consequences to any particular Shareholder are made. Consequently, Shareholders should consult their own tax advisors with respect to their particular circumstances.

Exchange of Common Shares Pursuant to the Arrangement

Residents of Canada

The following portion of the summary is applicable to a Shareholder who participates in the Arrangement and who, at all relevant times, is resident or deemed to be resident in Canada for the purposes of the Tax Act.

A Shareholder who participates in the Arrangement will receive Notes in exchange for the holder's Common Shares and subsequently will receive Trust Units in exchange for such Notes. Such Shareholder will effectively realize a capital gain (or capital loss) equal to the amount by which the fair market value of the Units so received exceeds (or is less than) the adjusted cost base of such Shareholder's Common Shares immediately before the Effective Time and any reasonable costs of disposition. The cost to the Shareholder of the Trust Units so received will be equal to the fair market value thereof at the Effective Time.

One half of any capital gain realized by a Shareholder will be included in the Shareholder's income under the Tax Act for the year of disposition as a taxable capital gain. One half of any capital loss realized on the disposition of Common Shares may be deducted against any taxable gains realized by the Shareholder in the year of disposition, in the three preceding taxation years or any subsequent taxation year, subject to the detailed rules contained in the Tax Act. In the case of a Shareholder that is a corporation, or a partnership or trust of which a corporation is a member or beneficiary, the amount of any such capital loss may be reduced by the amount of dividends received or deemed to have been received by the Shareholder on the Common Shares, to the extent and under the circumstances described in the Tax Act.

Non-Residents of Canada

The following portion of the summary is applicable to a Shareholder who participates in the Arrangement and, at all relevant times, for the purposes of the Tax Act, is not, and is not deemed to be resident in Canada

A Shareholder who participates in the Arrangement will receive Notes in exchange for the holder's Common Shares and subsequently will receive Trust Units in exchange for such Notes. The disposition of Common Shares and Notes pursuant to the Arrangement will not give rise to capital gains subject to tax under the Tax Act to a Shareholder who is not resident or deemed to be resident in Canada; provided that the Common Shares and Notes, are not "taxable Canadian property" of the holder for the purposes of the Tax Act. Neither the Common Shares nor the Notes will be considered taxable Canadian property to such a holder unless: (a) the holder holds or uses, or is deemed to hold or use, the Common Shares or Notes in the course of carrying on business in Canada; (b) the Common Shares or Notes are "designated insurance property" of the holder for purposes of the Tax Act; or (c) the Common Shares or Notes are otherwise deemed to be taxable Canadian property of the holder and in the case of Common Shares, at any time during the five year period immediately preceding the disposition of the Common Shares the holder or persons with whom the holder did not deal at arm's length or any combination thereof, held more than 25% of the issued Common Shares of any class of the capital stock of Peyto;

If the Common Shares constitute taxable Canadian Property to a particular non-resident Shareholder the disposition thereof will, subject to any relief provided under an applicable double taxation treaty, generally give rise to a capital gain (or capital loss) in the same manner as described above under the heading "Residents of Canada". Non-resident Shareholders are advised to consult with their tax advisors with respect to the application of a double taxation treaty, the calculation of liability for Canadian taxes and the requirement to file a Canadian tax return.

Dissenting Shareholders

The following portion of the summary is applicable to a Shareholder who dissents from the Arrangement.

Under the Arrangement, a dissenting Shareholder will be entitled to be paid by AmalgamationCo or the Trust an amount equal to the fair market value of the Common Shares held by such Shareholder determined as of the appropriate date. See "*The Arrangement – Rights of Dissent*". Pursuant to the current administrative practice of the CCRA such a Shareholder will be considered to have disposed of the holder's Common Shares for proceeds of disposition equal to the amount paid by AmalgamationCo or the Trust to such holder and will generally realize a capital gain (or capital loss) equal to the amount by which the fair market value of the amount so received exceeds (or is less than) the aggregate of such Shareholder's adjusted cost base of such Common Shares immediately before the Effective Time and any reasonable costs of disposition. Any interest awarded by a Court will generally be considered interest income for purposes of the Tax Act and in the case of a non-resident Shareholder will be subject to a withholding tax at the rate of 25%, subject to reduction pursuant to the terms an applicable double taxation treaty.

Status of the Trust

Based on certain factual representations made by the Administrator and on the assumption that the Trust elects under the Tax Act to be a "mutual fund trust" from its creation, the Trust will qualify as a "mutual fund trust" under the Tax Act and it is assumed that it will continue to so qualify at all times. **In the event the Trust was not to so qualify as a mutual fund trust at a particular time, the income tax considerations would be materially different in certain respects from those described herein and the Trust could be liable to pay tax under Part XII.2 of the Tax Act.**

Taxation of the Trust

The Trust's taxation year ends on December 31 of each year and it will be subject to taxation on its taxable income for each year. In computing its income the Trust must include interest accruing that becomes received or receivable by it before the end of the year, and any net income of POT paid or payable to it by POT, less the portion thereof that it deducts in respect of amounts paid or payable in the year to Unitholders or otherwise appropriately designates to be income of Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if the Unitholder is entitled in that year to enforce payment of the amount.

Costs incurred by the Trust with respect to the issuance of Trust Units generally may be deducted by the Trust at the rate of 20% per year, pro-rated where the Trust's taxation year is less than 365 days. The Trust will also will be entitled to deduct reasonable current expenses incurred in its ongoing operations.

A redemption of Trust Units for POT Notes and the distribution by the Trust to a Unitholder of such POT Notes upon a redemption of Trust Units will be treated as a disposition by the Trust of such POT Notes for proceeds of disposition equal to the fair market value thereof. The Trust will be entitled for each taxation year to reduce (or receive a refund in respect of) its liability, if any, for tax on its net realized taxable capital gains by an amount determined under the Tax Act based on the redemption or retraction of Trust Units during the year (the "Capital Gains Refund"). In certain circumstances, the Capital Gains Refund for a particular taxation year may not completely offset the Trust's tax liability for such taxation year in respect of such capital gains.

Under the Trust Indenture, an amount equal to all of the income of the Trust for each year net of the Trust's deductions and expenses generally will be payable to its Unitholders by way of cash distributions, subject to the exceptions described below. Income also may be used to finance cash redemptions of Trust Units. Any part of the income may be payable, at the Trustee's option, in the form of additional Trust Units ("Reinvested Trust Units").

Counsel has been advised by the Administrator that the Trust intends to make sufficient distributions in each year of its net income for tax purposes so that the Trust generally will not be liable for any material amounts of income tax under the Tax Act.

Taxation of POT

POT will be taxable on its income determined under the Tax Act for each year, which will include income, except to the extent such income is paid or payable or deemed to be paid or payable in such year to its unitholder and is deducted by POT in computing its income for tax purposes or is otherwise appropriately designated as income of its unitholder. POT will generally be entitled to deduct its cumulative Canadian exploration expense; an appropriate portion of its cumulative Canadian development expense and other expenses incurred to earn income from a business or property provided such expenses are reasonable and otherwise deductible, subject to the relevant provisions of the Tax Act. POT's taxation year ends on December 31 of each year.

The cost to POT of the NPI will be added to its cumulative Canadian oil and gas property expense ("COGPE") account. In computing its income for a taxation year, the POT may deduct from any source an amount not exceeding 10%, on a declining balance basis, of its cumulative COGPE account at the end of that year. Where, as a result of a sale of a property by AmalgamationCo and the extinguishing of the portion of the NPI with respect thereto any proceeds of disposition become receivable by POT in a taxation year, the amount of such proceeds will be required to be deducted from the balance of the POT's cumulative COGPE account otherwise determined. If, after taking into account all additions and deductions for any taxation year, the balance of the POT's cumulative COGPE account is negative at the end of such taxation year, the negative balance will be included in the income of the POT for such year.

Under the POT Trust Indenture, all or a portion of the income of POT for each year, as calculated under the Tax Act, together with the taxable and non-taxable portion of any capital gains realized by POT in the year, will be payable in the year to holder of the POT Units in accordance with the decision of the Administrator. POT will be taxable in circumstances where less all of its net income is paid or payable to the holder of POT Units.

Taxation of Unitholders

Residents of Canada

The following portion of the summary describes the principal Canadian federal income tax considerations generally applicable to a holder of Common Shares who acquires Trust Units pursuant to the Arrangement and who, for the purposes of the Tax Act and at all relevant times, is or is deemed to be resident in Canada.

A Unitholder will generally be required to include in computing income for a particular taxation year of the Unitholder the portion of the net income of the Trust for a taxation year, including net realized taxable capital gains, that is paid or payable to the Unitholder in that particular taxation year, notwithstanding that any such amount is payable in Reinvested Trust Units. Income of a Unitholder from the Trust Units will be considered to be income from property and not resource income (or "resource profits") for purposes of the Tax Act. Any loss of the Trust for purposes of the Tax Act cannot be allocated to, or treated as a loss of, a Unitholder. However, provided that appropriate designations are made by the Trust, such portions of its net taxable capital gains that are paid or payable to a Unitholder will effectively retain their character and be treated as taxable capital gains in the hands of the Unitholder for purposes of the Tax Act.

The non taxable portion of any net realized capital gains of the Trust (being one half thereof) that is paid or payable to a Unitholder in a year will not be included in computing the Unitholder's income for the year. Any other amount in excess of the net income of the Trust that is paid or payable to a Unitholder in a year should not generally be included in the Unitholder's income for the year. However, where such an amount becomes payable to a Unitholder (other than as proceeds of disposition in respect of the redemption of Trust Units) this will give rise to a reduction in the adjusted cost base of the Trust Units held by such Unitholder, except to the extent that the amount either was included in the income of the Unitholder or was the Unitholder's share of the non taxable portion of the net capital gains of the Trust, the taxable portion of which was designated by the Trust in respect of the Unitholder. To the extent that the adjusted cost base of a Trust Unit would otherwise be less than nil, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of Trust Units in the year in which the negative amount arises.

The cost to a Unitholder of a Trust Unit received under the Arrangement will be the fair market value thereof at the time of receipt. Reinvested Trust Units issued to a Unitholder in lieu of a cash distribution of income will have a cost equal to the fair value of such Trust Units. Under the Tax Act, Reinvested Trust Units and any other Trust Units already owned by a Unitholder will be "identical properties". Accordingly, the adjusted cost base of each Trust Unit will be required to be calculated on a moving average basis. A new average adjusted cost base for each Trust Unit is calculated at the time of each purchase, receipt of Reinvested Trust Units or other acquisition of Trust Units. The adjusted cost base of property disposed of is based on such average as calculated immediately prior to the disposition.

Upon the disposition or deemed disposition by a Unitholder of a Trust Unit, whether on redemption or otherwise, the Unitholder will generally realize a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition (excluding any amount payable by the Trust which represents an amount that must otherwise be included in the Unitholder's income as described herein) are greater (or less) than the aggregate of the Unitholder's adjusted cost base of the Trust Unit and any reasonable costs of disposition.

A redemption of Units in consideration for cash, POT Notes or Redemption Notes, as the case may be, will be a disposition of such Units for proceeds equal to the amount of such cash or the fair market value of such notes, less any portion thereof that is considered to be a distribution out of the income of the Trust. The receipt of POT Notes or Redemption Notes in substitution for Units may result in a change in the income tax characterization of distributions. Such a Unitholder will be required to include in income, interest on the Redemption Notes or POT Notes (including interest that had accrued to the date of the acquisition of the POT Notes by the Unitholder) in accordance with the provisions of the Tax Act. To the extent that the Unitholder is required to include in income any interest that had accrued to the date of the acquisition of the POT Notes, an offsetting deduction will be available. Unitholders should consult with their own tax advisors as to the consequences of receiving POT Notes or Redemption Notes on a redemption.

One half of any capital gain realized by a Unitholder and the amount of any net taxable capital gains designated by the Trust in respect of the Unitholder will be included in the Unitholder's income under the Tax Act for the year of disposition as a taxable capital gain. One half of any capital loss realized on the disposition of a Trust Unit may be deducted against any taxable gains realized by the Unitholder in the year of disposition, in the three preceding taxation years or any subsequent taxation year, subject to the detailed rules contained in the Tax Act.

Taxable capital gains, either on a disposition of Trust Units or designated by the Trust to be on behalf of Unitholders, realized by a Unitholder who is an individual may give rise to alternative minimum tax depending on the Unitholder's circumstances. A Unitholder that is a "Canadian controlled private corporation" as defined in the Tax Act may be liable to pay additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income including taxable capital gains and interest.

Non Residents of Canada

The following portion of the summary describes the principal Canadian federal income tax considerations generally applicable to a holder of Common Shares who acquires Trust Units pursuant to the Arrangement and who, for the purposes of the Tax Act and at all relevant times, is not, and is not deemed to be resident in Canada.

Any distribution of income of the Trust to a holder of Trust Units who is not resident or deemed to be resident in Canada will generally be subject to Canadian withholding tax at the rate of 25%, unless such rate is reduced under the provisions of a tax treaty between Canada and such holder's jurisdiction of residence. A holder of Trust Units resident in the United States who is entitled to claim the benefit of the Canada-US. Income Tax Convention will be entitled to have the rate of withholding reduced to 15% of the amount of any income distributed. Certain corporations resident in the United States but not subject to taxation therein may not be considered by the CCRA to be residents of the United States for the purposes of the Convention.

A disposition or deemed disposition of a Trust Unit, whether on redemption, or otherwise, will not give rise to any capital gains subject to tax under the Tax Act to a holder of Trust Units who is not resident or deemed to be resident in Canada; provided that the Trust Units, are not "taxable Canadian property" of the holder of Trust Units for the purposes of the Tax Act. Trust Units will not be considered taxable Canadian property to such a holder unless: (a) the holder holds or uses, or is deemed to hold or use, the Trust Units in the course of carrying on business in Canada; (b) the Trust Units are "designated insurance property" of the holder for purposes of the Tax Act; (c) at any time during the five year period immediately preceding the disposition of the Trust Units the holder or persons with whom the holder did not deal at arm's length or any combination thereof, held more than 25% of the issued Trust Units of the Trust; or (d) the Trust is not a mutual fund trust on the date of disposition.

If the Trust Units constitute taxable Canadian Property to a particular non-resident Unitholder the disposition thereof will, subject to any relief provided under an applicable double taxation treaty, generally give rise to a capital gain (or capital loss) in the same manner as described above under the heading "Residents of Canada". Non-resident Unitholders are advised to consult with their tax advisors with respect to the application of a double taxation treaty, the calculation of liability for Canadian taxes and the requirement to file a Canadian tax return.

Tax Exempt Unitholders

Provided the Trust qualifies as a mutual fund trust, the Trust Units will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans (the "Exempt Plans"). If the Trust ceases to qualify as a mutual fund trust, Trust Units will cease to be qualified investments for the Exempt Plans. Adverse tax consequences may apply to a Exempt Plan, or an annuitant thereunder, if the Exempt Plan acquires or holds property that is not a qualified investment for the plan.

Where an Exempt Plan receives POT Notes as a result of a redemption of Trust Units, such POT Notes will not be qualified investments for the Exempt Plan under the Tax Act, and this will give rise to adverse consequences to the Exempt Plan or the annuitant thereunder. Accordingly, the Exempt Plans that own Trust Units should consult their own tax advisors before deciding to exercise the redemption rights thereunder.

Provided the Trust restricts its holdings in foreign property within the limits provided in the Tax Act, and provided the Trust qualifies as a mutual fund trust the Trust Units will not be foreign property for Exempt Plans (other than registered education savings plans), registered pension plans or other persons subject to tax under Part XI of the Tax Act. Registered education savings plans are not subject to tax under Part XI of the Tax Act.

ELIGIBILITY FOR INVESTMENT

Subject to the assumptions, limitations and restrictions described under "Canadian Federal Income Tax Considerations", in the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Trust, as at the date of this prospectus, the Trust Units acquired pursuant to the Arrangement will be qualified investments for trusts governed by the Plans and will not be foreign property within the meaning of the Tax Act. See "Canadian Federal Income Tax Considerations".

Rights of Dissent

The following description of the rights of Dissenting Securityholders is not a comprehensive statement of the procedures to be followed by a Dissenting Securityholder who seeks payment of the fair value of such Securityholder's Securities and is qualified in its entirety by the reference to the full text of the Interim Order which is attached to this Information Circular as Appendix B and the text of section 191 of the ABCA which is attached to this Information Circular as Appendix I. Pursuant to the Interim Order, dissenting Optionholders are given rights analogous to the rights of dissenting Shareholders under the ABCA. **A Securityholder who intends to exercise his right of dissent and appraisal should carefully consider and comply with the provisions of section 191 of the ABCA, as modified by the Interim Order. Failure to comply with the provisions of that section, as modified by the Interim Order, and to adhere to the procedures established therein may result in the loss of all rights thereunder.**

The Court hearing the application for the Final Order has the discretion to alter the rights of dissent described herein based on the evidence presented at such hearing.

Under the Interim Order, a registered Securityholder is entitled, in addition to any other rights he may have, to dissent and to be paid by Peyto or the Trust the fair value of the Securities held by him in respect of which he dissents, determined as of the close of business on the last business day before the Meeting. A Securityholder may dissent only with respect to all of the Securities held by him or on behalf of any one beneficial owner and registered in the Dissenting Securityholder's name. **Persons who are beneficial owners of Securities registered in the name of a broker, custodian, nominee or other intermediary who wish to dissent, should be aware that only the registered owner of such securities is entitled to dissent. Accordingly, a beneficial owner of Securities desiring to exercise his right of dissent must make arrangements for the Securities beneficially owned by him to be registered in his name prior to the time the written objection to the Arrangement Resolution is required to be received by Peyto or, alternatively, make arrangements for the registered holder of his Securities to dissent on his behalf.**

A Dissenting Securityholder must send to Peyto a written objection to the Arrangement Resolution, which written objection must be received by Peyto, c/o Burnet, Duckworth & Palmer LLP, 1400, 350 - 7th Avenue S.W., Calgary, Alberta T2P 3N9, D.J. McDonald, Q.C., on or before the business day immediately preceding the Meeting. No Securityholder who has voted in favour of the Arrangement shall be entitled to dissent with respect to the Arrangement. An application may be made to the Court by Peyto or the Trust, or by a Dissenting Securityholder to fix the fair value of the Dissenting Securityholder's Securities. If such an application to the Court is made by either Peyto, the Trust or a Dissenting Securityholder, Peyto or the Trust must, unless the Court otherwise orders, send to each Dissenting Securityholder a written offer to pay him an amount considered by the board of directors to be the fair value of the Securities held by such Dissenting Securityholders. The offer, unless the Court otherwise orders, will be sent to each Dissenting Securityholder at least 10 days before the date on which the application is returnable, if Peyto or the Trust is the applicant, or within 10 days after Peyto is served with notice of the application, if a Dissenting Securityholder is the applicant. The offer will be made on the same terms to each Dissenting Securityholder and will be accompanied by a statement showing how the fair value was determined.

A Dissenting Securityholder may make an agreement with Peyto or the Trust for the purchase of his Securities by Peyto or the Trust, in the amount of Peyto's offer (or otherwise) at any time before the Court pronounces an order fixing the fair value of the Securities.

A Dissenting Securityholder is not required to give security for costs in respect of an application and, except in special circumstances, will not be required to pay the costs of the application and appraisal. On the application, the Court will make an order fixing the fair value of the Securities of all Dissenting Securityholders who are parties to the application, giving judgment in that amount against Peyto and in favour of each of those Dissenting Securityholders, and fixing the time within which Peyto must pay that amount payable to the Dissenting Securityholders. The Court may in its discretion allow a reasonable rate of interest on the amount payable to each Dissenting Securityholder calculated from the date on which the Dissenting Securityholder ceases to have any rights as a Securityholder until the date of payment.

As part of the Arrangement, the Common Shares held by Dissenting Securityholders will be cancelled prior to the amalgamation of Peyto and AcquisitionCo and such Dissenting Securityholder will cease to have any rights as a Securityholder other than the right to be paid the fair value of such Securityholder's Securities in the amount agreed to between Peyto and the Securityholder or in the amount of the judgment, as the case may be. Until one of these events occurs, the Securityholder may withdraw his dissent, or Peyto may rescind the Arrangement Resolution, and in either event the dissent and appraisal proceedings in respect of that Securityholder will be discontinued.

Peyto or the Trust shall not make a payment to a Dissenting Securityholder under section 191 of the ABCA if there are reasonable grounds for believing that Peyto is or would after the payment be unable to pay its liabilities as they become due, or that the realizable value of the assets of Peyto or the Trust would thereby be less than the aggregate of its liabilities. In such event, Peyto or the Trust shall notify each Dissenting Securityholder that it is lawfully unable to pay Dissenting Securityholders for their Securities in which case the Dissenting Securityholder may, by written notice to Peyto or the Trust within 30 days after receipt of such notice, withdraw his written objection, in which case such Securityholder shall, in accordance with the Interim Order, be deemed to have participated in the Arrangement as a Securityholder. If the Dissenting Securityholder does not withdraw his written objection he retains his status as a claimant against Peyto or the Trust to be paid as soon as Peyto or the Trust is lawfully entitled to do so or, in a liquidation, to be ranked subordinate to creditors but prior to Securityholders of Peyto or the Trust.

All Securities held by Securityholders who exercise their right of dissent will, if the Securityholders are ultimately entitled to be paid the fair value thereof, be deemed to be transferred to Peyto in exchange for such fair value as of the Effective Date. If such Securityholders ultimately are not so entitled to be paid the fair value therefor, such Securities will be changed into Trust Units or, in the case of Options, cash, and such Securityholders will be issued Trust Units or cash, as the case may be, on the same basis as all other Securityholders pursuant to the Arrangement.

The Arrangement Agreement provides that, unless otherwise waived, it is a condition to the obligation of Peyto, AcquisitionCo and the Trust to complete the Arrangement, that there shall not, as of the Effective Date, be Securityholders of Securities that hold in excess of 5% of all Securities, that have validly exercised their rights of dissent under the ABCA and the Interim Order.

Interests of Certain Persons in the Arrangement

The management of Peyto understands that each of the directors and officers presently intends to vote the Securities owned or controlled by them in favour of the Arrangement Resolution proposed to be considered at the Meeting.

Holders of an aggregate of 9,311,406 Common Shares and 3,581,999 Options (including all of the directors and officers of Peyto) representing 21.4% of the outstanding Common Shares and 89.4% of the outstanding Options, respectively, have agreed to vote all of the Common Shares and Options beneficially owned by them in favour of the Arrangement and all other matters to be considered at the Meeting.

Peyto has retained FirstEnergy Capital Corp. to be the financial advisor to Peyto and its board of directors with respect to the Arrangement. FirstEnergy Capital Corp. has received and will receive fees from Peyto for services rendered.

Expenses of the Arrangement

The estimated costs to be incurred by Peyto relating to the Arrangement including, without limitation, financial advisory, accounting and legal fees and the preparation and printing of this Information Circular are expected to aggregate \$1,500,000.

Stock Exchange Listings

It is a condition to the completion of the Arrangement that the TSX shall have approved the listing of the Trust Units, subject only to the filing of required documents which cannot be filed prior to the Effective Date. Conditional approval has been obtained from the TSX subject to the requirements of such exchange which are expected to be met on the Effective Date or as soon as reasonably practicable thereafter.

Securities Law Matters

The Trust Units to be issued in exchange for Common Shares pursuant to the Arrangement will be issued in reliance on exemptions from prospectus and registration requirements of applicable Canadian securities laws or on discretionary exemptions from such requirements to be obtained from applicable securities regulatory authorities in Canada. The Trust Units will generally be "freely tradeable" (other than as a result of any "control block" restrictions which may arise by virtue of the ownership thereof) under applicable securities laws of the provinces and territories of Canada.

Notice of proposed Arrangement of the issuance of the Trust Units pursuant thereto is being submitted to the Quebec Securities Commission on behalf of the Trust, as well as an application for an exemption from the prospectus and registration requirements of applicable securities laws in the Province of Quebec in respect of the resale of the Trust Units to be issued pursuant to the Arrangement to Securityholders who are resident in Quebec.

Completion of the Arrangement is subject to approval of, among other things, or non-objection by, the Quebec Securities Commission in respect of the issuance of the Trust Units pursuant to the Arrangement to the extent applicable. **In the event of such approval or non-objection but if an exemption is not obtained in respect of the first trade of Trust Units issued to former Shareholders pursuant to the Arrangement who are resident in the province of Quebec will be subject to restrictions on their resale until such time as the Trust Units becomes a reporting issuer Quebec for the prescribed period of time. Peyto is not now a reporting issuer in Quebec.**

Applications will also be made so as to relieve AmalgamationCo from being a "reporting issuer" under applicable securities legislation, with the result that it will not have to comply with the continuous disclosure requirements thereof.

The Trust Units to be issued pursuant to the Arrangement will not be registered under the 1933 Act in reliance upon the exemption from registration provided by section 3(a)(10) of the 1933 Act. The Trust Units issued to a former Shareholder who is not an "affiliate" of Peyto immediately before the Arrangement, and is not an "affiliate" of AmalgamationCo or the Trust immediately after the Arrangement, may be resold in the United States without restriction under the 1933 Act. Former Shareholders who are affiliates of Peyto prior to the Arrangement, or affiliates of AmalgamationCo or the Trust after the Arrangement, may not re-sell their Trust Units in the United States without an exemption from registration under the 1933 Act. For the purposes of the 1933 Act, an "affiliate" of Peyto, AmalgamationCo or the Trust is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, Peyto, AmalgamationCo or

the Trust, as the case may be and generally includes, without limitation, any officer, director or principal shareholder of Peyto, AmalgamationCo or the Trust. Shareholders are urged to consult their legal advisors prior to disposing of Trust Units outside Canada to determine the extent of all applicable resale provisions.

Legal Matters

Certain legal matters relating to the Arrangement are to be passed upon at the Closing by Burnet, Duckworth & Palmer LLP, on behalf of Peyto. As at May 21, 2003, the partners and associates of Burnet, Duckworth & Palmer LLP beneficially owned, directly or indirectly, less than 1% of the outstanding Common Shares. Mr. Chetner, a partner at Burnet, Duckworth & Palmer LLP, is currently a director of Peyto and has been nominated for election as a director of Peyto at the Meeting.

INFORMATION CONCERNING THE TRUST

The Trust is an open-end, unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture. The head and principal office of the Trust is located at 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1.

Trust Unitholders will be the sole beneficiaries of the Trust. Valiant Trust Company is the initial trustee of the Trust. The Trust will not be managed by a third party manager. Following the completion of the Arrangement, the Trust, POT and AmalgamationCo will be managed by the management of AmalgamationCo.

The Trust will become a reporting issuer in certain Canadian jurisdictions and will become subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement. The Trust Units to be issued in connection with the Arrangement have been conditionally approved for listing on the TSX subject to the requirements of such exchange, which are expected to be met on the Effective Date or as soon as reasonably practicable thereafter. Listing will be subject to the Trust fulfilling all of the requirements of the TSX. See *"The Arrangement - Stock Exchange Listings"*.

Reference is made to Appendix E, *"Information Concerning the Trust"* for a description of the Trust and its securities.

INFORMATION CONCERNING PEYTO OPERATING TRUST

POT is an open-end, unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the POT Indenture. POT was established for the purposes of conducting exploration and development activities in respect of Peyto's Undeveloped Properties and properties acquired in the future as well as investing in the securities of AmalgamationCo or any other Subsidiary of POT. The head and principal office of POT is located at 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1.

The Trust will be the sole beneficiary of POT. Valiant Trust Company is the initial trustee of POT. Following the completion of the Arrangement, POT will be managed by the management of AmalgamationCo.

Reference is made to Appendix G, *"Information Concerning Peyto Operating Trust"* for a description of POT and its securities.

INFORMATION CONCERNING ACQUISITIONCO

AcquisitionCo is a corporation incorporated pursuant to the provisions of the ABCA for purposes of participating in the Arrangement, including creating and issuing the Notes required for implementing the Arrangement. The head and principal office of AcquisitionCo is located at 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1 and its registered office is located at 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

The Trust owns all of the issued and outstanding common shares in the capital of AcquisitionCo. As part of the Arrangement, AcquisitionCo will amalgamate with Peyto to form AmalgamationCo.

INFORMATION CONCERNING AMALGAMATIONCO

AmalgamationCo will be the resultant corporation from the amalgamation of Peyto and AcquisitionCo pursuant to the provisions of the ABCA.

The head and principal office of AmalgamationCo will be located at 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1 and its registered office will be located at 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9. AmalgamationCo will have a

board of directors comprised of not more than 11 nor less than 1 members. Initially, AmalgamationCo will have a board of directors comprised of 6 persons. See Appendix F, "*Information Concerning AmalgamationCo - Directors and Officers*", Peyto's AIF, "*Directors and Officers*" and "*Annual Meeting Matters – Election of Directors*" herein for information respecting the principal occupations and experience and qualifications of the initial directors and officers of AmalgamationCo. Trust Unitholders will be entitled to elect the board of directors of AmalgamationCo.

AmalgamationCo will become a reporting issuer in certain Canadian jurisdictions and will become subject to the informational reporting requirements under the securities laws of such jurisdictions as a result of the Arrangement. Application will be made to the securities regulatory authorities to deem AmalgamationCo to have ceased to be a reporting issuer, with the result that it will not have to comply with those reporting requirements.

Reference is made to Appendix F, "*Information Concerning AmalgamationCo*" for a detailed description of AmalgamationCo.

INFORMATION CONCERNING PEYTO

Peyto is a corporation amalgamated and subsisting pursuant to the provisions of the ABCA. Peyto is actively engaged in the exploration for, and the acquisition, development and production of, oil and natural gas in the Provinces of Alberta and British Columbia. Peyto is a reporting issuer or the equivalent thereof in the provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario and its Common Shares are listed and posted for trading on the TSX.

Peyto's registered office is at 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, and its head and principal office is at 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1.

Incorporation by Reference

Information has been incorporated by reference in this Information Circular from documents filed with securities commissions or similar regulatory authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Vice-President, Finance of Peyto, 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1, phone (403) 261-6902 or by accessing the disclosure documents available through the Internet on the Canadian System for Electronic Document Analysis and Retrieval (SEDAR) web site at www.sedar.com. For the purpose of the Province of Québec, this information circular contains information to be completed by consulting the permanent information record. A copy of the permanent information record may be obtained from the Vice-President, Finance of Peyto at the above-mentioned address and telephone number.

The following documents of Peyto, filed with the various securities commissions or similar regulatory authorities in the Provinces of Canada, are specifically incorporated by reference into and form an integral part of this Information Circular:

1. Peyto's AIF, which includes the management's discussion and analysis of the financial condition and operations of Peyto for the year ended December 31, 2002;
2. the audited comparative consolidated financial statements of Peyto and the notes thereto as at and for the period ended December 31, 2002, together with the report of the auditor thereon;
3. the unaudited comparative consolidated interim financial statements of Peyto as at and for the three months ended March 31, 2003;
4. the management's discussion and analysis of the financial conditions and operations of Peyto for the three months ended March 31, 2003; and
5. Peyto's material change report dated April 22, 2003 regarding the Arrangement.

Any material change reports (excluding confidential reports), comparative interim financial statements and information circulars (excluding those portions that are not required pursuant to National Instrument 44-101 of the Canadian Securities Administrators to be incorporated by reference herein) filed by Peyto with the securities commissions or similar regulatory authorities in the Provinces of Canada subsequent to the date of this Information Circular and prior to the Effective Date shall be deemed to be incorporated by reference in this Information Circular.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Information Circular to the extent that a statement contained herein or in any other

subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Circular.

ANNUAL MEETING MATTERS

Election of Directors

At the Meeting it is proposed that 6 directors be elected to hold office until the next annual meeting or until their successors are elected or appointed. There are presently 6 directors of the Corporation, each of whom retire from office at the Meeting.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of the election as directors of the 6 nominees hereinafter set forth:

Rick Braund
 Donald Gray
 Brian Craig
 John Boyd
 Stephen J. Chetner
 Michael MacBean

The names and municipalities of residence of the persons nominated for election as directors, the number of voting securities of the Corporation beneficially owned, directly or indirectly, or over which each exercises control or direction, the offices held by each in the Corporation, the period served as director and the principal occupation of each are as follows:

Name and Municipality of Residence	Offices Held and Time as Director	Number of Common Shares Beneficially Owned Directly and Indirectly ⁽²⁾	Principal Occupation
Rick Braund ⁽³⁾ Calgary, Alberta	Chairman of the Board since October 1998	1,437,854 (3.3%)	Chairman of Buck Oil Ltd., a private oil and gas company, since 1999.
Donald Gray ⁽³⁾ Calgary, Alberta	President, Chief Executive Officer and Director since October 1998	1,699,555 (3.9%)	President, Chief Executive Officer and a Director of the Corporation since October 1998.
Brian Craig ⁽¹⁾⁽³⁾ Calgary, Alberta	Director since October 1998	302,433 (0.7%)	President and Chief Executive Officer of Solium Capital Inc., a publicly traded technology company, since May 2002.
John Boyd ⁽¹⁾⁽³⁾ Hillarys, W. Australia	Director since July 2002	4,029,500 (9.3%)	Private Investor.
Stephen J. Chetner ⁽¹⁾⁽³⁾ Calgary, Alberta	Director since December 2000	208,100 (0.5%)	Partner at Burnet, Duckworth & Palmer LLP, Barristers and Solicitors, a Calgary based law firm, since 2002.
Michael MacBean ⁽¹⁾⁽³⁾ Swift Current, Saskatchewan	Proposed Director	120,000 (0.3%)	Chief Executive Officer of Diamond Energy Services Inc., an oil services company since October 1998.

Notes:

- (1) Member of the Audit Committee. The Corporation does not have an Executive Committee.
- (2) The directors and officers also hold options to acquire an aggregate of 3,201,333 Common Shares at exercise prices ranging from \$0.52 to \$9.10 per Common Share, which options expire on January 18, 2005 (as to options to acquire 11,000 Common Shares at an

exercise price of \$0.52), February 7, 2006 (as to options to acquire 815,555 Common Shares at an exercise price of \$2.60), February 14, 2006 (as to options to acquire 596,888 Common Shares at an exercise price of \$2.70), July 10, 2006 (as to options to acquire 266,667 Common Shares at an exercise price of \$3.09), January 14, 2007 (as to options to acquire 266,666 Common Shares at an exercise price of \$4.03), March 15, 2007 (as to options to acquire 871,224 Common Shares at an exercise price of \$5.51), July 10, 2007 (as to options to acquire 133,333 Common Shares at an exercise price of \$6.20), August 9, 2007 (as to options to acquire 170,000 Common Shares at an exercise price of \$6.40), September 4, 2007 (as to options to acquire 20,000 Common Shares at an exercise price of \$7.70) and November 8, 2007 (as to options to acquire 50,000 Common Shares at an exercise price of \$9.10).

(3) Member of Reserves Committee.

The information as to Common Shares beneficially owned, directly or indirectly or over which control or direction is exercised, is based upon information furnished to the Corporation by the nominees. Each of the nominees is now a director and was elected to his present term of office by a vote of Peyto's Shareholders at a meeting, the notice of which was accompanied by an information circular, except Messrs. Boyd and MacBean. Messrs. Boyd has been engaged for more than 5 years in his present principal occupations, businesses or employments. Mr. MacBean was a Senior Investment Analyst for ARC Financial Corporation prior to becoming Chief Executive Officer of Diamond Energy Services Inc.

Appointment of Auditors

Unless otherwise directed, it is management's intention to vote the proxies in favour of an ordinary resolution to appoint the firm of Ernst & Young LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of the Corporation until the next annual meeting of the Shareholders and to authorize the directors to fix their remuneration as such. Ernst & Young LLP have been the Corporation's auditors since 1999.

Directors' and Officers' Compensation

Determination of Executive Compensation

The Board has appointed a Compensation Committee composed of three non-management directors, Messrs. Broadfoot, Craig and Boyd.

Report on Executive Compensation

The Compensation Committee meets from time to time each year for the purpose of reviewing the overall compensation policy. The Compensation Committee makes specific recommendations to the Board on salaries of officers, bonus payments, stock option allocations and directors' compensation. The Board reviews all recommendations of the Compensation Committee before final approval. Any director who is also an executive officer of the Corporation is excused from the director's meeting during any discussion of his compensation.

The Corporation's compensation philosophy is aimed at attracting and retaining quality and experienced people, which is critical to the success of the Corporation. Employee compensation, including executive officer compensation, is comprised of three elements: base salary, short-term incentive compensation (being cash bonuses) and long-term incentive compensation (being stock options).

Base Salaries

Base salary ranges are determined following a review of comparative data for a number of comparable companies within the same industry. It has been and continues to be the Corporation's approach that the base salary of the senior officers of the Corporation be below the midpoint of salaries for comparable positions in the Corporation's peer group.

Bonuses

In addition to base salaries, the Corporation may award cash bonuses to its employees, including the executive officers. The Board, in consultation with management, establishes annually the basis on which bonuses will be granted. Under this plan all employees are eligible to receive cash bonuses in the event specified performance targets are met or exceeded by the Corporation.

Stock Options

Individual stock options are granted by the Board on the recommendation of the Compensation Committee in consultation with senior management, in the case of employees, and by the Board after consultation with the Compensation Committee in the case of executive officers, including the President and Chief Executive Officer. Stock options are intended to align executive and

Shareholder interests by attempting to create a direct link between compensation and shareholder return. Participation in the Corporation's stock option plan rewards overall corporate performance, as measured through the price of the Corporation's Common Shares. In addition, the plan enables executives to develop and maintain a significant ownership position in the Corporation.

Stock options are normally awarded by the Board upon the commencement of employment with the Corporation based on the level of responsibility within the Corporation. Additional grants are made periodically to recognize the exemplary performance of, or the special contribution by, eligible individuals. An annual grant may be made to eligible individuals based on individual performance and the performance of the Corporation during the most recently completed financial year in relation to performance achieved by industry peer corporations during the comparable period.

The Corporation's stock option plan is designed to motivate executives to focus on the long term interests of the Corporation and its Shareholders. Options may be exercised at the market price in effect on the date of grant and the realizable value of the executives' option grants is entirely dependent on the appreciation in the market price of the Common Shares.

Summary

The Corporation's compensation policies have allowed the Corporation to attract and retain a team of motivated professionals and support staff working towards the common goal of enhancing Shareholder value. The Compensation Committee will continue to review compensation policies to ensure that they are consistent with the performance of the Corporation.

Report Submitted by the Compensation Committee:

Mike Broadfoot
Brian Craig
John Boyd

Summary of Executive Compensation

The following table sets forth information concerning the compensation paid to the Corporation's executive officers for each of the Corporation's last three financial years whose salary and bonus for the financial year ended December 31, 2002 exceeded \$100,000 (collectively, the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) ⁽¹⁾	Awards		Payouts	All Other Compensation (\$)
					Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
Donald Gray President and Chief Executive Officer	2002	165,000	275,000	nil	990,000	nil	n/a	nil
	2001	140,000	315,000	nil	990,000	nil	n/a	nil
	2000	115,000	250,000	nil	890,000	nil	n/a	nil
Roberto Bosdachin Vice-President, Exploration	2002	125,000	275,000	nil	506,667	nil	n/a	nil
	2001	110,000	225,000	nil	403,334	nil	n/a	nil
	2000	66,000	65,000	nil	500,000	nil	n/a	nil
Darren Gee ⁽²⁾ Vice-President, Engineering	2002	120,000	175,000	nil	500,000	nil	n/a	nil
	2001	92,000	120,000	nil	400,000	nil	n/a	nil
	2000	nil	nil	nil	nil	nil	n/a	nil
Lyle Skaien ⁽³⁾ Vice-President, Operations	2002	120,000	100,000	nil	450,000	nil	n/a	nil
	2001	55,000	65,000	nil	400,000	nil	n/a	nil
	2000	nil	nil	nil	nil	nil	n/a	nil
Sandra Brick Vice-President, Finance	2002	106,667	75,000	nil	250,000	nil	n/a	nil
	2001	75,000	55,000	nil	150,000	nil	n/a	nil
	2000	51,000	25,000	nil	120,000	nil	n/a	nil

Notes:

- (1) Perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10% of the total of the annual salary and bonus for any of the Named Executive Officers.
- (2) On March 6, 2001 Mr. Darren Gee was hired as Vice-President, Engineering at a salary of \$115,000 on an annualized basis.
- (3) On July 9, 2001 Mr. Lyle Skaien was hired as Vice-President, Operations at a salary of \$115,000 on an annualized basis.

Stock Options

The following table sets forth the details with respect to all options granted to Named Executive Officers during 2002.

Name	Securities Under Option	% of Total Options Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options on the Date of Grant (\$/Security)	Expiration Date
Donald Gray	418,889	25	5.51	5.51	March 15, 2007
Roberto Bosdachin	100,000	6	4.03	4.03	January 14, 2007
	78,889	5	5.51	5.51	March 15, 2007
	170,000	10	6.40	6.40	August 9, 2007
Darren Gee	100,000	6	4.03	4.03	January 14, 2007
	133,334	8	5.51	5.51	March 15, 2007
Lyle Skaien	50,000	3	4.03	4.03	January 14, 2007
	133,333	8	6.20	6.20	July 10, 2007
Sandra Brick	50,000	3	4.03	4.03	January 14, 2007
	63,334	4	5.51	5.51	March 15, 2007
	50,000	3	9.10	9.10	November 8, 2007

The following table sets forth, with respect to the Named Executive Officers, the number of Common Shares acquired and the dollar value realized on exercise of Options during 2002, and the number and value of in-the-money Options held at December 31, 2002:

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized (\$)	Unexercised Stock Options/SARs at FY-End (#) Exercisable/ Unexercisable ⁽²⁾	Value of Unexercised in-the-Money Stock Options/SARs at FY-End ⁽¹⁾ (\$) Exercisable/ Unexercisable ⁽²⁾
Donald Gray	418,889	1,471,166	990,000	7,245,533
Roberto Bosdachin	245,556	1,076,502	506,667	3,313,436
Darren Gee	133,334	366,668	500,000	3,717,331
Lyle Skaien	133,333	392,666	450,000	3,165,334
Sandra Brick	63,334	222,102	250,000	1,556,698

Notes:

- (1) Based on the closing price on December 31, 2002 of \$11.15 per Common Share less the exercise price.
(2) At December 31, 2002, all Options were unexercisable.

The value of the unexercisable Options (market value of Common Shares less exercise price) at December 31, 2002 was based upon a year-end market price of \$11.15 per Common Share.

Change of Control Agreements

Each of the Named Executive Officers of the Corporation is a party to a change of control agreement. In the event of a change of control (as defined in the agreements), the executives have the right, for a period of 120 days following the event causing the change of control, to terminate the agreement and be entitled to the following payments. The President and Chief Executive Officer is entitled to a retiring allowance (less required withholdings) equal to the monthly base salary times 24 and a further retiring allowance (less required withholdings) equal to 15% of the previously calculated amount to compensate for the loss of benefits and perquisites. The Vice-President, Exploration, Vice-President, Engineering, Vice-President, Finance and Vice-President, Operations will be entitled to a retirement allowance (less required withholdings) equal to the sum of the executives' monthly base salary times 12 plus an additional one month (or two months in case of the Vice-President, Operations) of the executives' monthly base salary for each year or part year worked for the Corporation, provided that the retiring allowance shall not exceed the executives' monthly base salary times 18, and a further retiring allowance equal to 15% of the amount previously calculated to compensate the executive for the loss of executive benefits and perquisites. The officers of Peyto have agreed to waive any payment that may be owing pursuant to these agreements arising from the completion of the Arrangement.

Directors' Compensation

In the last completed financial year of the Corporation, none of the directors of the Corporation were paid in their capacities as such. However, the directors are reimbursed for miscellaneous out-of-pocket expenses in carrying out their duties as directors. Directors of the Corporation also participate in the Corporation's stock option plan.

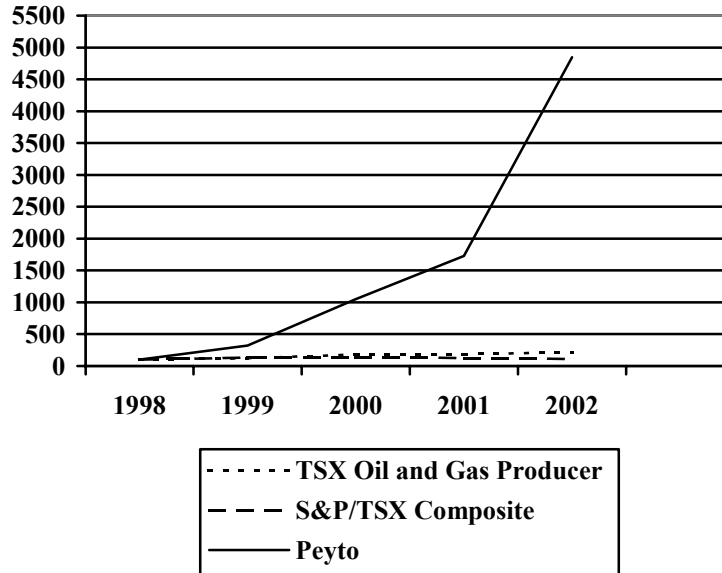
Indebtedness of Directors and Senior Officers

There has not been any indebtedness outstanding by directors or senior officers of the Corporation to the Corporation or its subsidiaries at any time since the commencement of the last completed financial year of the Corporation.

Performance Graph

The following graph illustrates the Corporation's five year cumulative shareholder return, as measured by the closing price of the Common Shares at the end of each financial year, assuming an initial investment of \$100, compared to the S&P/TSX Composite Index (formerly the Toronto Stock Exchange 300 Index) and the TSX Oil and Gas Producers Total Return Index, assuming the reinvestment of dividends where applicable.

**Cumulative Total Return on \$100 Investment Made
on December 31, 1997
(Assuming Dividends Reinvested)**



	1998	1999	2000	2001	2002
Peyto	100	322	1,052	1,726	4,848
S&P/TSX Composite	100	132	142	124	108
TSX Oil and Gas Producer	100	123	179	186	216

Statement of Corporate Governance Practices

The following summary addresses each of the guidelines of the TSX with respect to corporate governance including an explanation of any divergence from the stated guidelines.

The board of directors and management believes in the importance of good corporate governance and its effectiveness in promoting enhanced shareholder value. The TSX has required that listed corporations disclose their approach to corporate governance, making particular reference to the guidelines set out in the December 1994 report of the TSX Committee on Corporate Governance. When a corporation's corporate governance system differs from these guidelines, it is required to give an explanation of the differences. The guidelines contained in the TSX report are not mandatory and the TSX report recognizes that the unique characteristics of individual corporations will result in varying degrees of compliance with such guidelines. The board of directors and management will continue to monitor the current initiatives of the securities regulatory authorities in Canada with respect to corporate governance in order to ensure that our corporate governance practice complies with all applicable legal requirements.

TSX Corporate Governance Guidelines	Do we comply?	Comments
<p>1. Board should explicitly assume responsibility for stewardship of the corporation, and specifically for:</p> <p>a. adoption of a strategic planning process;</p> <p>b. identification of principal risks of the corporation's business and ensure the implementation of appropriate risk-management systems;</p> <p>c. succession planning and monitoring senior management;</p> <p>d. communication policy; and</p> <p>e. integrity of internal control and management systems.</p>	Yes	<p>The Board has full plenary powers and the statutory responsibilities to oversee the conduct of our business and to supervise management, which is responsible for the day-to-day conduct of our business. The Board's fundamental objectives are to enhance and preserve long term shareholder value and to ensure that we meet our objectives on an ongoing basis. The Board has acknowledged its responsibility for our stewardship, including responsibility for:</p> <ul style="list-style-type: none"> • the appointment of executive officers and for succession planning; • the identification of our principal business risks and ensuring the implementation of appropriate systems to manage these risks; • the approving of all financings and significant acquisitions or dispositions; • ensuring the implementation and integrity of our internal control and management information systems; • approval and monitoring our strategic planning; • monitoring compliance with all significant policies and procedures and applicable laws and regulations; and • ensuring timely and accurate reporting to shareholders of financial and other matters in accordance with applicable law.
2. Majority of directors should be unrelated.	Yes	Four of the six members of the Board are unrelated.
3. Disclose for each director whether he or she is related, and how that conclusion was reached.	Yes	Mr. Braund and Mr. Gray are considered "inside" and "related" directors as they hold the positions of Chairman and President and Chief Executive Officer, respectively. All of the other directors are considered to be "outside" and "unrelated" directors as they have no business relationship with us that are material to either the Corporation or the director.
4. Appoint a committee composed exclusively of non-management directors, the majority of whom are unrelated, with the responsibility of proposing new Board nominees and assessing directors.	No	This function is handled by the board of directors as a whole.
5. Implement a process for assessing the effectiveness of the Board, its committees and individual directors.	No	The board of directors periodically assesses the effectiveness of the Board, its committees and the individual directors.
6. Provide orientation and education programs for new directors.	Yes	We provide orientation to new directors on an <i>ad hoc</i> basis upon them being invited to join the board of directors based upon the directors background and knowledge of our operations.

TSX Corporate Governance Guidelines	Do we comply?	Comments
7. Examine the size of the board with a view to effectiveness and consider reducing the size of the Board.	Yes	The board of directors periodically examines the size of the Board with respect to the impact on its effectiveness. The board of directors believes that its current size is appropriate at this time.
8. Review compensation of directors in light of risks and responsibilities.	Yes	The board of directors annually reviews the compensation of directors.
9. a. Committees should generally be composed of non-management directors; and	Yes	All committees, other than the Reserves Committee, which is comprised of the entire Board, are composed exclusively of non-management directors.
b. a majority of committee members should be unrelated.	Yes	All committees have a majority of unrelated directors.
10. Appoint a committee responsible for approach to corporate governance issues.	No	Given the size of the board of directors we believe that these matters can be handled by the Board as a whole.
11. a. Define limits to management's responsibilities by developing mandates for:	Yes	The President and Chief Executive Officer is accountable to the Board for meeting corporate objectives. The Board has delegated to the President and Chief Executive Officer the responsibility for the day-to-day management of our business, subject to compliance with plans and objectives approved from time to time by the Board.
<ul style="list-style-type: none"> • the Board; and • the Chief Executive Officer. 		
b. The Board should approve the Chief Executive Officer's corporate objectives.	Yes	All plans and corporate objectives are approved by the Board.
12. Establish procedures to enable the Board to function independently of management.	No	The Board has functioned, and is of the view that it can continue to function, independently of management. Given our size and the nature of our business, the Board does not believe that it is necessary to appoint a Chairman who is not a member of management and who is an "outside" and "unrelated" director. The Board and any committee can meet in the absence of management at their discretion.
13. a. Establish an audit committee with a specifically defined mandate.	Yes	The Board has established an audit committee which is responsible for reviewing audit functions and the preparation of financial statements and reviewing and recommending for approval to the Board all public disclosure information such as financial statements and prospectuses. The audit committee also ensures that management has effective internal control systems and meets from time to time with external auditors without management present.
b. All members of the audit committee should be non-management directors.	Yes	All of the members of the audit committee are non-management directors.

TSX Corporate Governance Guidelines	Do we comply?	Comments
14. Implement a system to enable individual directors to engage outside advisors, at the corporation's expense.	Yes	Individual directors may engage outside advisors, at our expense, in appropriate circumstances.

GENERAL PROXY MATTERS

Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation of proxies by the management of Peyto to be used at the Meeting. Solicitations of proxies will be primarily by mail, but may also be by newspaper publication, in person or by telephone, fax or oral communication by directors, officers, employees or agents of Peyto who will be specifically remunerated therefor. All costs of the solicitation will be borne by Peyto. Peyto has not made a decision to engage proxy solicitation agents to encourage the return of completed proxies by Securityholders and to solicit proxies in favour of the Arrangement Resolution. Peyto may however do so, and if it does, it expects that the costs in respect of such services will not exceed \$100,000, which amount would be paid by Peyto.

Appointment and Revocation of Proxies

Accompanying this Information Circular are, in the case of holders of Common Shares, a form of proxy printed on GREEN paper and in the case of holders of Options, a form of proxy printed on WHITE paper for use at the Meeting.

The Persons named in the enclosed forms of proxy are directors or officers of Peyto. **A Securityholder desiring to appoint a Person (who need not be a Securityholder) to represent such Securityholder at a Meeting other than the Persons designated in the accompanying forms of proxy may do so either by inserting such Person's name in the blank space provided in the appropriate form of proxy or by completing another form of proxy and, in either case, sending or delivering the completed proxy to the offices of Computershare Trust Company of Canada, Suite 600, Western Gas Tower, 530 – 8th Avenue S.W., Calgary, Alberta, T2P 3S8.** A form of proxy must be received by Computershare Trust Company of Canada at least 24 hours (excluding Saturdays, Sundays and holidays) prior to the time set for the Meeting or any adjournment thereof. Failure to so deposit a form of proxy shall result in its invalidation.

A Securityholder who has given a form of proxy may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by an instrument in writing executed by such Securityholder or by his attorney duly authorized in writing or, if the Securityholder is a corporation, by an officer or attorney thereof duly authorized, and deposited either at the above mentioned office of Computershare Trust Company of Canada on or before the last business day preceding the day of the Meeting or any adjournment thereof or with the chairman of the Meeting on the day of the Meeting or any adjournment thereof.

The board of directors have fixed the Record Date for the Meeting as at the close of business on May 12, 2003. Securityholders of Peyto of record as at the Record Date are entitled to receive notice of, to attend and to vote at the Meeting, except to the extent a holder of Common Shares transfers any of his Common Shares after the Record Date and the transferee of those Common Shares establishes that he owns the Common Shares and demands, not later than 10 days before the Meeting, that the transferee's name be included in the list of holders of Common Shares entitled to vote, in which case such transferee shall be entitled to vote such Common Shares at the Meeting.

Signature of Proxy

The form of proxy must be executed by the Securityholder or his attorney authorized in writing, or if the Securityholder is a corporation, the form of proxy should be signed in its corporate name under its corporate seal by an authorized officer whose title should be indicated. A proxy signed by a Person acting as attorney or in some other representative capacity should reflect such Person's capacity following his signature and should be accompanied by the appropriate instrument evidencing qualification and authority to act (unless such instrument has been previously filed with Peyto).

Voting of Proxies

The Persons named in the accompanying forms of proxy will vote the Securities in respect of which they are appointed in accordance with the direction of the Securityholder appointing them. **In the absence of such direction, such Securities will be voted FOR the approval of the Arrangement Resolution.**

Exercise of Discretion of Proxy

The enclosed forms of proxy confer discretionary authority upon the Persons named therein with respect to amendments or variations to matters identified in the accompanying Notice of Meeting and this Information Circular and with respect to other matters that may properly come before the Meeting. At the date of this Information Circular, management of Peyto knows of no amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting.

Voting Securities and Principal Holders Thereof

As at May 23, 2003, 43,451,522 Common Shares were issued and outstanding and Options to purchase 3,581,999 Common Shares were outstanding. To the knowledge of the directors and senior officers of Peyto, as at May 23, 2003 no person or company beneficially owned, directly or indirectly, or exercised control or direction over, voting securities of Peyto carrying more than 10% of the voting rights attached to any class of voting securities of Peyto.

Procedure and Votes Required

Annual Meeting Matters

All matters to be approved under the heading "*Annual Meeting Matters*" must be approved by a simple majority of votes cast, either in person or by proxy, at the meeting of Shareholders unless otherwise indicated.

Arrangement Resolution

The Interim Order provides that each holder of Securities at the close of business on the Record Date will be entitled to receive notice of, to attend and to vote at the Meeting. In addition, the Interim Order provides that each holder of Securities issued by Peyto after the Record Date and prior to the date of the Meeting will be entitled to vote at the Meeting. Each such Securityholder will be entitled to vote in accordance with the provisions set out below, provided that, to the extent that a Shareholder transfers the ownership of any of his Common Shares after the Record Date and the transferee of those Common Shares establishes that he owns the Common Shares and demands, not later than 10 days before the Meeting, to be included in the list of Shareholders entitled to vote at the Meeting, such transferee will be entitled to vote those Common Shares at the Meeting.

Pursuant to the Interim Order:

- (a) each Shareholder will be entitled to one vote for each Common Share held and each Optionholder will be entitled to one vote for each Common Share obtainable upon the exercise of such Options;
- (b) the majority required to pass the Arrangement Resolution shall be, subject to further order of the Court, not less than two-thirds of the votes cast, either in person or by proxy, at the Meeting by each of the Shareholders and Optionholders, voting as a class;
- (c) the quorum at the Meeting of the Shareholders and Optionholders will, in each case, be two persons present in person or by proxy and holding or representing not less than 5% of the Securities entitled to be voted at such Meeting;
- (d) if no quorum of both Shareholders and Optionholders is present within 30 minutes of the appointed time of the Meeting, the Meeting shall stand adjourned to the same day in the next week if a business day and, if such day is a non-business day, the Meeting shall be adjourned to the next business day following one week after the day appointed for the Meeting at the same time and place, and if at such adjourned meeting a quorum is not present, the Securityholders present, if at least two, shall be a quorum for all purposes.

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it was made.

DATED at Calgary, Alberta this 23rd day of May, 2003.

"Donald T. Gray"

Donald T. Gray
President and Chief Executive Officer

"Sandra Brick"

Sandra Brick
Vice-President, Finance

APPENDIX A
ARRANGEMENT RESOLUTION

ARRANGEMENT RESOLUTION

BE IT RESOLVED THAT:

1. the arrangement (the "Arrangement") under section 193 of the *Business Corporations Act* (Alberta) substantially as set forth in the Plan of Arrangement attached as Exhibit 1 to Appendix C to the Information Circular and Proxy Statement of Peyto Exploration & Development Corp. ("Peyto") dated May 23, 2003 (the "Information Circular") is hereby approved and authorized;
2. the arrangement agreement (the "Arrangement Agreement") dated May 23, 2003 among Peyto, Peyto Acquisition Corp. and Peyto Energy Trust, a copy of which is attached as Appendix C to the Information Circular with such amendments or variations thereto made in accordance with the terms of the Arrangement Agreement as may be approved by the persons referred to in paragraph 4 hereof, such approval to be evidenced conclusively by their execution and delivery of any such amendments or variations, is hereby confirmed, ratified and approved;
3. notwithstanding that this resolution has been duly passed and/or has received the approval of the Court of Queen's Bench of Alberta, the board of directors of Peyto may, without further notice to or approval of the holders of common shares or the holders of options of Peyto, subject to the terms of the Arrangement, amend or terminate the Arrangement Agreement or the Plan of Arrangement or revoke this resolution at any time prior to the filing of Articles of Arrangement giving effect to the Arrangement; and
4. any director or officer of Peyto is hereby authorized, for and on behalf of Peyto, to execute and deliver Articles of Arrangement and to execute, with or without the corporate seal, and, if appropriate, deliver all other documents and instruments and to do all other things as in the opinion of such director or officer may be necessary or desirable to implement this resolution and the matters authorized hereby, such determination to be conclusively evidenced by the execution and delivery of any such document or instrument, and the taking of any such action.

APPENDIX B
INTERIM ORDER

IN THE COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL DISTRICT OF CALGARY

AND IN THE MATTER OF SECTION 193 OF THE *BUSINESS CORPORATIONS ACT*, R.S.A. 2000, c. B-9, AS AMENDED

AND IN THE MATTER OF A PROPOSED ARRANGEMENT INVOLVING PEYTO EXPLORATION & DEVELOPMENT CORP., PEYTO ACQUISITION CORP., PEYTO ENERGY TRUST AND THE SECURITYHOLDERS OF PEYTO EXPLORATION & DEVELOPMENT CORP.

BEFORE THE HONOURABLE) AT THE COURT HOUSE, AT CALGARY, ALBERTA, ON THE 23rd
JUSTICE A.G. PARK) DAY OF MAY, 2003.
IN CHAMBERS)

INTERIM ORDER

UPON the Petition of Peyto Exploration & Development Corp. ("Peyto");

AND UPON reading the Petition and the Affidavit of Donald T. Gray, filed;

AND UPON hearing counsel for Peyto;

AND UPON noting the consent of counsel for Peyto Acquisition Corp. ("AcquisitionCo") and Peyto Energy Trust (the "Trust");

AND UPON noting that the Executive Director of the Alberta Securities Commission (the "Executive Director") has been served with notice of this application as required by subsection 193(8) of the *Business Corporations Act*, R.S.A. 2000, c. B-9 (the "ABCA") and that the Executive Director does not intend to appear or make submissions with respect to this application;

FOR THE PURPOSES OF THIS ORDER:

- (a) the capitalized terms not defined in this Order shall have the meanings attributed to them in the draft Information Circular and Proxy Statement of Peyto (the "Information Circular"), which is attached as Exhibit "A" to the Affidavit of Donald T. Gray sworn May 23, 2003 (the "Affidavit"); and
- (b) all references to "Arrangement" used herein mean the arrangement as described in the Affidavit and in the form of Plan of Arrangement attached as Exhibit 1 to the Arrangement Agreement, which is attached as Appendix C to the Information Circular.

IT IS ORDERED THAT:

General

- 1. Peyto shall seek approval of the Arrangement by holders of its common shares ("Shareholders") and the holders of options to acquire its common shares ("Optionholders") (collectively the "Securityholders") in the manner set forth below.

Shareholders and Optionholders' Meeting

- 2. Peyto shall call and conduct a meeting (the "Meeting") of the Shareholders and the Optionholders for the purpose of considering and voting on, among other things, the resolution approving the Arrangement (the "Arrangement Resolution").
- 3. A quorum at the Meeting of the Shareholders and Optionholders shall be two persons present in person, each being a Shareholder or Optionholder, as applicable, entitled to vote thereat or a duly appointed proxyholder for an absent Shareholder or Optionholder. These persons must hold or represent by proxy not less than five percent (5%) of the outstanding Common Shares and Options entitled to vote at the Meeting. If within 30 minutes from the time appointed

for the Meeting a quorum of both Shareholders and Optionholders is not present, the Meeting shall be adjourned to the same day in the next week if a business day, and, if not a business day, to the next business day following one week after the day appointed for the Meeting, at the same time and place. If at such adjourned meeting a quorum is not present, the Optionholders and Shareholders present, if at least two in each case, shall be a quorum for all purposes

4. Each Common Share and each Option entitled to be voted at the Meeting will entitle the holder to one vote at the Meeting in respect of the resolutions. The board of directors of Peyto have fixed a record date for the Meeting of May 12, 2003 (the "Record Date"). Only Securityholders whose names have been entered in the register of Common Shares or Options on the close of business on the Record Date and holders of Common Shares or Options issued by Peyto after the Record Date and prior to the Meeting will be entitled to vote at the Meeting, subject to section 137 of the ABCA with respect to transferees of Common Shares after the Record Date.

Conduct of Meeting

5. The Chairman of the Meeting shall be any officer or director of Peyto.
6. The only persons entitled to attend and speak at the Meeting shall be, respectively, the Shareholders or their authorized representatives, the Optionholders or their authorized representatives, Peyto's directors and officers and its auditors, and the Executive Director. The accidental omission to give notice of the Meeting to or the non-receipt of the notice by one or more of the aforesaid persons shall not invalidate any resolution passed or proceeding taken at the Meeting.
7. The majority required to pass the Arrangement Resolution shall be, subject to further order of this Court, not less than two-thirds of the aggregate votes cast by the Shareholders and Optionholders in person or by proxy at the Meeting. The Optionholders and the Shareholders shall vote together on the Proposed Arrangement resolution.
8. To be valid a proxy must be deposited with Peyto in the manner described in the Information Circular.

Dissent Rights

9. The registered holders of Common Shares are, subject to the provisions of this Order and the Arrangement, accorded the right of dissent under Section 191 of the ABCA with respect to the Arrangement Resolution. The registered holders of Options shall be accorded a right of dissent analogous to a right of dissent under Section 191 of the ABCA with respect to the Arrangement Resolution. Any amounts owing pursuant to these dissent rights will be satisfied by either Peyto or the Trust, at the discretion of the Trust.
10. In order to exercise a right of dissent under subsection 191(5) of the ABCA, a written objection to the Arrangement Resolution must be received by Peyto on or before the business day immediately preceding the Meeting. The fair value of the Common Shares or Options, as the case may be, shall be determined as of the close of business on the last business day before the day on which the Arrangement is approved by the Securityholders.
11. Subject to further order of this Court, the rights available to the Shareholders and Optionholders under the ABCA and the Arrangement to dissent from such resolution shall constitute full and sufficient rights of dissent for the Shareholders and Optionholders with respect to the Arrangement Resolution.
12. Notice to the Shareholders and Optionholders of their right of dissent with respect to the Arrangement Resolution and to receive, subject to the provisions of the ABCA and the Arrangement, the fair value of their Common Shares or Options shall be given by including information with respect to this right in the Information Circular to be sent to Shareholders and Optionholders in accordance with paragraph 13 of this Order.

Notice

13. An Information Circular, substantially as attached as Exhibit "A" to the Affidavit, shall be mailed by prepaid ordinary mail, at least 21 days prior to the date of the Meeting to Securityholders at the address for such holders recorded in the records of Peyto. In calculating the 21 day period, the date of mailing shall be included and the date of the Meeting shall be excluded.
14. An Information Circular as described above shall be provided to the Executive Director by prepaid ordinary mail at least 21 days prior to the Meeting.

15. Delivery of the Information Circular in the manner directed by this Order shall be deemed to be good and sufficient service upon the Securityholders and the Executive Director of:

- (a) the Petition;
- (b) this Order;
- (c) the Notice of the Meeting; and
- (d) the notice of the application for the Order approving of the Arrangement on June 27, 2003;

all in substantially the forms set forth in the Information Circular, together with instruments of proxy and such other material as Peyto may consider fit.

Final Application

16. Subject to further Order of this Court and provided that the Securityholders have approved the Arrangement and the directors of Peyto have not revoked that approval, Peyto may proceed with an application for approval of the Arrangement and the Final Order on June 27, 2003 at 9:45 a.m. or so soon thereafter as counsel may be heard at the Court House, Calgary, Alberta. Subject to the Final Order, and to the issuance of the Certificate, all Securityholders, Peyto, AcquisitionCo and the Trust will be bound by the Arrangement in accordance with its terms.

17. Any Securityholder or any other interested party (collectively, "Interested Party") desiring to appear and make submissions at the application for the Final Order on June 27, 2003 is required to file with this Court and serve, upon Peyto, on or before noon on June 26, 2003, a Notice of Intention to Appear including the Interested Party's address for service, together with any evidence or materials which the Interested Party intends to present to the Court. Service of this notice on Peyto shall be effected by service upon the solicitors for Peyto, Burnet, Duckworth & Palmer LLP, 1400, 350 – 7th Avenue S.W., Calgary, Alberta, T2P 3N9, Attention: D.J. McDonald, Q.C.

18. In the event that the application for the Final Order on June 27, 2003 is adjourned, only those parties appearing before this Court for the application for the Final Order, and those Interested Parties serving a Notice of Intention to Appear in accordance with paragraph 17 of this Order, shall have notice of the adjourned date.

Leave to Vary Interim Order

19. Peyto is entitled at any time to seek leave to vary this Interim Order upon such terms and the giving of such notice as this Court may direct.

"A.G. Park"
J.C.Q.B.A.

ENTERED at Calgary, Alberta,
May 23, 2003.

"Kevin Hoschka"
Clerk of the Court

APPENDIX C
ARRANGEMENT AGREEMENT

ARRANGEMENT AGREEMENT

May 23, 2003

AMONG:

PEYTO EXPLORATION & DEVELOPMENT CORP., a corporation incorporated under the laws of Alberta ("**Peyto**")

- and -

PEYTO ACQUISITION CORP., a corporation incorporated under the laws of Alberta ("**AcquisitionCo**")

- and -

VALIANT TRUST COMPANY, a trust company incorporated under the laws of Alberta with offices in Calgary, Alberta as trustee for and on behalf of **PEYTO ENERGY TRUST**, a trust settled pursuant to the laws of Alberta (the "**Trust**")

Recitals

- A. Peyto wishes to propose an arrangement with AcquisitionCo, the Trust and the holders of securities of Peyto in order to reorganize its affairs and therefore wishes to carry out certain transactions on the basis hereinafter set forth; and
- B. Each of the parties to this Agreement has agreed to participate in the Arrangement.

The parties agree as follows:

**ARTICLE 1
INTERPRETATION**

1.1 Definitions

In this Agreement, the following terms have the following meanings:

"**ABCA**" means the *Business Corporations Act*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**AcquisitionCo**" has the meaning ascribed thereto in the Plan of Arrangement;

"**AcquisitionCo Arrangement Resolution**" means the resolution of the AcquisitionCo common shareholders approving the Arrangement;

"**Agreement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to this arrangement agreement (including the schedules hereto) as supplemented, modified or amended, and not to any particular article, section, schedule or other portion hereof;

"**Arrangement**" means the arrangement pursuant to section 193 of the ABCA set forth in the Plan of Arrangement as supplemented, modified or amended;

"**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement required under subsection 193(10) of the ABCA to be filed with the Registrar after the Final Order has been made to give effect to the Arrangement;

"**business day**" means a day, other than a Saturday, Sunday or statutory holiday, when banks are generally open in the city of Calgary, in the province of Alberta, for the transaction of banking business;

"**Certificate**" means the certificate or certificates or other confirmation of filing to be issued by the Registrar pursuant to subsection 193(11) of the ABCA giving effect to the Arrangement;

"**Common Shares**" means the common shares in the capital of Peyto and "**Common Shareholders**" means the holders from time to time of Common Shares;

"**Court**" means the Court of Queen's Bench of Alberta;

"**Effective Date**" means the date the Arrangement becomes effective under the ABCA;

"**Effective Time**" means the time at which the Articles of Arrangement are filed with the Registrar on the Effective Date;

"**Final Order**" means the final order of the Court approving the Arrangement pursuant to subsection 193(9) of the ABCA to be applied for following the Meeting, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

"**Information Circular**" means the information circular to be prepared by Peyto and forwarded as part of the proxy solicitation materials to Common Shareholders and Optionholders in respect of the Meeting;

"**Interim Order**" means an interim order of the Court under subsection 193(4) of the ABCA containing declarations and directions with respect to the Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;

"**Meeting**" means the annual and special meeting of Common Shareholders and Optionholders to be held to consider the Arrangement, and any adjournments thereof;

"**Options**" means the outstanding stock options, whether or not vested, to acquire Common Shares and "**Optionholders**" means the holders from time to time of Options;

"**Person**" means an individual, partnership, association, body corporate, trust, unincorporated organization, government, regulatory authority, or other entity;

"**Peyto**" means Peyto Exploration & Development Corp., a corporation incorporated under the ABCA;

"**Peyto Arrangement Resolution**" means the special resolution to approve the Arrangement to be presented to Common Shareholders and Optionholders at the Meeting;

"**Plan of Arrangement**" means the plan of arrangement attached hereto as Exhibit 1;

"**Registrar**" means the Registrar of Corporations appointed under section 263 of the ABCA;

"**subsidiary**" has the meaning ascribed to it in the ABCA;

"**TSX**" means the Toronto Stock Exchange;

"**Trust**" means Peyto Energy Trust, a trust duly settled under the laws of Alberta; and

"**Trust Unit**" means a unit of the Trust issued by the Trust.

1.2 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada unless otherwise specified.

1.3 Interpretation Not Affected by Headings

The division of this Agreement into articles, sections and schedules and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.4 Article References

Unless reference is specifically made to some other document or instrument, all references herein to articles, sections and schedules are to articles, sections and schedules of this Agreement.

1.5 Incorporation of Schedules

The following schedules are incorporated into and form an integral part of this Agreement:

Exhibit 1 - Plan of Arrangement

1.6 Extended Meanings

Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall include individuals, partnerships, associations, bodies corporate, trusts, unincorporated organizations, governments, regulatory authorities, and other entities.

1.7 Date for any Action

In the event that any date on which any action required to be taken hereunder by any of the parties hereto is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.8 Entire Agreement

This Agreement, together with the schedules attached hereto, constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, between the parties with respect to the subject matter hereof.

1.9 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of Alberta and the laws of Canada applicable in Alberta and shall be treated in all respects as an Alberta contract.

**ARTICLE 2
COVENANTS**

2.1 Covenants of Peyto

Peyto covenants and agrees that it will:

- (a) take all actions necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) use all reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (c) apply to the Court for the Interim Order;
- (d) solicit proxies to be voted at the Meeting in favour of the Peyto Arrangement Resolution and prepare, in consultation and cooperation with AcquisitionCo and the Trust, the Information Circular and proxy solicitation materials and any amendments or supplements thereto as required by, and in compliance with, the Interim Order, and applicable corporate and securities laws, and file and distribute the same to the Common Shareholders and Optionholders in a timely and expeditious manner in all jurisdictions where the same are required to be filed and distributed;
- (e) convene the Meeting as ordered by the Interim Order and conduct such Meeting in accordance with the Interim Order and as otherwise required by law;
- (f) until the Effective Date, conduct its operations and those of its subsidiaries in the ordinary and normal course of business and in accordance with applicable laws, generally accepted industry practice and any operating and other agreements applicable to its properties and assets and those of its subsidiaries;
- (g) use all reasonable efforts to cause each of the conditions precedent set forth in Article 4 which are within its control to be satisfied on or before the Effective Date;

- (h) subject to the approval of the Peyto Arrangement Resolution by the Common Shareholders and by the Optionholders, voting as a class, submit the Arrangement to the Court and apply, in conjunction with AcquisitionCo and the Trust, for the Final Order;
- (i) upon issuance of the Final Order and subject to the conditions precedent in Article 4, forthwith proceed to file the Articles of Arrangement, the Final Order and all related documents with the Registrar pursuant to subsection 193(10) of the ABCA;
- (j) until the Effective Date, except pursuant to the exercise of outstanding Options in accordance with the terms thereof, not issue any additional Common Shares or other securities or allow any of its subsidiaries to issue any shares or securities;
- (k) until the Effective Date, not issue or enter into, or allow any of its subsidiaries to issue or enter into, any agreement or agreements to issue or grant options, warrants or rights to purchase any of its shares or other securities or those of such subsidiaries;
- (l) not, except in the ordinary course of business or as contemplated in connection with the Arrangement, merge into or with, or consolidate with, any other Person, or perform any act or enter into any transaction or negotiation which might interfere or be inconsistent with the consummation of the transactions contemplated by this Agreement;
- (m) until the Effective Date, except as specifically provided for hereunder, not alter or amend its articles or by-laws or those of its subsidiaries as the same exist at the date of this Agreement; and
- (n) prior to the Effective Date, make application to list the Trust Units on the TSX.

2.2 Covenants of AcquisitionCo

AcquisitionCo covenants and agrees that it will:

- (a) take all action necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) use all reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (c) cooperate with and support Peyto in its application for the Interim Order;
- (d) take all steps necessary to ensure that the AcquisitionCo Arrangement Resolution is passed;
- (e) until the Effective Date, not carry on any business, enter into any transaction or effect any corporate act whatsoever other than as contemplated herein or in the Information Circular without the prior written consent of Peyto, not to be unreasonably withheld;
- (f) until the Effective Date, not issue any securities or enter into any agreements to issue or grant options, warrants or rights to purchase any of its securities;
- (g) use all reasonable efforts to cause each of the conditions precedent set forth in Article 4 which are within its control to be satisfied on or before the Effective Date;
- (h) submit the Arrangement to the Court and apply, in conjunction with Peyto and the Trust, for the Final Order;
- (i) forthwith carry out the terms of the Final Order to the extent applicable to AcquisitionCo;
- (j) upon issuance of the Final Order and subject to the conditions precedent in Article 4, forthwith proceed to file the Articles of Arrangement, the Final Order and all related documents with the Registrar pursuant to section 193(10) of the ABCA; and
- (k) until the Effective Date, not disclose to any Person, other than its officers, directors and key employees and professional advisors, any confidential information relating to the Trust, Peyto or its subsidiaries except information disclosed in the Information Circular, required to be disclosed by law, or otherwise publicly known.

2.3 Covenants of the Trust

The Trust covenants and agrees that it will:

- (a) take all action necessary to give effect to the transactions contemplated by this Agreement and the Arrangement;
- (b) use all reasonable efforts to obtain all necessary consents, assignments, waivers and amendments to or terminations of any instruments and take such measures as may be appropriate to fulfill its obligations hereunder and to carry out the transactions contemplated hereby;
- (c) cooperate with and support Peyto in its application for the Interim Order;
- (d) until the Effective Date, not carry on any activity or effect any act whatsoever other than as contemplated herein or in the Information Circular;
- (e) use all reasonable efforts to cause each of the conditions precedent set forth in Article 4 which are within its control to be satisfied on or before the Effective Date;
- (f) until the Effective Date, not disclose to any Person, other than officers, directors and key employees and professional advisors, any confidential information relating to AcquisitionCo or Peyto or its subsidiaries except information disclosed in the Information Circular, required to be disclosed by law, or otherwise publicly known;
- (g) until the Effective Date, except as specifically provided for hereunder, not alter or amend its governing fund documents as the same exist at the date of this Agreement without the prior consent of Peyto; and
- (h) prior to the Effective Date, cooperate with Peyto in making the application to list the Trust Units on the TSX.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of Peyto

Peyto represents and warrants to and in favour of AcquisitionCo and the Trust as follows, and acknowledges that AcquisitionCo and the Trust are relying upon such representations and warranties:

- (a) Peyto is a corporation duly incorporated and validly existing under the laws of Alberta and has the corporate power and capacity to own or lease its property and assets, to carry on its business as now conducted by it, to enter into this Agreement, and to perform its obligations hereunder;
- (b) the authorized capital of Peyto consists of an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series, of which a total of 43,451,522 Common Shares are issued and outstanding as at the date of this Agreement; and all of such issued and outstanding Common Shares are fully paid and non-assessable;
- (c) as at the date of this Agreement, up to a maximum of 3,581,999 Common Shares may be issued under the terms of the Options;
- (d) the execution and delivery of this Agreement and all documents to be delivered pursuant hereto and the completion of the transactions contemplated hereby:
 - (i) do not and will not result in the breach of, or violate any term or provision of, the articles or by-laws of Peyto;
 - (ii) except as previously disclosed in writing to AcquisitionCo or the Trust, do not, and will not as of the Effective Date, conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, license, permit or authority to which Peyto is a party or by which it is bound and which is material to Peyto or to which any material property of Peyto is subject, or result in the creation of any encumbrance upon any of the assets of Peyto under any such agreement, instrument, license, permit or authority, or give to any Person any interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, license, permit or authority; and

- (iii) do not, and will not as of the Effective Date, violate any provision of law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable and known to Peyto, the breach of which would have a material adverse effect on Peyto;
- (e) except as disclosed to AcquisitionCo and the Trust or as set out in the Information Circular, there are no actions, suits, proceedings, claims or investigations commenced or, to the knowledge of Peyto, contemplated or threatened against or affecting Peyto in law or in equity before or by any domestic or foreign government department, commission, board, bureau, court, agency, arbitrator, or instrumentality of any kind, nor, to the knowledge of Peyto, are there any facts which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations (other than in connection with the exercise of rights of dissent referred to in the Arrangement) which in any case would prevent or hinder the completion of the transactions contemplated by this Agreement or which can reasonably be expected to have a material adverse effect on the business, operations, properties, assets or affairs, financial or otherwise, of Peyto and its subsidiaries taken as a whole;
- (f) the execution and delivery of this Agreement and the completion of the transactions contemplated hereby have been duly approved by the board of directors of Peyto and this Agreement constitutes a valid and binding obligation of Peyto enforceable against it in accordance with its terms;
- (g) Peyto is under no obligation, contractual or otherwise, to issue any securities, except for securities to be issued pursuant to the exercise of Options or as disclosed in the Information Circular;
- (h) as of the dates as of which the information is given, such information set forth in the Information Circular regarding Peyto and its subsidiaries shall be true and complete in all material respects and shall not contain any misrepresentation as defined in applicable securities legislation and there shall have been no material adverse changes to such information to the date hereof; and
- (i) as of the date hereof, the Board of Directors of Peyto has determined unanimously that:
 - (i) the Arrangement is fair to the Common Shareholders and the Optionholders and is in the best interest of Peyto; and
 - (ii) the Board of Directors of Peyto will recommend that Common Shareholders and Optionholders vote in favour of the Arrangement.

3.2 Representations and Warranties of AcquisitionCo

AcquisitionCo represents and warrants to and in favour of Peyto as follows, and acknowledges that Peyto is relying upon such representations and warranties:

- (a) AcquisitionCo is duly incorporated and validly existing under the laws of Alberta and has the corporate power and capacity to own or lease its property and assets, to carry on its business as now conducted by it, to enter into this Agreement, and to perform its obligations hereunder;
- (b) the authorized capital of AcquisitionCo consists, or will consist as of the Effective Date, of an unlimited number of common shares, of which as at the date hereof only 100 common shares are issued and outstanding, all of which are owned legally and beneficially by the Trust and are fully paid and non-assessable;
- (c) the execution and delivery of this Agreement and all documents to be delivered pursuant hereto and the completion of the transactions contemplated hereby:
 - (i) do not and will not result in the breach of, or violate any term or provision of, the articles or by-laws of AcquisitionCo;
 - (ii) except as previously disclosed in writing to Peyto, do not, and will not as of the Effective Date, conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, license, permit or authority to which AcquisitionCo is a party or by which it is bound and which is material to AcquisitionCo or to which any material property of AcquisitionCo is subject, or result in the creation of any encumbrance upon any of the assets of AcquisitionCo under any such agreement, instrument, license, permit or authority, or give to any Person any interest or right, including rights

of purchase, termination, cancellation or acceleration, under any such agreement, instrument, license, permit or authority; and

- (iii) do not, and will not as of the Effective Date, violate any provision of law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable and known to AcquisitionCo, the breach of which would have a material adverse effect on AcquisitionCo;
- (d) there are no actions, suits, proceedings, claims or investigations commenced or, to the knowledge of AcquisitionCo, contemplated or threatened against or affecting AcquisitionCo in law or in equity before or by any domestic or foreign government department, commission, board, bureau, court, agency, arbitrator, or instrumentality of any kind, nor, to the knowledge of AcquisitionCo, are there any facts which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations;
- (e) the execution and delivery of this Agreement and the completion of the transactions contemplated hereby have been duly approved by the board of directors of AcquisitionCo and this Agreement constitutes a valid and binding obligation of AcquisitionCo enforceable in accordance with its terms;
- (f) AcquisitionCo is under no obligation, contractual or otherwise, to issue any AcquisitionCo shares or other securities, except as required pursuant to this Agreement; and
- (g) AcquisitionCo has not carried on any business since its incorporation other than as provided for herein or as contemplated in the Information Circular.

3.3 Representations and Warranties of the Trust

The Trust represents and warrants to and in favour of Peyto as follows, and acknowledges that Peyto is relying upon such representations and warranties:

- (a) the Trust is a trust duly settled and validly existing under the laws of Alberta and has the power and capacity to enter into this Agreement, and to perform its obligations hereunder;
- (b) the execution and delivery of this Agreement and all documents to be delivered pursuant hereto and the completion of the transactions contemplated hereby:
 - (i) do not and will not result in the breach of, or violate any term or provision of, the governing documents of the Trust;
 - (ii) except as previously disclosed in writing to Peyto, do not, and will not as of the Effective Date, conflict with, result in the breach of, constitute a default under, or accelerate or permit the acceleration of the performance required by, any agreement, instrument, license, permit or authority to which the Trust is a party or by which it is bound and which is material to the Trust or to which any material property of the Trust is subject, or result in the creation of any encumbrance upon any of the assets of the Trust under any such agreement, instrument, license, permit or authority, or give to any Person any interest or right, including rights of purchase, termination, cancellation or acceleration, under any such agreement, instrument, license, permit or authority; and
 - (iii) do not, and will not as of the Effective Date, violate any provision of law or administrative regulation or any judicial or administrative order, award, judgment or decree applicable and known to the Trust, the breach of which would have a material adverse effect on the Trust;
- (c) there are no actions, suits, proceedings, claims or investigations commenced or, to the knowledge of the Trust, contemplated or threatened against or affecting the Trust in law or in equity before or by any domestic or foreign government department, commission, board, bureau, court, agency, arbitrator, or instrumentality of any kind, nor, to the knowledge of the Trust, are there any facts which may reasonably be expected to be a proper basis for any actions, suits, proceedings or investigations;
- (d) the Trust has no subsidiaries other than AcquisitionCo and the Trust owns all issued and outstanding shares of AcquisitionCo;

- (e) the execution and delivery of this Agreement and the completion of the transactions contemplated hereby have been duly approved by the trustee of the Trust and this Agreement constitutes a valid and binding obligation of the Trust enforceable in accordance with its terms;
- (f) a total of two hundred (200) Trust Units are issued and outstanding and, except as contemplated by this Agreement, the Trust is under no obligation, contractual or otherwise, to issue any Trust Units or other securities; and
- (g) the Trust has not carried on any activity since it was settled other than as provided for herein.

ARTICLE 4 CONDITIONS PRECEDENT

4.1 Mutual Conditions Precedent

The respective obligations of Peyto, AcquisitionCo and the Trust to complete the transactions contemplated by this Agreement shall be subject to the fulfilment or satisfaction, on or before the Effective Date, of each of the following conditions, any of which may be waived collectively by them without prejudice to their right to rely on any other condition:

- (a) the Interim Order shall have been granted in form and substance satisfactory to Peyto, AcquisitionCo and the Trust, acting reasonably, not later than May 31, 2003 or such later date as the parties hereto may agree and shall not have been set aside or modified in a manner unacceptable to such parties on appeal or otherwise;
- (b) the Peyto Arrangement Resolution shall have been approved by the requisite number of votes cast by the Common Shareholders and the Optionholders at the Meeting in accordance with the provisions of the Interim Order and any applicable regulatory requirements;
- (c) the Final Order shall have been granted in form and substance satisfactory to Peyto, AcquisitionCo and the Trust acting reasonably not later than July 31, 2003 or such later date as the parties hereto may agree;
- (d) the Articles of Arrangement and all necessary related documents, in form and substance satisfactory to Peyto, AcquisitionCo and the Trust, acting reasonably, shall have been accepted for filing by the Registrar together with the Final Order in accordance with subsection 193(10) of the ABCA;
- (e) there shall not be in force any order or decree of a court of competent jurisdiction or of any federal, provincial, municipal or other governmental department, commission, board, agency or regulatory body restraining, interfering with or enjoining the consummation of the transactions contemplated by this Agreement;
- (f) all necessary third party and regulatory and similar reviews, consents and approvals with respect to the transactions contemplated hereby shall have been completed or obtained including, without limitation, consents and approvals from Peyto's principal lenders;
- (g) there shall not, as of the Effective Date, be Common Shareholders or Optionholders that hold, in aggregate, in excess of 5% of all Common Shares and Options, that have validly exercised their rights of dissent under the ABCA and the Interim Order; and
- (h) the approval of the TSX of the listing of the Trust Units to be issued pursuant to the Arrangement shall be obtained, subject only to the filing of required documents which cannot be filed prior to the Effective Date.

4.2 Additional Conditions to Obligations of Peyto

In addition to the conditions contained in Section 4.1, the obligation of Peyto to complete the transactions contemplated by this Agreement is subject to the fulfillment or satisfaction, on or before the Effective Date, of each of the following conditions, any of which may be waived by Peyto without prejudice to its right to rely on any other condition:

- (a) each of the covenants, acts and undertakings of AcquisitionCo and the Trust to be performed or complied with on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed or complied with;
- (b) the representations and warranties of AcquisitionCo and the Trust contained in Article 3 shall be true in all material respects with the same effect as if made at and as of the Effective Date; and

- (c) the board of directors of Peyto shall not have determined in its sole and absolute discretion that to proceed with the Arrangement would not be in the best interests of the Common Shareholders and the Optionholders.

4.3 Additional Conditions to Obligations of AcquisitionCo and the Trust

In addition to the conditions contained in Section 4.1, the obligation of AcquisitionCo and the Trust to complete the transactions contemplated by this Agreement is subject to the fulfillment or satisfaction, on or before the Effective Date, of the following conditions, any of which may be waived by AcquisitionCo and the Trust without prejudice to their right to rely on any other condition:

- (a) each of the covenants, acts and undertakings of Peyto to be performed or complied with on or before the Effective Date pursuant to the terms of this Agreement shall have been duly performed or complied with;
- (b) except as affected by the transactions contemplated by this Agreement, the representations and warranties of Peyto contained in Article 3 shall be true in all material respects on the Effective Date, with the same effect as if made at and as of such date; and
- (c) prior to the Effective Date, there shall have been no material adverse change in the affairs, operations, financial condition or business of Peyto or any of its subsidiaries from that reflected in the Information Circular.

ARTICLE 5 NOTICES

5.1 Notices

All notices which may or are required to be given pursuant to any provision of this Agreement shall be given or made in writing and shall be served personally, and in the case of:

- (a) Peyto, addressed to:

Peyto Exploration & Development Corp.
2900, 450 – 1st Street S.W.
Calgary, AB
T2P 5H1

Attention: President and Chief Executive Officer

- (b) AcquisitionCo, addressed to:

Peyto Acquisition Corp.
2900, 450 – 1st Street S.W.
Calgary, AB
T2P 5H1

Attention: President and Chief Executive Officer

- (c) the Trust, addressed to:

Peyto Energy Trust
2900, 450 – 1st Street S.W.
Calgary, AB
T2P 5H1

Attention: Donald T. Gray

**ARTICLE 6
AMENDMENT**

6.1 Amendments

This Agreement may, at any time and from time to time before or after the Meeting, be amended in any respect whatsoever by written agreement of the parties hereto without further notice to or authorization on the part of their respective securityholders; provided that any such amendment is brought to the attention of the Court before court approval of the Final Order.

6.2 Termination

This Agreement shall be terminated in each of the following circumstances:

- (a) an agreement to terminate it is executed and delivered by all parties; and
- (b) on August 1, 2003 if the Certificate is not issued on or before July 31, 2003, unless such dates are otherwise extended by agreement among all of the parties hereto.

6.3 Exclusivity

None of the covenants of Peyto contained herein shall prevent the board of directors of Peyto from responding as required by law to any unsolicited submission or proposal regarding any acquisition or disposition of assets or any unsolicited proposal to amalgamate, merge or effect an arrangement or any unsolicited acquisition proposal generally or make any disclosure to its shareholders with respect thereto which in the judgment of the board of directors of Peyto acting upon the written advice of outside counsel is required under applicable law.

**ARTICLE 7
GENERAL**

7.1 Binding Effect

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns.

7.2 No Assignment

No party may assign its rights or obligations under this Agreement.

7.3 Equitable Remedies

All covenants herein and opinions to be given hereunder as to enforceability in accordance with the terms of any covenant, agreement or document shall be qualified as to applicable bankruptcy and other laws affecting the enforcement of creditors' rights generally and to the effect that specific performance, being an equitable remedy, may only be ordered at the discretion of the court.

7.4 Survival of Representations and Warranties

The representations and warranties contained herein shall survive the performance by the parties of their respective obligations hereunder for a period of one year.

7.5 Severability

If any one or more of the provisions or parts thereof contained in this Agreement should be or become invalid, illegal or unenforceable in any respect in any jurisdiction, the remaining provisions or parts thereof contained herein shall be and shall be conclusively deemed to be, as to such jurisdiction, severable therefrom and:

- (a) the validity, legality or enforceability of such remaining provisions or parts thereof shall not in any way be affected or impaired by the severance of the provisions or parts thereof severed; and

- (b) the invalidity, illegality or unenforceability of any provision or part thereof contained in this Agreement in any jurisdiction shall not affect or impair such provision or part thereof or any other provisions of this Agreement in any other jurisdiction.

7.6 Time of Essence

Time shall be of the essence.

7.7 Liability of the Trust

The parties hereto acknowledge that the trustee of the Trust (the "Trustee") is entering into this agreement solely in its capacity as Trustee on behalf of the Trust and the obligations of the Trust hereunder shall not be personally binding upon the Trustee or any holder of Trust Units and that any recourse against the Trust or any holder of Trust Units in any manner in respect of any indebtedness, obligation or liability of the Trust arising hereunder or arising in connection herewith or from the matters to which this agreement relates, if any, including without limitation claims based on negligence or otherwise tortious behavior, shall be limited to, and satisfied only out of, the Trust Fund as defined in the trust indenture dated as of May 22, 2003 as amended from time to time.

IN WITNESS WHEREOF this Agreement has been executed and delivered by the parties hereto effective as of the date first above written.

PEYTO EXPLORATION & DEVELOPMENT CORP.

Per: (signed) "Donald T. Gray"

Per: (signed) "Sandra Brick"

PEYTO ACQUISITION CORP.

Per: (signed) "Donald T. Gray"

Per: (signed) "Stephen J. Chetner"

**VALIANT TRUST COMPANY as trustee for and on behalf of
PEYTO ENERGY TRUST**

Per: (signed) "Zinat H. Damji"

Per: (signed) "Jenny Hart"

EXHIBIT 1

PLAN OF ARRANGEMENT UNDER SECTION 193

OF THE

BUSINESS CORPORATIONS ACT (ALBERTA)

**ARTICLE 1
INTERPRETATION**

1.1 In this Plan of Arrangement, the following terms have the following meanings:

- (a) "**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;
- (b) "**AcquisitionCo**" means Peyto Acquisition Corp., a corporation incorporated under the ABCA;
- (c) "**Amalgamation**" means the amalgamation of Peyto and AcquisitionCo pursuant to the provisions of the Arrangement;
- (d) "**AmalgamationCo**" means Peyto Exploration & Development Corp., the corporation resulting from the Amalgamation;
- (e) "**Arrangement**", "**herein**", "**hereof**", "**hereto**", "**hereunder**" and similar expressions mean and refer to the arrangement pursuant to section 193 of the ABCA set forth in this Plan of Arrangement as supplemented, modified or amended, and not to any particular article, section or other portion hereof;
- (f) "**Arrangement Agreement**" means the agreement dated May 23, 2003 among Peyto, AcquisitionCo and the Trust with respect to the Arrangement and all amendments thereto;
- (g) "**Arrangement Resolution**" means the special resolution in respect of the Arrangement in substantially the form attached as Appendix A to the Information Circular to be voted upon by Shareholders and Optionholders at the Meeting;
- (h) "**Articles of Arrangement**" means the articles of arrangement in respect of the Arrangement required under subsection 193(10) of the ABCA to be filed with the Registrar after the Final Order has been made to give effect to the Arrangement;
- (i) "**Certificate**" means the certificate or certificates or other confirmation of filing to be issued by the Registrar pursuant to subsection 193(11) of the ABCA giving effect to the Arrangement;
- (j) "**Common Shares**" means the common shares in the capital of Peyto;
- (k) "**Court**" means the Court of Queen's Bench of Alberta;
- (l) "**Depository**" means Valiant Trust Company or such other trust company as may be designated by Peyto;
- (m) "**Dissent Rights**" means the right of a Shareholder and an Optionholder pursuant to section 191 of the ABCA as modified by the Interim Order to dissent to the Arrangement Resolution and to be paid the fair value of the securities in respect of which the holder dissents, all in accordance with section 191 of the ABCA and the Interim Order;
- (n) "**Dissenting Optionholders**" means registered holders of Options who validly exercise the rights of dissent provided to them under the Interim Order;
- (o) "**Dissenting Securityholders**" means Dissenting Optionholders and Dissenting Shareholders, collectively;
- (p) "**Dissenting Shareholders**" means registered holders of Common Shares who validly exercise the rights of dissent provided to them under the Interim Order;
- (q) "**Effective Date**" means the date the Arrangement is effective under the ABCA;

- (r) "**Effective Time**" means the time at which the Articles of Arrangement are filed with the Registrar on the Effective Date;
- (s) "**Exercise Price Differential**" means, in respect of an Option, the amount by which the Weighted Average Trading Price exceeds the exercise price of such Option, multiplied by the number of Common Shares to which such Option relates;
- (t) "**Final Order**" means the final order of the Court approving this Arrangement under subsection 193(9) of the ABCA, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
- (u) "**Information Circular**" means the information circular to be prepared by Peyto and forwarded as part of the proxy solicitation materials to holders of Common Shares and Options in respect of the Meeting;
- (v) "**Interim Order**" means the interim order of the Court made on May 23, 2003 under subsection 193(4) of the ABCA containing declarations and directions with respect to this Arrangement, as such order may be affirmed, amended or modified by any court of competent jurisdiction;
- (w) "**Letter of Transmittal**" means the letter of transmittal accompanying the Information Circular sent to the holders of Common Shares for receiving Trust Units, in exchange for their Common Shares;
- (x) "**Meeting**" means the annual and special meeting of holders of Common Shares and Options to be held to consider the Arrangement, and any adjournment thereof;
- (y) "**Note Trustee**" means Valiant Trust Company;
- (z) "**Notes**" means the unsecured, subordinated promissory notes having substantially the terms summarized in Schedule A hereto, issuable by AcquisitionCo under the Arrangement as consideration in a principal amount per note to be determined as of the Effective Date being equal to the greater of: (i) \$10; and (ii) the product of the Weighted Average Trading Price and a percentage to be determined by AcquisitionCo as at the Effective Date;
- (aa) "**Options**" means the outstanding stock options, whether or not vested, to acquire Common Shares and "**Optionholders**" means the holders from time to time of Options;
- (bb) "**Peyto**" means Peyto Exploration & Development Corp., a corporation incorporated pursuant to the ABCA;
- (cc) "**Registrar**" means the Registrar of Corporations appointed under section 263 of the ABCA;
- (dd) "**Shareholder**" means a holder of Common Shares;
- (ee) "**Trust**" means Peyto Energy Trust, a trust duly settled under the laws of Alberta;
- (ff) "**Trust Unit**" means a unit of the Trust issued by the Trust; and
- (gg) "**Weighted Average Trading Price**" shall be determined by dividing (i) the aggregate dollar trading value of all Common Shares sold on the Toronto Stock Exchange over the five (5) consecutive trading days ending on the trading day next preceding the Effective Date by (ii) the total number of Common Shares sold on such stock exchange during such period.

1.2 The division of this Plan of Arrangement into articles and sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Plan of Arrangement.

1.3 Unless reference is specifically made to some other document or instrument, all references herein to articles and sections are to articles and sections of this Plan of Arrangement.

1.4 Unless the context otherwise requires, words importing the singular number shall include the plural and vice versa; words importing any gender shall include all genders; and words importing persons shall include individuals, partnerships, associations, corporations, funds, unincorporated organizations, governments, regulatory authorities, and other entities.

1.5 The following schedules to this Plan of Arrangement are incorporated by reference herein and form part of this Plan of Arrangement.

Schedule A - Terms of Notes

1.6 In the event that the date on which any action is required to be taken hereunder by any of the parties is not a business day in the place where the action is required to be taken, such action shall be required to be taken on the next succeeding day which is a business day in such place.

1.7 References in this Plan of Arrangement to any statute or sections thereof shall include such statute as amended or substituted and any regulations promulgated thereunder from time to time in effect.

**ARTICLE 2
ARRANGEMENT AGREEMENT**

2.1 This Plan of Arrangement is made pursuant and subject to the provisions of the Arrangement Agreement.

2.2 This Plan of Arrangement, upon the filing of the Articles of Arrangement, will become effective on, and be binding on and after, the Effective Time on: (i) the holders of Common Shares; (ii) the holders of Options; (iii) Peyto; (iv) AcquisitionCo; and (v) the Trust.

2.3 The Articles of Arrangement shall be filed, with respect to this Arrangement in its entirety. The filing of the Articles of Arrangement shall be conclusive evidence that the Arrangement has become effective and that each of the provisions of Article 3 has become effective in the sequence and at the times set out therein.

**ARTICLE 3
ARRANGEMENT**

3.1 Commencing at the Effective Time, each of the events set out below shall occur and shall be deemed to occur in the following order without any further act or formality except as otherwise provided herein:

- (a) the Common Shares and Options held by Dissenting Securityholders who have exercised Dissent Rights which remain valid immediately prior to the Effective Time shall, as of the Effective Time, be deemed to have been transferred to Peyto and be cancelled and cease to be outstanding, and as of the Effective Time, such Dissenting Securityholders shall cease to have any rights as securityholders of Peyto other than the right to be paid the fair value of their Common Shares or Options in accordance with Article 4.
- (b) each issued and outstanding Common Share (other than a Common Share held by a Dissenting Securityholder) shall be transferred to AcquisitionCo in exchange for one (1) Note for each Common Share held.
- (c) all unexercised Options (other than Options held by Dissenting Securityholders), if any, will be cancelled and the Optionholders thereof shall be entitled to receive from Peyto in respect of each such Option an amount in cash that is equal to the Exercise Price Differential of such Option;
- (d) each Note shall be transferred by the holder thereof to the Trust in exchange for Trust Units on the basis of one (1) Trust Unit for each Note held;
- (e) Peyto and AcquisitionCo shall be amalgamated and continue as one corporation in accordance with the following:
 - (i) the Common Shares, all of which are owned by AcquisitionCo shall be cancelled without any repayment of capital;
 - (ii) the articles of AmalgamationCo shall be the same as the articles of AcquisitionCo, and the name of the amalgamated corporation shall be "Peyto Exploration & Development Corp.";
 - (iii) no securities shall be issued by AcquisitionCo in connection with the Amalgamation and for greater certainty, the common shares and Notes shall survive and continue to be common shares and Notes of AmalgamationCo without amendment;
 - (iv) the property of each of the amalgamating corporations shall continue to be the property of AmalgamationCo;
 - (v) AmalgamationCo shall continue to be liable for the obligations of each of the amalgamating corporations;

- (vi) any existing cause of action, claim or liability to prosecution of either of the amalgamating corporations shall be unaffected;
- (vii) any civil, criminal or administrative action or proceeding pending by or against either of the amalgamating corporations may be continued to be prosecuted by or against AmalgamationCo;
- (viii) a conviction against, or ruling, order or judgment in favour of or against, either of the amalgamating corporations may be enforced by or against AmalgamationCo;
- (ix) the Articles of Amalgamation of AcquisitionCo shall be deemed to be the Articles of Incorporation of AmalgamationCo and the Certificate of Amalgamation of AcquisitionCo shall be deemed to be the Certificate of Incorporation of AmalgamationCo;
- (x) the by-laws of AmalgamationCo shall be the by-laws of AcquisitionCo;
- (xi) the first directors of AmalgamationCo shall be the directors of Peyto (as elected at the Meeting);
- (xii) the first officers of AmalgamationCo shall be the officers of Peyto; and
- (xiii) the registered office of AmalgamationCo shall be the registered office of AcquisitionCo.

3.2 With respect to each holder of Common Shares and Options (other than Dissenting Securityholders) at the Effective Time:

- (a) upon the exchange of Common Shares for Notes pursuant to section 3.1(b):
 - (i) such holder shall cease to be a holder of the Common Shares so exchanged and the name of such holder shall be removed from the register of holders of Common Shares as it relates to the Common Shares so exchanged;
 - (ii) AcquisitionCo shall become the holder of the Common Shares so exchanged and shall be added to the register of holders of Common Shares;
 - (iii) AcquisitionCo shall allot and issue to such holder the number of Notes issuable to such holder on the basis set forth in section 3.1(b) and the name of such holder shall be added to the register of holders of Notes;
- (b) upon the exchange of Notes for Trust Units pursuant to section 3.1(d):
 - (i) such holder shall cease to be a holder of Notes and the name of such holder shall be removed from the register of holders of Notes;
 - (ii) the Trust shall become the holder of the Notes so exchanged and shall be added to the register of holders of Notes; and
 - (iii) the Trust shall allot and issue to such holder the number of Trust Units issuable to such holder on the basis set forth in section 3.1(d) and the name of such holder shall be added to the register of holders of Trust Units;
- (c) upon the cancellation of Options pursuant to section 3.1(c), each holder of such Options shall cease to be an Optionholder and the name of such holder shall be removed from the register of Optionholders.

ARTICLE 4 DISSENTING SECURITYHOLDERS

4.1 Each registered holder of Common Shares and each registered holder of Options shall have the right to dissent with respect to the Arrangement in accordance with the Interim Order. A Dissenting Securityholder shall, at the Effective Time and prior to the amalgamation of Peyto and AcquisitionCo on the Effective Date, cease to have any rights as a holder of Common Shares or Options, as the case may be, and shall only be entitled to be paid the fair value of the holder's Common Shares or Options, as applicable. A Dissenting Securityholder who is paid the fair value of the holder's Common Shares or Options, as applicable, shall be deemed to have transferred the holder's Common Shares or Options to Peyto for cancellation at the Effective Time and prior to the amalgamation of Peyto and AcquisitionCo on the Effective Date, notwithstanding the provisions of section

191 of the ABCA. A Dissenting Securityholder who for any reason is not entitled to be paid the fair value of the holder's Common Shares or Options shall be treated as if the holder had participated in the Arrangement on the same basis as a non-dissenting holder of Common Shares or Options, notwithstanding the provisions of section 191 of the ABCA. The fair value of the Common Shares or Options, as the case may be, shall be determined as of the close of business on the last business day before the day on which the Arrangement is approved by the holders of Common Shares and Options at the Meeting; but in no event shall Peyto or AmalgamationCo be required to recognize such Dissenting Securityholder as Shareholders or Optionholders of Peyto or AmalgamationCo after the Effective Time and the names of such holders shall be removed from the applicable register of shareholders or optionholders as at the Effective Time. Any amounts owing to Dissenting Securityholders will be satisfied by AmalgamationCo or the Trust at the discretion of the Trust. For greater certainty, in addition to any other restrictions in section 191 of the ABCA, no person who has voted in favour of the Arrangement shall be entitled to dissent with respect to the Arrangement.

ARTICLE 5 OUTSTANDING CERTIFICATES

5.1 From and after the Effective Time, certificates formerly representing Common Shares acquired by AcquisitionCo under the Arrangement shall represent only the right to receive the consideration to which the holders are entitled under the Arrangement, or as to those held by Dissenting Shareholders, other than those Dissenting Shareholders deemed to have participated in the Arrangement pursuant to section 4.1, to receive the fair value of the Common Shares represented by such certificates.

5.2 From and after the Effective Time, the option agreements providing for the Options shall represent only the right to receive the consideration to which the holders are entitled under the Arrangement, or as to those held by Dissenting Optionholders, other than those Dissenting Optionholders deemed to have participated in the Arrangement pursuant to section 4.1, to receive the fair value of the Options represented by such option agreements.

5.3 The Trust and AmalgamationCo shall, as soon as practicable following the later of the Effective Date and the date of deposit by a former holder of Common Shares acquired by AcquisitionCo under the Arrangement of a duly completed Letter of Transmittal and the certificates representing such Common Shares, either:

- (a) forward or cause to be forwarded by first class mail (postage prepaid) to such former holder at the address specified in the Letter of Transmittal; or
- (b) if requested by such holder in the Letter of Transmittal, make available or cause to be made available at the Depository for pickup by such holder;

certificates representing the number of Trust Units issued to such holder under the Arrangement.

5.4 AmalgamationCo shall, as soon as practicable following the Effective Time, either:

- (a) forward or cause to be forwarded by first class mail (postage prepaid) to an Optionholder at the address set forth in the records of Peyto; or
- (b) if requested by such Optionholder in writing, make available or cause to be made available at the offices of Peyto for pickup by such Optionholder;

a cheque representing the payment required to be made to such Optionholder as determined in accordance with subsection 3.1(c).

5.5 If any certificate which immediately prior to the Effective Time represented an interest in outstanding Common Shares that were exchanged pursuant to section 3.1 has been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to have been lost, stolen or destroyed, the Depository will issue and deliver in exchange for such lost stolen or destroyed certificate the consideration to which the holder is entitled pursuant to the Arrangement (and any dividends or distributions with respect thereto) as determined in accordance with the Arrangement. The person who is entitled to receive such consideration shall, as a condition precedent to the receipt thereof, give a bond to each of the Trust, AmalgamationCo and their respective transfer agents, which bond is in form and substance satisfactory to each of the Trust, AmalgamationCo and their respective transfer agents, or shall otherwise indemnify the Trust, AmalgamationCo and their respective transfer agents against any claim that may be made against any of them with respect to the certificate alleged to have been lost, stolen or destroyed.

5.6 Only one global Note certificate representing the Notes shall be issued. Such certificate shall be issued to the Note Trustee in trust for the registered holders of the Notes, as determined under section 3.1. The Note Trustee shall then, on behalf of such holders, record the transfer of the Notes represented by such global Note certificate, without recourse, to the Trust pursuant to the Arrangement and receive certificates representing Trust Units for delivery to the persons entitled thereto, all in accordance with and as contemplated by this Plan of Arrangement.

5.7 All distributions made with respect to any Trust Units allotted and issued pursuant to this Arrangement but for which a certificate has not been issued shall be paid or delivered to the Depositary to be held by the Depositary in trust for the registered holder thereof. All monies received by the Depositary shall be invested by it in interest-bearing trust accounts upon such terms as the Depositary may reasonably deem appropriate. The Depositary shall pay and deliver to any such registered holder, as soon as reasonably practicable after application therefor is made by the registered holder to the Depositary in such form as the Depositary may reasonably require, such distributions and any interest thereon to which such holder, is entitled, net of applicable withholding and other taxes.

5.8 Any certificate formerly representing Common Shares that is not deposited with all other documents as required by this Plan of Arrangement on or before the tenth anniversary of the Effective Date shall cease to represent a right or claim of any kind or nature and the right of the holder of such Common Shares to receive the certificates representing the Trust Units shall be deemed to be surrendered to the Trust, together with all dividends, distributions or cash payments thereon held for such holder.

ARTICLE 6 AMENDMENTS

6.1 The Trust, Peyto and AcquisitionCo may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment, modification and/or supplement must be (i) set out in writing, (ii) approved by the other parties, (iii) filed with the Court and, if made following the Meeting, approved by the Court, and (iv) communicated to holders of Common Shares or Options, if and as required by the Court.

6.2 Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Trust, Peyto or AcquisitionCo at any time prior to or at the Meeting (provided that the other parties shall have consented thereto) with or without any other prior notice or communication, and if so proposed and accepted by the persons voting at the Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

6.3 Any amendment, modification or supplement to this Plan of Arrangement that is approved by the Court following the Meeting shall be effective only if it is consented to by each of the Trust, Peyto and AcquisitionCo.

6.4 Any amendment, modification or supplement to this Plan of Arrangement may be made following the Effective Time unilaterally by the Trust, provided that it concerns a matter which, in the reasonable opinion of the Trust, is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement and is not adverse to the financial or economic interests of the Trust, or any former holder of Common Shares or Options.

SCHEDULE A

TERMS OF NOTES

1. Issuance

Under the Arrangement, AcquisitionCo shall create and issue the Notes on the Effective Date.

2. Form of Note

The Notes will either be issued under a note indenture or in stand alone form.

3. Global Note Certificate and Transfer to the Trust

Pursuant to the Plan of Arrangement, Notes will be issued to the Trust and to former Shareholders. Notes issued to former holders of Common Shares are to be transferred by such holders to the Trust in exchange for Trust Units. Initially only one global Note certificate (the "Global Note") will be issued which will represent all Notes issued under the Arrangement. The Global Note certificate will be issued in trust for the Trust and such Shareholders. Pursuant to the Plan of Arrangement, the Notes represented by such certificate will be exchanged with the Trust for certificates representing Trust Units. Upon receipt of the certificates representing the Trust Units, such certificates will be distributed to Shareholders, in accordance with Article 5 of the Plan of Arrangement.

4. Unsecured/Interest

The Notes are unsecured and bear interest from the date of issue at 14% per annum. Interest is payable for each month during the term, on the 10th day of the month following such month, or the next business day if such day is not a business day. The first interest payment is due on August 10, 2003 for the period commencing on the Effective Date and ending on July 31, 2003. The Notes will rank *pari passu* with all other unsecured indebtedness of AcquisitionCo, but subordinate to all secured debt.

5. Demand Notes

The Notes will be payable on demand.

6. Subordination

The Notes shall be subordinated as follows:

- (a) no principal shall be repaid nor shall Notes be purchased or redeemed until the prior repayment in full of all "senior indebtedness", nor at any time when there is a default under any senior indebtedness. If there is no senior indebtedness default, principal will be repaid on demand and, in other limited circumstances, amounts may be paid on account of principal by way of repayment or redemption; and
- (b) no interest shall be payable in respect of the Notes other than regularly scheduled interest at any time nor shall regularly scheduled interest be paid when any of the "senior indebtedness" is in default.

For these purposes, "senior indebtedness" means (a) all indebtedness, obligations and liabilities of AcquisitionCo in respect of borrowed money (including the deferred purchase price of property), other than (i) indebtedness evidenced by the Global Notes and (ii) indebtedness which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment equally with or subordinate to the indebtedness evidenced by the Global Notes, and (b) from and after the commencement of, and during the continuance of, any creditor proceedings (including bankruptcy, liquidation, winding-up, dissolution, restructuring or arrangement proceedings), all indebtedness, obligations and liabilities of AcquisitionCo, other than indebtedness, obligations and liabilities represented by the Notes and, for greater certainty, "senior indebtedness" shall include all indebtedness for borrowed money which is outstanding as at the Effective Date.

APPENDIX D

FAIRNESS OPINION OF FIRSTENERGY CAPITAL CORP.

May 23, 2003

The Board of Directors of
Peyto Exploration & Development Corp.
2900, 450-1st Street SW
Calgary, Alberta T2P 3H7

To the Board of Directors of Peyto Exploration & Development Corp.

FirstEnergy Capital Corp. ("FirstEnergy") understands that Peyto Exploration & Development Corp. ("Peyto") has proposed an arrangement (the "Arrangement") pursuant to which Peyto will convert from a corporate entity concentrating solely on growth through the reinvestment of cash flow to a trust (the "Trust") which will distribute a portion of cash flow to trust unitholders. The Arrangement will result, through a series of transactions, in holders ("Securityholders") of common shares ("Common Shares") and options ("Options") of Peyto receiving one trust unit ("Trust Unit") of the Trust. The terms of, and conditions necessary to complete the reorganization are to be set forth in the Peyto information circular to be dated May 23, 2003, (collectively, together with the related documents included therein, the "Circular"), to be mailed to all Securityholders.

The Arrangement

Pursuant to the Arrangement:

- (a) each issued and outstanding Common Share will be transferred to AcquisitionCo (a wholly owned subsidiary of the Trust) in exchange for one (1) note ("Note");
- (b) each Note shall be transferred by the holder thereof to the Trust in exchange for one (1) Trust Unit;
- (c) all unexercised Options, if any, will be cancelled and the Securityholders thereof shall be entitled to receive from Peyto in respect of each such Option an amount in cash that is equal to the exercise price differential of such Option; and
- (d) Peyto and AcquisitionCo shall be amalgamated to form AmalgamationCo.

Following these exchanges, Securityholders will own all the issued and outstanding Trust Units of the Trust and the Trust will own all of the issued and outstanding AmalgamationCo Securities.

MAIN:
403.262.0600

FAX:
Administration
403.262.0633

FAX:
Sales & Trading
403.262.0644

FAX:
Research
403.262.0666

FAX:
Corporate Finance
403.262.0688

FirstEnergy's Engagement

The Board of Directors of Peyto (the "Board") formally retained FirstEnergy Capital Corp. ("FirstEnergy") pursuant to an engagement agreement dated March 10, 2003 (the "Engagement Agreement"), to provide our opinion ("Opinion") as to the fairness to the Securityholders, from a financial point of view, of the Arrangement. In consideration for our services, including our Opinion, FirstEnergy is to be paid a fee and is to be reimbursed for reasonable out-of-pocket expenses. In addition, FirstEnergy is to be indemnified by Peyto under certain circumstances.

We have not been engaged to prepare, and have not prepared, a valuation or appraisal of Peyto or any of its assets or liabilities and our Opinion should not be construed as such.

Credentials of FirstEnergy

FirstEnergy is a registered investment dealer focusing on Canadian companies participating in oil and gas exploration, production and services, energy transportation, electricity generation, energy technologies and energy income trusts. FirstEnergy is one of the leading investment banking firms providing corporate finance, mergers and acquisitions, equity sales, research and trading services to Canadian companies active in or investing in the energy industry. The Opinion expressed herein is the opinion of FirstEnergy and the form and content herein have been approved for release by a committee of its directors, each of whom is experienced in merger, acquisition, divestiture and valuation matters.

Independence of FirstEnergy

None of FirstEnergy, its affiliates or associates, is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Alberta)), or a related entity of Peyto, or any of their respective associates or affiliates. FirstEnergy is not acting as an advisor to Peyto, or any of their respective associates or affiliates in connection with any other.

FirstEnergy acts as a trader and dealer, both as principal and agent, in all major financial markets in Canada and, as such, may have had today or in the future have positions in the securities of Peyto, and from time to time, may have executed or may execute transactions on behalf of Peyto or clients for which it received or may receive compensation. In addition, as an investment dealer, FirstEnergy conducts research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on issues and investment matters, including research with respect to Peyto.

Scope of Review

In connection with rendering our Opinion, we have reviewed and relied upon, or carried out, among other things, the following:

- (a) an draft copy of the Information Circular and Proxy Statement with respect to a Plan of Arrangement dated May 23, 2003;
- (b) Annual Reports of Peyto for each of the two consecutive years ended December 31, 2002;
- (c) audited financial statements of Peyto for each of the two consecutive years ended December 31, 2002;
- (d) Annual Information Forms of Peyto for each of the two consecutive years ended December 31, 2002
- (e) Management Information Circulars of Peyto for each of the two consecutive years ended December 31, 2002;
- (f) certain internal financial information, financial and operational projections of Peyto as provided by Peyto management;
- (g) discussions with management of Peyto with regard to among other things, the business, operations, quality of assets, future potential and environmental matters of Peyto;
- (h) the independent reserve report dated December 31, 2002 concerning Peyto's oil, natural gas liquids and natural gas reserves and the estimated future cash flow from such reserves, effective December 31, 2002 prepared by Paddock Lindstrom & Associates Ltd. ("Paddock");
- (i) public information related to the business, operations, financial performance and stock trading histories of Peyto and other selected public oil and gas companies;
- (j) data with respect to other transactions of a comparable nature considered by FirstEnergy to be relevant; and
- (k) other information, analyses and investigations as FirstEnergy considered appropriate in the circumstances.

Assumptions and Limitations

We have relied upon, and have assumed the completeness, accuracy and fair representation of all financial and other information, data, advice, opinions and representations obtained by us from public sources, including information relating to Peyto, or provided to us by Peyto and their affiliates or advisors or otherwise pursuant to our engagement and our opinion is conditional upon such completeness, accuracy and fairness. Subject to the exercise of professional judgement and except as expressly described herein, we have not attempted to verify independently the accuracy or completeness of any such information, data, advice, opinions and representations. Senior management of Peyto have represented to us, in certificates delivered as at the date hereof, amongst other things, that the information, data, opinions and other materials (the "Information") provided to us on behalf of Peyto are complete and correct at the date the Information was provided to us and that since the date of the Information, there has been no material change, financial or otherwise, in the position of Peyto, or in its assets, liabilities (contingent or otherwise), business or operations and there has been no change in any material fact which is of a nature as to render the Information untrue or misleading in any material respect.

Our Opinion is rendered on the basis of securities markets, economic and general business and financial conditions prevailing as at the date hereof, and the condition and prospects, financial and otherwise, of Peyto as they were reflected in the information and documents reviewed by us and as they were represented to us in our discussions with management of Peyto. In addition, we considered the financial condition and prospects of Peyto as they are reflected in the information and documents reviewed by us. In rendering our opinion, we have assumed that there are no undisclosed material facts relating to Peyto or its businesses, operations, capital or future prospects. Any changes therein may affect our opinion and, although we reserve the right to change or withdraw our opinion in such event, we disclaim any obligation to advise any person of any change that may come to our attention or to update our opinion after today.

In our analyses and in connection with the preparation of this opinion, we made numerous assumptions with respect to industry performance, general business, market and economic conditions and other matters, many of which are beyond the control of any party involved in the Arrangement.

Conclusion

Based upon and subject to the foregoing and such other matters as we considered relevant, it is our opinion that the Arrangement is fair, from a financial point of view, to the Securityholders.

This Opinion may be relied upon by the Board for the purposes of considering the Arrangement and its recommendation to the Securityholders with respect to the Arrangement, but may not be used or relied upon by any other person without our express prior written consent.

Yours very truly,

FirstEnergy Capital Corp.

APPENDIX E
INFORMATION CONCERNING THE TRUST

TABLE OF CONTENTS

	Page
THE TRUST	3
Trust Units	3
Special Voting Rights	4
Unitholders Limited Liability	4
Issuance of Trust Units	5
Cash Distributions	5
Redemption Right	5
Non-Resident Ownership Constraint	6
Meetings of Unitholders	6
Exercise of Voting Rights Attached to POT Units of POT and Shares of AmalgamationCo.....	7
Trustee	7
Delegation of Authority, Administration and Trust Governance	8
Liability of the Trustee	8
Amendments to the Trust Indenture	8
Takeover Bid	9
Termination of the Trust	9
Reporting to Unitholders	9
RISK FACTORS	10
Reserve Estimates	10
Volatility of Oil and Natural Gas Prices	10
Changes in Legislation	10
Investment Eligibility	10
Operational Matters	10
Environmental Concerns	10
Kyoto Protocol.....	11
Debt Service	11
Delay in Cash Distributions.....	11
Taxation of POT and AmalgamationCo	11
Depletion of Reserves.....	11
Net Asset Value	12
Return of Capital	12
Nature of Trust Units.....	12
Unitholders Limited Liability	12
INDUSTRY CONDITIONS	12
EXPERTS	12
AUDITORS, TRANSFER AGENT AND REGISTRAR.....	13
SCHEDULE A BALANCE SHEET OF TRUST AS AT MAY 23, 2003.....	14

THE TRUST

The Trust is an open-end unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture. The head and principal office of the Trust is located at Suite 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1. The Trust was created for, among other things, the following purposes:

- (a) to participate in the Arrangement and the POT Transaction;
- (b) investing in securities of POT, AcquisitionCo, AmalgamationCo or any other Subsidiary of the Trust and acquiring the POT Units and the POT Notes pursuant to the POT Transaction, which investments shall be for the purpose of funding the acquisition, development, exploitation and disposition of all types of petroleum and natural gas and energy related assets, including without limitation, facilities of any kind, oil sands interests, electricity or power generating assets and pipeline, gathering, processing and transportation assets (hereinafter referred to as "Energy Assets") and whether effected by the Operating Trust, AcquisitionCo, or any other subsidiary of the Trust through an acquisition of assets or an acquisition of shares or other form of ownership interest in any entity the substantial majority of the assets of which are comprised of like assets;
- (c) acquiring or investing in the securities of any other entity, including without limitation bodies corporate, partnerships or trusts, and borrowing funds or otherwise obtaining credit, including granting guarantees, for that purpose, for the purpose of directly or indirectly acquiring Energy Assets;
- (d) acquiring royalty interests in petroleum and natural gas rights;
- (e) making loans or other advances to POT and/or AmalgamationCo to finance future acquisitions and development of Canadian resource properties;
- (f) acquiring royalties in respect of Canadian resource properties as defined in the Tax Act and making any deferred royalty purchase payments which may be required with respect to such royalties; provided however that in no event shall the Trust invest in any royalties which constitute an interest in land or a covenant running with the properties with respect to which such royalties relate;
- (g) disposing of any part of the property of the Trust, including, without limitation, any securities of AmalgamationCo and POT;
- (h) temporarily holding cash and investments for the purposes of paying the expenses and the liabilities of the Trust, making other Permitted Investments as contemplated by the Trust Indenture, paying amounts payable by the Trust in connection with the redemption of any Trust Units, and making distributions to Unitholders;
- (i) paying costs, fees and expenses associated with the foregoing purposes or incidental thereto; and
- (j) engaging in all activities ancillary or incidental to any of those activities set forth in paragraphs (a) through (i), inclusive.

The Trustee is prohibited from acquiring any investment which (a) is "foreign property" under any provision of the Tax Act if said purchase or other transaction would cause the Trust Units themselves to be "foreign property" under the Tax Act, or (b) would result in the Trust not being considered either a "unit trust" or a "mutual fund trust" for purposes of the Tax Act.

The Trustee may declare payable to the Unitholders all or any part of the net income of the Trust. It is currently anticipated that the only income to be received by the Trust will be from the securities of POT. The Trust expects to make monthly cash distributions to Unitholders (commencing August 15, 2003, assuming the Effective Date is July 1, 2003 and assuming a Distribution Record Date of July 31, 2003), after expenses, if any, and any cash redemptions of Trust Units. See "*Cash Distributions*".

Trust Units

An unlimited number of Trust Units may be created and issued pursuant to the Trust Indenture. Each Trust Unit shall entitle the holder thereof to one vote at any meeting of the holders of Trust Units and represents an equal fractional undivided beneficial interest in any distribution from the Trust (whether of Distributable Cash, net realized capital gains or other amounts) and in any net assets of the Trust in the event of termination or winding-up of the Trust. All Trust Units outstanding from time to time shall be entitled to equal shares of any distributions by the Trust, and in the event of termination or winding-up of the Trust, in any net

assets of the Trust. All Trust Units shall rank among themselves equally and rateably without discrimination, preference or priority. Each Trust Unit is transferable, subject to compliance with applicable Canadian securities laws, is not subject to any conversion or pre-emptive rights and entitles the holder thereof to require the Trust to redeem any or all of the Trust Units held by such holder (see "*Redemption Right*").

The Trust Units do not represent a traditional investment and should not be viewed by investors as "shares" in either POT, AmalgamationCo or the Trust. As holders of Trust Units in the Trust, the Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The price per Trust Unit will be a function of anticipated distributable income from POT and AmalgamationCo and the ability of POT and AmalgamationCo to effect long term growth in the value of the Trust. The market price of the Trust Units will be sensitive to a variety of market conditions including, but not limited to, interest rates, commodity prices and the ability of the Trust to acquire additional assets. Changes in market conditions may adversely affect the trading price of the Trust Units.

The Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act (Canada)* and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Special Voting Rights

In order to allow the Trust flexibility in pursuing corporate acquisitions, the Trust Indenture allows for the creation of Special Voting Rights which will enable the Trust to provide voting rights to holders of exchangeable shares that may be issued by AmalgamationCo or other direct or indirect subsidiaries of the Trust in connection with exchangeable share transactions.

An unlimited number of Special Voting Rights may be created and issued pursuant to the Trust Indenture. Holders of Special Voting Rights shall not be entitled to any distributions of any nature whatsoever from the Trust and shall be entitled to attend at meetings of Unitholders and to such number of votes at meetings of Unitholders as may be prescribed by the board of directors of AmalgamationCo in the resolution authorizing the issuance of any Special Voting Rights. Except for the right to attend and vote at meetings of the Unitholders, the Special Voting Rights shall not confer upon the holders thereof any other rights.

Unitholders Limited Liability

The Trust Indenture provides that no Unitholder, in its capacity as such, shall incur or be subject to any liability in contract or in tort or of any other kind whatsoever to any person in connection with the Trust Fund (as defined in the Trust Indenture) or the obligations or the affairs of the Trust or with respect to any act performed by the Trustee or by any other person pursuant to the Trust Indenture or with respect to any act or omission of the Trustee or any other person in the performance or exercise, or purported performance or exercise, of any obligation, power, discretion or authority conferred upon the Trustee or such other person hereunder or with respect to any transaction entered into by the Trustee or by any other person pursuant to the Trust Indenture. The Trust Indenture also provides that no Unitholder shall be liable to indemnify the Trustee or any such other person with respect to any such liability or liabilities incurred by the Trustee or by any such other person or persons or with respect to any taxes payable by the Trust or by the Trustee or by any other person on behalf of or in connection with the Trust. Notwithstanding the foregoing, to the extent that any Unitholders are found by a court of competent jurisdiction to be subject to any such liability, such liability shall be enforceable only against, and shall be satisfied only out of, the Trust Fund and the Trust (to the extent of the Trust Fund) is liable to, and shall indemnify and save harmless any Unitholder against any costs, damages, liabilities, expenses, charges or losses suffered by any Unitholder from or arising as a result of such Unitholder not having any such limited liability.

The Trust Indenture provides that all contracts signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Notwithstanding the terms of the Trust Indenture, Unitholders may not be protected from liabilities of the Trust to the same extent a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against the Trust (to the extent that claims are not satisfied by the Trust) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability to Unitholders of this nature arising is considered unlikely in view of the fact that the sole activity of the Trust is to hold securities, and all of the business operations currently carried on by Peyto will be carried on by POT and AmalgamationCo, directly or indirectly.

The activities of the Trust and its direct and indirect wholly-owned subsidiaries, POT and AmalgamationCo, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the Unitholders for claims against the Trust including by obtaining appropriate insurance, where available, for the operations of

POT and AmalgamationCo and having contracts signed by or on behalf of the Trust include a provision that such obligations are not binding upon Unitholders personally.

Issuance of Trust Units

The Trust Indenture provides that Trust Units, including rights, warrants, special warrants and other securities to purchase, to convert into or to exchange into Trust Units, may be created, issued, sold and delivered on such terms and conditions and at such time or times as the board of directors of AmalgamationCo may determine. The Trust Indenture also provides that AmalgamationCo may authorize the creation and issuance of debentures, notes and other evidences of indebtedness of the Trust which debentures, notes or other evidences of indebtedness may be created and issued from time to time on such terms and conditions, to such persons and for such consideration as AmalgamationCo may determine.

Cash Distributions

The Trustee may, upon the recommendation of AmalgamationCo, as administrator, declare payable to the Unitholders all or any part of the net income of the Trust earned from interest income on the POT Notes and from any distributions paid on the POT Units, less all expenses and liabilities of the Trust due and accrued and which are chargeable to the net income of the Trust. In addition, Unitholders may, at the discretion of the board of directors of AmalgamationCo, receive distributions in respect of repayments of principal on the POT Notes made by POT to the Trust before the maturity of the POT Notes.

The initial cash distribution will be paid to Unitholders of record on July 31, 2003 and is expected to be made on or before August 15, 2003. Thereafter, it is expected that cash distributions will be made on the 15th day of each month to Unitholders of record on the immediately preceding Distribution Record Date.

Redemption Right

Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of the certificate or certificates representing such Trust Units, accompanied by a duly completed and properly executed notice requiring redemption. Upon receipt of the notice to redeem Trust Units by the Trust, the holder thereof shall only be entitled to receive a price per Trust Unit (the "Market Redemption Price") equal to the lesser of: (a) 90% of the "market price" of the Trust Units on the principal market on which the Trust Units are quoted for trading during the 10 trading day period commencing immediately after the date on which the Trust Units are tendered to the Trust for redemption; and (b) the closing market price on the principal market on which the Trust Units are quoted for trading on the date that the Trust Units are so tendered for redemption.

For the purposes of this calculation, "market price" will be an amount equal to the simple average of the closing price of the Trust Units for each of the trading days on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Trust Units traded on a particular day, the market price shall be an amount equal to the simple average of the average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five of the 10 trading days, the market price shall be the simple average of the following prices established for each of the 10 trading days: the average of the last bid and last ask prices for each day on which there was no trading; the closing price of the Trust Units for each day that there was trading if the exchange or market provides a closing price; and the average of the highest and lowest prices of the Trust Units for each day that there was trading, if the market provides only the highest and lowest prices of Trust Units traded on a particular day. The closing market price shall be: an amount equal to the closing price of the Trust Units if there was a trade on the date; an amount equal to the average of the highest and lowest prices of the Trust Units if there was trading and the exchange or other market provides only the highest and lowest prices of Trust Units traded on a particular day; and the average of the last bid and last ask prices if there was no trading on the date.

The Market Redemption Price payable by the Trust in respect of any Trust Units tendered for redemption during any calendar month shall be satisfied by way of cheque payable on the last day of the calendar month following the month in which the Trust Units were tendered for redemption. The entitlement of Unitholders to receive a cheque upon the redemption of their Trust Units is subject to the limitation that the total amount payable by the Trust in respect of such Trust Units and all other Trust Units tendered for redemption in the same calendar month shall not exceed \$100,000 provided that, AmalgamationCo may, in its sole discretion, waive such limitation in respect of any calendar month. If this limitation is not so waived, the Market Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in such calendar month shall be paid on the last day of the calendar month following such month as follows: (a) firstly, by the Trust distributing POT Notes, or such other series of promissory notes of POT as POT may issue to the Trust in payment of the POT Notes (the "Other POT Notes"), having an aggregate principal amount equal to the aggregate Market Redemption Price of the Trust Units tendered for redemption, and (b) secondly, to the extent that the Trust does not hold POT Notes and/or Other POT Notes having a sufficient principal amount outstanding to effect such payment, by the Trust issuing Redemption Notes to the Unitholders who exercised the right of

redemption having an aggregate principal amount equal to any such shortfall, which Redemption Notes shall have terms and conditions substantially identical to those of the POT Notes and/or Other POT Notes.

If at the time Trust Units are tendered for redemption by a Unitholder, the outstanding Trust Units are not listed for trading on the TSX or the TSX Venture Exchange and are not traded or quoted on any other stock exchange or market which AmalgamationCo considers, in its sole discretion, provides representative fair market value price for the Trust Units or the normal trading of the outstanding Trust Units is suspended or halted on any stock exchange on which the Trust Units are listed for trading or, if not so listed, on any market on which the Trust Units are quoted for trading, on the date that such Trust Units tendered for redemption are tendered for redemption or for more than five trading days during the 10 trading day period, commencing immediately after the date on which such Trust Units tendered for redemption were tendered for redemption then such Unitholders shall, instead of the Market Redemption Price, be entitled to receive a price per Trust Unit (the "Appraised Redemption Price") equal to 90% of the fair market value thereof as determined by AmalgamationCo as at the date on which such Trust Units were tendered for redemption. The aggregate Appraised Redemption Price payable by the Trust in respect of Trust Units tendered for redemption in any calendar month shall be paid on the last day of the third following month following the month in which such Trust Units were tendered for redemption by, at the option of the Trust: (a) a cash payment; or (b) a distribution of POT Notes and/or Other POT Notes and/or Redemption Notes as described above.

It is anticipated that this redemption right will not be the primary mechanism for holders of Trust Units to dispose of their Trust Units. POT Notes, Other POT Notes or Redemption Notes which may be distributed in specie to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in such POT Notes, Other POT Notes or Redemption Notes. POT Notes, Other POT Notes and Redemption Notes may not be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans.

Non-Resident Ownership Constraint

At no time may non-residents of Canada (within the meaning of the Tax Act) be the beneficial owners of more than 49 percent of the Trust Units then outstanding. The Trustee or Transfer Agent (as defined herein) may require declarations as to the jurisdictions in which beneficial owners of Trust Units are resident. If the Transfer Agent or AmalgamationCo becomes aware that the beneficial owners of 49 percent or more of the Trust Units then outstanding are, or may be, non-residents or that such a situation is imminent, the Transfer Agent or AmalgamationCo (as applicable) will advise the Trustee and the Trustee may, or upon receiving a direction from the Trustee the Transfer Agent may, make a public announcement thereof and neither the Trustee nor the Transfer Agent shall accept a subscription for Trust Units from or issue or register a transfer of Trust Units to a person unless the person provides a declaration that the person is not a non-resident of Canada. If, notwithstanding the foregoing, the Trustee or Transfer Agent determines that 49 percent or more of the Trust Units are held by non-residents, the Trustee may, or the Transfer Agent may upon receiving a direction from the Trustee and suitable indemnity from the Trust, send a notice to non-resident holders of Trust Units, as applicable, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustee or Transfer Agent (as the case may be) may consider equitable and practicable, requiring such non-resident holders to sell their Trust Units or a specified portion thereof within a specified period of not less than 60 days. If the Unitholders receiving such notice have not sold the specified number of Trust Units or provided the Trustee with satisfactory evidence that they are not non-residents of Canada within such period, the Trustee (or the Transfer Agent on the direction of the Trustee) may on behalf of such Unitholders sell such Trust Units and, in the interim, shall suspend the voting and distribution rights attached to such Trust Units. Upon such sale the Unitholders thereby affected shall cease to be holders of Trust Units and their rights shall be limited to receiving the net proceeds of sale of such Trust Units. No liability shall accrue to the Trust or the Trustee if the Trust Units of non-resident Unitholders are sold at a loss to such Unitholder.

Meetings of Unitholders

The Trust Indenture provides that meetings of Unitholders must be called and held for, among other matters, the election or removal of the Trustee, the appointment or removal of the auditors of the Trust, the approval of amendments to the Trust Indenture (except as described under "Amendments to the Trust Indenture"), the sale of the property of the Trust as an entirety or substantially as an entirety, and the commencement of winding-up the affairs of the Trust. Meetings of Unitholders will be called and held annually for, among other things, the election of the directors of AmalgamationCo and the appointment of the auditors of the Trust. At every third meeting of Unitholders, Unitholders will be asked to re-appoint, or appoint the successor to, the Trustee of the Trust.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustee and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 20% of the Trust Units then outstanding by a written requisition. A requisition must, among other things, state in reasonable detail the business purpose for which the meeting is to be called.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in the aggregate at least 5% of the votes attaching to all outstanding Trust Units shall constitute a quorum for the transaction of business at all such meetings. For the purposes of determining such quorum, the holders of any issued Special Voting Rights who are present at the meeting shall be regarded as representing outstanding Trust Units equivalent in number to the votes attaching to such Special Voting Rights.

The Trust Indenture contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders in accordance with the requirements of applicable laws.

Exercise of Voting Rights Attached to POT Units of POT and Shares of AmalgamationCo

The Trust Indenture prohibits the Trustee from voting, or causing to be voted, as the case may be, the POT Units or the shares of AmalgamationCo with respect to (a) the election of a trustee or directors of POT or AmalgamationCo, respectively, (b) the appointment of auditors of POT or AmalgamationCo, or (c) the approval of POT's or AmalgamationCo's financial statements (if required by applicable legislation), except in accordance with an Ordinary Resolution adopted at an annual meeting of Unitholders (provided, however, that the election of a trustee of POT shall be approved at every third annual meeting of Unitholders).

The Trustee is also prohibited from voting, or causing to be voted, as the case may be, the POT Units or the shares of AmalgamationCo to authorize:

- (a) any sale, lease or other disposition of, or any interest in, all or substantially all of the assets of POT or AmalgamationCo, except in conjunction with an internal reorganization of the direct or indirect assets of POT or AmalgamationCo as a result of which either POT or AmalgamationCo or the Trust has the same, or substantially similar interest, whether direct or indirect, in the assets as the interest, whether direct or indirect, that it had prior to the reorganization;
- (b) any statutory amalgamation of AmalgamationCo with any other corporation or any amalgamation, merger or other transaction, as the case may be, of POT with any other entity, except in conjunction with an internal reorganization as referred to in paragraph (a) above;
- (c) any statutory arrangement involving AmalgamationCo or any arrangement involving POT, except in conjunction with an internal reorganization as referred to in paragraph (a) above;
- (d) any amendment to the articles of AmalgamationCo to increase or decrease the minimum or maximum number of directors;
- (e) any material amendment to the articles of AmalgamationCo to change the authorized share capital or amend the rights, privileges, restrictions and conditions attaching to any class of AmalgamationCo's shares in a manner which may be prejudicial to the Trust, provided, however, that the Trustee shall have the authority to take such steps as may be necessary to amend the articles of the Corporation to create a class or classes of exchangeable shares; or
- (f) any material amendment to the trust indenture of POT to change the authorized capital or amend the rights, privileges, restrictions and conditions attaching to the POT Units or any other class of POT's securities in a manner which may be prejudicial to the Trust;

without the approval of the Unitholders by Special Resolution at a meeting of Unitholders called for that purpose.

Trustee

Valiant Trust Company is the initial trustee of the Trust. The Trustee is responsible for, among other things, accepting subscriptions for Trust Units and issuing Trust Units pursuant thereto and maintaining the books and records of the Trust and providing timely reports to holders of Trust Units. The Trust Indenture provides that the Trustee shall exercise its powers and carry out its functions thereunder as Trustee honestly, in good faith and in the best interests of the Trust and the Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The initial term of the Trustee's appointment is until the third annual meeting of Unitholders. The Unitholders shall, at the third annual meeting of the Unitholders, re-appoint, or appoint a successor to the Trustee for an additional three year term, and thereafter, the Unitholders shall reappoint or appoint a successor to the Trustee at the annual meeting of Unitholders three years

following the reappointment or appointment of the successor to the Trustee. The Trustee may resign on giving not less than 60 days' notice in writing to the Corporation. The Trustee may also be removed by Special Resolution of the Unitholders. Such resignation or removal shall not become effective until (a) the appointment of, and acceptance of such appointment by, a new Trustee in the place of the resigning Trustee or the Trustee to be removed, and (b) a legal and valid assumption by the new Trustee of all obligations of the Trustee related thereto in the same capacities as the resigning Trustee or the Trustee to be removed.

Delegation of Authority, Administration and Trust Governance

The Trust will not be managed by a third party manager. Following completion of the Arrangement, the Trust will be managed by the management of AmalgamationCo. The Trustee, on behalf of the Trust, will enter into an administration agreement pursuant to which AmalgamationCo will provide certain administrative services and facilities to the Trust. For information respecting the principal occupations and experience and qualifications of the initial directors and officers of AmalgamationCo, see Peyto's AIF, "*Directors and Officers*" and "*Annual Meeting Matters – Election of Directors*" in the body of the Information Circular.

The board of directors of AmalgamationCo has generally been delegated the significant management decisions of the Trust. In particular, the Trustee has delegated to AmalgamationCo responsibility for any and all matters relating to the following: (a) an offering of securities of the Trust; (b) ensuring compliance with all applicable laws, including in relation to an offering of securities of the Trust; (c) all matters relating to the content of any documents relating to an offering of securities of the Trust, the accuracy of the disclosure contained therein, and the certification thereof; (d) all matters concerning the terms of, and amendment from time to time of, the material contracts of the Trust; (e) all matters concerning any subscription agreement or underwriting or agency agreement providing for the sale or issue of Trust Units or securities convertible for or exchangeable into Trust Units or rights to Trust Units; (f) all matters concerning the Arrangement, the Arrangement Agreement, the Plan and the POT Transaction; (g) all matters relating to the redemption of Trust Units; (h) all matters relating to the voting rights on any investments of the Trust; (i) all matters relating to the specific powers and authorities as set forth in the Trust Indenture; (j) the adoption of a Unitholder rights plan and other miscellaneous matters relating to the maximization of Unitholder value; and (k) all matters relating to amending the Corporation's articles to create a class or classes of exchangeable shares.

Liability of the Trustee

The Trustee, its directors, officers, employees, shareholders and agents shall not be liable to any Unitholders or any other person, in tort, contract or otherwise, in connection with any matter pertaining to the Trust or the property of the Trust, arising from the exercise by the Trustee of any powers, authorities or discretion conferred under the Trust Indenture, including, without limitation, any action taken or not taken in good faith in reliance on any documents that are, prima facie, properly executed, any depreciation of, or loss to, the property of the Trust incurred by reason of the sale of any asset, any inaccuracy in any evaluation provided by any appropriately qualified person, any reliance on any such evaluation, any action or failure to act of AmalgamationCo, or any other person to whom the Trustee has, with the consent of AmalgamationCo, delegated any of its duties hereunder, or any other action or failure to act (including failure to compel in any way any former trustee to redress any breach of trust or any failure by AmalgamationCo to perform its duties under or delegated to it under the Trust Indenture or any other contract), unless such liabilities arise out of the negligence, wilful default or fraud of the Trustee or any of its directors, officers, employees, shareholders or agents. If the Trustee has retained an appropriate expert, adviser or legal counsel with respect to any matter connected with its duties under the Trust Indenture or any other contract, the Trustee may act or refuse to act based on the advice of such expert, adviser or legal counsel, and the Trustee shall not be liable for and shall be fully protected from any loss or liability occasioned by any action or refusal to act based on the advice of any such expert, adviser or legal counsel. In the exercise of the powers, authorities or discretion conferred upon the Trustee under the Trust Indenture, the Trustee is and shall be conclusively deemed to be acting as Trustee of the assets of the Trust and shall not be subject to any personal liability for any debts, liabilities, obligations, claims, demands, judgments, costs, charges or expenses against or with respect to the Trust or the property of the Trust. In addition, the Trust Indenture contains other customary provisions limiting the liability of the Trustee.

Amendments to the Trust Indenture

The Trust Indenture may be amended or altered from time to time by Special Resolution.

The Trustee may, without the approval of any of the Unitholders or any other person, amend the Trust Indenture for the purpose of:

- (a) ensuring the Trust's continuing compliance with applicable laws or requirements of any governmental agency or authority of Canada or of any province;

- (b) ensuring that the Trust will satisfy the provisions of each of subsections 108(2) and 132(6) of the Tax Act as from time to time amended or replaced;
- (c) ensuring that such additional protection is provided for the interests of Unitholders as the Trustee may consider expedient;
- (d) removing or curing any conflicts or inconsistencies between the provisions of the Trust Indenture or any supplemental indenture, any direct royalties sale agreement and any other agreement of the Trust or any offering document pursuant to which securities of the Trust are issued with respect to the Trust, or any applicable law or regulation of any jurisdiction, provided that in the opinion of the Trustee the rights of the Trustee and of the Unitholders are not prejudiced thereby;
- (e) providing for the electronic delivery by the Trust to Unitholders of documents relating to the Trust (including annual and quarterly reports, including financial statements, notices of Unitholder meetings and information circulars and proxy related materials) at such time as applicable securities laws have been amended to permit such electronic delivery in place of normal delivery procedures, provided that such amendments to the Trust Indenture are not contrary to or do not conflict with such laws;
- (f) curing, correcting or rectifying any ambiguities, defective or inconsistent provisions, errors, mistakes or omissions, provided that in the opinion of the Trustee the rights of the Trustee and of the Unitholders are not prejudiced thereby; and
- (g) making any modification in the form of Trust Unit certificate to conform with the provisions of the Trust Indenture, or any other modifications, provided the rights of the Trustee and of the Unitholders are not prejudiced thereby.

Takeover Bid

The Trust Indenture contains provisions to the effect that if a takeover bid is made for the Trust Units and not less than 90% of the Trust Units (other than Trust Units held at the date of the takeover bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Trust Units held by Unitholders who did not accept the takeover bid, on the terms offered by the offeror.

Termination of the Trust

The Unitholders may vote to terminate the Trust at any meeting of the Unitholders duly called for that purpose, subject to the following: (a) a vote may only be held if requested in writing by the holders of not less than 20% of the outstanding Trust Units; (b) a quorum of holders of not less than 50% of the issued and outstanding Trust Units is present in person or represented by proxy; and (c) the termination must be approved by Special Resolution of Unitholders.

Unless the Trust is earlier terminated or extended by vote of the Unitholders, the Trustee shall commence to wind-up the affairs of the Trust on December 31, 2099. In the event that the Trust is wound-up, the Trustee will sell and convert into money the property of the Trust in one transaction or in a series of transactions at public or private sale and do all other acts appropriate to liquidate the property of the Trust, and shall in all respects act in accordance with the directions, if any, of the Unitholders in respect of a termination authorized pursuant to the Special Resolution authorizing the termination of the Trust. Notwithstanding anything herein contained, in no event shall the Trust be wound up until any direct royalties shall have been disposed of, and under no circumstances shall any Unitholder come into any possession of any interest in any royalty. After paying, retiring or discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Trust and providing for indemnity against any other outstanding liabilities and obligations, the Trustee shall distribute the remaining part of the proceeds of the sale of the assets together with any cash forming part of the property of the Trust among the Unitholders in accordance with their pro rata share.

Reporting to Unitholders

The financial statements of the Trust will be audited annually by an independent recognized firm of chartered accountants. The audited financial statements of the Trust, together with the report of such chartered accountants, will be mailed by the Trustee to Unitholders and the unaudited interim financial statements of the Trust will be mailed to Unitholders within the periods prescribed by securities legislation. The year end of the Trust shall be December 31.

The Trust will be subject to the continuous disclosure obligations under all applicable securities legislation.

RISK FACTORS

The following is a summary of certain risk factors relating to the activities of the Trust and the ownership of Trust Units which prospective investors should carefully consider before making an investment decision relating to Trust Units. A Securityholder should consider carefully all such risk factors.

Reserve Estimates

The reserve and recovery information contained in the Paddock Report is only an estimate and the actual production and ultimate reserves from the properties may be greater or less than the estimates prepared by Paddock.

Volatility of Oil and Natural Gas Prices

The Trust's operational results and financial condition will be dependent on the prices received by POT and AmalgamationCo for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on POT's and AmalgamationCo's ability to satisfy their obligations under the POT Notes and the Notes, respectively, on POT's and AmalgamationCo's ability to pay distributions or dividends on the POT Units or the AmalgamationCo Shares, respectively, and on amounts, if any, payable by AmalgamationCo to POT under the NPI Agreement thereby decreasing the amount of Distributable Cash to be distributed to holders of Trust Units.

Changes in Legislation

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry, such as the status of mutual fund trusts and the resource allowance, will not be changed in a manner which adversely affects Unitholders.

Investment Eligibility

If the Trust ceases to qualify as a mutual fund trust, the Trust Units will cease to be qualified investments for registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans ("Exempt Plans") which will have adverse tax consequences to Exempt Plans or their annuitants or beneficiaries. POT Notes, Other POT Notes or Redemption Notes acquired on a redemption of Trust Units may not be qualified investments for Exempt Plans.

Operational Matters

The operation of oil and gas wells involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to POT or AmalgamationCo and possible liability to third parties. POT and AmalgamationCo will maintain liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. POT or AmalgamationCo may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities may impair POT's and AmalgamationCo's ability to satisfy their obligations under the POT Notes and the Notes, respectively, or reduce the amount receivable by POT from AmalgamationCo under the NPI Agreement.

Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of POT or AmalgamationCo or their subsidiaries to certain properties. Such circumstances could impair POT's and AmalgamationCo's ability to satisfy their obligations under the POT Notes and the Notes, respectively, or reduce the amount receivable by POT from AmalgamationCo under the NPI Agreement.

Environmental Concerns

The oil and natural gas industry is subject to environmental regulation pursuant to local, provincial and federal legislation. A breach of such legislation may result in the imposition of fines or issuance of clean up orders in respect of POT or AmalgamationCo or their assets. Such legislation may be changed to impose higher standards and potentially more costly obligations on POT and AmalgamationCo. Although the Trust anticipates establishing a reclamation fund for the purpose of

funding its future environmental and reclamation obligations, there can be no assurance that the Trust will be able to satisfy its actual future environmental and reclamation obligations.

Kyoto Protocol

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder. Canada, as an Annex B party to the Kyoto Protocol, is required to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gasses".

POT's and AmalgamationCo's exploration and production facilities and other operations and activities in Canada will emit a small amount of greenhouse gasses which may subject POT and AmalgamationCo to legislation regulating emissions of greenhouse gases and which may include a requirement to reduce emissions or emissions intensity from POT's and AmalgamationCo's operations and facilities. The direct or indirect costs of complying with emissions regulations may adversely affect the business of POT and AmalgamationCo in Canada.

Debt Service

POT and AmalgamationCo may, from time to time, finance a significant portion of their operations through debt (other than the POT Notes and the Notes). Amounts paid in respect of interest and principal on debt incurred by POT and AmalgamationCo may impair POT's and AmalgamationCo's ability to satisfy their obligations under the POT Notes and the Notes, respectively, on POT's and AmalgamationCo's ability to pay distributions or dividends on the POT Units or the AmalgamationCo Shares, respectively, or reduce the amount received by POT under the NPI Agreement. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment by POT and AmalgamationCo of their obligations under the POT Notes and the Notes or the NPI Agreement, respectively. Ultimately, this may result in lower levels of Distributable Cash for the Trust.

Lenders will be provided with security over substantially all of the assets of POT and AmalgamationCo, their Subsidiaries and the Trust. If POT or AmalgamationCo become unable to pay their debt service charges or otherwise commit an event of default such as bankruptcy, a lender may foreclose on or sell the assets of POT or AmalgamationCo, their Subsidiaries and the Trust.

Delay in Cash Distributions

In addition to the usual delays in payment by purchasers of oil and natural gas to the operators of the properties, and by the operator to POT and AmalgamationCo, payments between any of such parties may also be delayed by restrictions imposed by lenders, delays in the sale or delivery of products, delays in the connection of wells to a gathering system, blowouts or other accidents, recovery by the operator of expenses incurred in the operation of the properties or the establishment by the operator of reserves for such expenses.

Taxation of POT and AmalgamationCo

The Arrangement and the Final Trust Structure are intended to be tax efficient. However, there can be no assurances that either AmalgamationCo or POT, or both, will not be taxable and taxation authorities could seek to challenge the amount of interest expense of AmalgamationCo and/or POT. If such challenge were to succeed, it could materially affect the Distributable Cash available. Where the Trust has income in excess of Distributable Cash it may distribute such excess in the form of additional Trust Units. Accordingly, Unitholders would be required to declare such additional amounts of income even though they do not receive a cash distribution.

Depletion of Reserves

The Trust has certain unique attributes which differentiate it from other oil and gas industry participants. Distributions of Distributable Cash in respect of properties, absent commodity price increases or cost effective acquisition and development activities, will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Although, the Trust anticipates using approximately 50% of its Distributable Cash to continue to develop low risk, high quality oil and natural gas reserves, POT and AmalgamationCo will not be reinvesting cash flow in the same manner as other industry participants. Accordingly, absent capital injections or acquisitions of additional oil and gas properties, POT's and AmalgamationCo's initial production levels and reserves will decline.

POT's and AmalgamationCo's future oil and natural gas reserves and production, and therefore their cash flows, will be highly dependent on POT's and AmalgamationCo's success in exploiting their reserve base and acquiring additional reserves. Without

reserve additions through acquisition or development activities, POT's and AmalgamationCo's reserves and production will decline over time as reserves are exploited.

Net Asset Value

The net asset value of the assets of the Trust from time to time will vary depending upon a number of factors beyond the control of management, including oil and gas prices. The trading prices of the Trust Units from time to time is also determined by a number of factors which are beyond the control of management and such trading prices may be greater than the net asset value of the Trust's assets.

Return of Capital

Trust Units will have no value when reserves from the underlying assets of the Trust can no longer be economically produced and, as a result, cash distributions do not represent a "yield" in the traditional sense as they represent both return of capital and return on investment.

Nature of Trust Units

The Trust Units do not represent a traditional investment in the oil and natural gas sector and should not be viewed by investors as shares in AmalgamationCo. The Trust Units represent a fractional interest in the Trust. As holders of Trust Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Trust's sole assets will be, directly and indirectly, the POT Notes, the POT Units, the Notes, shares in AmalgamationCo, the NPI Agreement and other investments in securities. The price per Trust Unit is a function of anticipated Distributable Cash, the underlying assets of the Trust and management's ability to effect long-term growth in the value of the Trust. The market price of the Trust Units will be sensitive to a variety of market conditions including, but not limited to, interest rates and the ability of the Trust to acquire suitable oil and natural gas properties. Changes in market conditions may adversely affect the trading price of the Trust Units.

The Trust Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Trust is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unitholders Limited Liability

The Trust Indenture provides that no Unitholder will be subject to any liability in connection with the Trust or its obligations and affairs and, in the event that a court determines Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Trust's assets. Pursuant to the Trust Indenture, the Trust will indemnify and hold harmless each Unitholder from any costs, damages, liabilities, expenses, charges and losses suffered by a Unitholder resulting from or arising out of such Unitholder not having such limited liability.

The Trust Indenture provides that all written instruments signed by or on behalf of the Trust must contain a provision to the effect that such obligation will not be binding upon Unitholders personally. Personal liability may also arise in respect of claims against the Trust that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities. The possibility of any personal liability of this nature arising is considered unlikely.

The operations of the Trust will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability on the Unitholders for claims against the Trust.

INDUSTRY CONDITIONS

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. For a discussion of certain industry conditions affecting the oil and gas industry generally, see "*Industry Conditions*" in Peyto's AIF which is incorporated by reference into this Information Circular

EXPERTS

Certain legal matters in connection with the Arrangement will be passed upon on behalf of Peyto, the Trust, AcquisitionCo, POT and AmalgamationCo by Burnet, Duckworth & Palmer LLP. Certain information relating to Peyto's reserves has been prepared

by Paddock. As of the date hereof, partners and associates of Burnet, Duckworth & Palmer LLP and members of Paddock hold none of the outstanding securities of the Trust and less than 1% of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Trust are Ernst & Young LLP, Chartered Accountants, Suite 1000, 440 – 2nd Avenue S.W., Calgary, Alberta T2P 5E9.

Valiant Trust Company, at its principal offices in Calgary, Alberta, and through its co-agent, Equity Transfer Services Inc., at its principal offices in Toronto, Ontario, is the transfer agent and registrar (the "Transfer Agent") for the Trust Units.

SCHEDULE A

BALANCE SHEET OF TRUST AS AT MAY 23, 2003

AUDITORS' REPORT

To the Trustee of
Peyto Energy Trust:

We have audited the balance sheet of Peyto Energy Trust as at May 23, 2003. This financial statement is the responsibility of the Peyto Energy Trust's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statement presents fairly, in all material respects, the financial position of Peyto Energy Trust as at May 23, 2003 in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
May 23, 2003

(signed) Ernst & Young LLP
Chartered Accountants

PEYTO ENERGY TRUST**BALANCE SHEET**

As at

May 23, 2003**ASSETS****Current**

Cash

\$200\$200**UNITHOLDERS' EQUITY****Unitholders' equity**

Unitholders' equity

\$200\$200*See accompanying notes*

On behalf of the Board of Peyto Exploration & Development Corp.:

(signed) "Donald T. Gray"

Director

(signed) "Stephen J. Chetner"

Director

PEYTO ENERGY TRUST**NOTES TO FINANCIAL STATEMENT****1. FORMATION AND FINANCIAL PRESENTATION**

Peyto Energy Trust (the "Trust") is an open-ended unincorporated investment trust governed by the laws of the Province of Alberta and created pursuant to the Trust Indenture dated May 22, 2003. The Trust will be managed by Peyto Exploration & Development Corp. ("AmalgamationCo"), a wholly-owned subsidiary of the Trust.

The financial statement has been prepared in accordance with Canadian generally accepted accounting principles.

2. UNITHOLDERS' EQUITY**a. *Authorized***

An unlimited number of Trust Units

b. *Issued*

	Number of Units	Consideration
Trust Units		
Balance as at May 22, 2003	-	\$ -
Issued upon settlement	20	200
Balance as at May 23, 2003	20	\$200

3. SUBSEQUENT EVENT

Coincident with the Plan of Arrangement involving Peyto Exploration & Development Corp. ("Peyto"), Peyto Acquisition Corp. ("AcquisitionCo") and the Trust, Peyto and AcquisitionCo will amalgamate to form AmalgamationCo, which will be a wholly-owned subsidiary of the Trust. The Plan of Arrangement is subject to regulatory, judicial and securityholder approval and is anticipated to be completed by early July, 2003.

APPENDIX F
INFORMATION CONCERNING AMALGAMATION CO

TABLE OF CONTENTS

	Page
NOTICE TO READER.....	3
THE CORPORATION.....	3
Petroleum and Natural Gas Properties and Reserves.....	3
DESCRIPTION OF SHARE CAPITAL.....	3
Common Shares.....	3
Notes.....	3
NPI AGREEMENT.....	4
DIRECTORS AND OFFICERS.....	4
PERSONNEL.....	4
EXECUTIVE COMPENSATION.....	5
BONUS PLAN.....	5
Market Based Component.....	5
Value Based Component.....	6
INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS.....	6
DIVIDENDS.....	6
MATERIAL CONTRACTS.....	6
INDUSTRY CONDITIONS.....	6
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS.....	6

NOTICE TO READER

Pursuant to the Arrangement, AmalgamationCo will be the corporation resulting from the amalgamation of AcquisitionCo and Peyto. The disclosure in this Appendix has been prepared assuming that the Arrangement has become effective.

THE CORPORATION

AmalgamationCo will be the continuing corporation resulting from the amalgamation of AcquisitionCo and Peyto pursuant to the Arrangement. Upon completion of the Arrangement, the Trust will own all the issued and outstanding AmalgamationCo Securities. Immediately subsequent to the completion of the Arrangement, the POT Transaction will occur which will result in POT owning the Undeveloped Properties, all of the issued and outstanding AmalgamationCo Securities and an interest in the NPI Agreement. AmalgamationCo, together with POT, will continue to carry on the oil and natural gas business undertaken by Peyto prior to the Arrangement becoming effective. AmalgamationCo will own, directly or indirectly, all of the assets owned by Peyto, other than the Undeveloped Properties transferred to POT coincident with the POT Transaction becoming effective. On a consolidated basis, the Trust will hold the same oil and natural gas assets as Peyto held prior to the Arrangement becoming effective. For further information on the Plan of Arrangement, see the section of the Information Circular entitled "*The Arrangement*".

The head office of AmalgamationCo will be located at Suite 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1 and its registered office will be located at 1400, 350 - 7th Avenue S.W., Calgary, Alberta, T2P 3N9.

Petroleum and Natural Gas Properties and Reserves

For information with respect to Peyto's business and properties, please see the disclosure under "*Business and Properties of Peyto*" in Peyto's AIF, which is incorporated by reference into the Information Circular to which this Appendix F is attached. In addition, for information on the oil and natural gas reserves of Peyto and the Paddock Report, please see the disclosure under the heading "*Business and Properties of Peyto - Oil and Natural Gas Reserves*" in Peyto's AIF.

DESCRIPTION OF SHARE CAPITAL

Following the amalgamation, AmalgamationCo will be authorized to issue an unlimited number of common shares. Upon completion of the Arrangement, the Trust will be the sole holder of the issued and outstanding common shares of AmalgamationCo. The Trust will also be the sole holder of the entire principal amount of the Notes anticipated to be outstanding immediately following the completion of the Arrangement. Following the POT Transaction, POT, a trust wholly-owned by the Trust, will hold all issued and outstanding common shares of AmalgamationCo, all outstanding Notes and the NPI.

Common Shares

Each common share will entitle its holder to receive notice of and to attend all meetings of the shareholders of AmalgamationCo and to one vote at such meetings. The holders of common shares will be, at the discretion of the board of directors of AmalgamationCo and subject to applicable legal restrictions, entitled to receive such dividends as may be declared by the board of directors to be payable on the common shares from time to time. The holders of common shares will be entitled to share equally in any distribution of the assets of AmalgamationCo upon the liquidation, dissolution, bankruptcy or winding-up of AmalgamationCo or other distribution of its assets among its shareholders for the purpose of winding-up its affairs.

Notes

For a summary of the material attributes and characteristics of the Notes, see Schedule A to the Plan, which is attached as Exhibit 1 to Appendix C of the Information Circular.

NPI AGREEMENT

Pursuant to the POT Transaction, AmalgamationCo and POT will enter into the NPI Agreement, pursuant to which AmalgamationCo will grant and set over to POT the right to receive certain payments (the "NPI") on petroleum and natural gas rights held by AmalgamationCo from time to time.

The NPI will consist of the right to receive a monthly payment from AmalgamationCo equal to the "NPI Income", which in respect of any period for which NPI Income is calculated, means a significant portion of the production revenues from the Properties (as defined in the NPI Agreement), less an equivalent portion of the amount of all deductions permitted under the NPI Agreement (the "NPI Deductions"), withdrawals from the reserve fund or reclamation fund established pursuant to the NPI Agreement to fund the payment of NPI Deductions, and advances made pursuant to AmalgamationCo's credit facilities to fund the payment of NPI Deductions.

Pursuant to the NPI Agreement a portion of the economic benefit derived from the assets of AmalgamationCo accrues to the benefit of POT and ultimately to the Trust and its Unitholders. The term of the NPI Agreement will be for so long as there are Properties to which the NPI Agreement applies.

The residual share of gross proceeds from the sale of production from the Properties which does not form part of NPI Income and is retained by AmalgamationCo, together with any income of AmalgamationCo derived from Properties that are not working interests in Canadian resource properties, will be used to defray certain expenses and capital expenditures of AmalgamationCo.

Pursuant to the NPI Agreement, AmalgamationCo will be required to pay to POT, NPI Income received by AmalgamationCo from the Properties during the month on or before the 15th day of the next calendar month. In calculating the NPI Income, AmalgamationCo will deduct, among other costs and expenses, any amounts paid into the reserve fund and the reclamation fund established pursuant to the NPI Agreement.

As consideration for granting the NPI, there will be a reduction in the principal amount of Notes held by POT. To satisfy the Deferred Purchase Price Obligation, the net proceeds of any issue of POT Units or the proceeds from the disposition of the NPI on any Properties are paid to AmalgamationCo. POT is not required to pay an amount as a Deferred Purchase Price Obligation except to the extent POT has such proceeds available.

If AmalgamationCo wishes to dispose of any Properties which will result in proceeds in excess of \$10 million, AmalgamationCo's board of directors is required to approve such disposition, however, if the disposition represents all or substantially all of the Properties, such disposition must be approved by a special resolution of the POT Unitholders (being the Trust and in turn the Unitholders).

The Properties include working interests in a number of oil treating, natural gas gathering, natural gas compression and natural gas processing facilities. There may be opportunities for AmalgamationCo to provide services to third parties with regard to AmalgamationCo's available capacity in those facilities. Any income from providing any of these processing, gathering, disposal or treating services will be used to defray certain expenses and capital expenditures of AmalgamationCo.

POT will reimburse AmalgamationCo for Crown royalties and other Crown charges payable by AmalgamationCo in respect of production from or ownership of the Properties. AmalgamationCo will at all times be entitled to set off its right to be so reimbursed against its obligation to pay the NPI.

DIRECTORS AND OFFICERS

For information respecting the principal occupations and experience and qualifications of the initial directors and officers of AmalgamationCo, see Peyto's AIF, "*Directors and Officers*" and "*Annual Meeting Matters – Election of Directors*" in the body of the Information Circular.

PERSONNEL

After giving effect to the Plan of Arrangement, AmalgamationCo will have nine full-time employees. Contract operators are retained for all field operations.

EXECUTIVE COMPENSATION

All current executive officers of Peyto will remain with AmalgamationCo following the Arrangement. Following the completion of the Arrangement, it is anticipated that executive officers of AmalgamationCo will be paid salaries at a level that is comparable to other energy trusts of similar size and character. For information with respect to past executive compensation of Peyto, please see the information under "*Annual Meeting Matters – Directors' and Officers' Compensation*" in the Information Circular. Following the completion of the Arrangement, AmalgamationCo will enter into employment agreements with its executive officers on substantially similar terms as those currently in place. Please see the disclosure under the heading "*Annual Meeting Matters – Directors' and Officers' Compensation*" in the Information Circular for details on the current employment agreements.

Directors who are not also employees of AmalgamationCo will be paid an annual retainer fee of \$20,000 and a fee of \$250 for attendance at board or committee meetings. They will also be entitled to be reimbursed for all reasonable expenses incurred in order to attend such meetings. It is currently anticipated that outside directors will not participate in the bonus plan described below.

BONUS PLAN

Following the completion of the Arrangement, AmalgamationCo will adopt a bonus plan with two distinct components. These components are described below.

Market Based Component

The purpose of the market based component (the "Market Component") is to provide officers, consultants, employees and other service providers, as applicable (all of which are hereinafter called "Service Providers"), of the Trust and any of its subsidiaries, including AmalgamationCo, with an opportunity to acquire rights ("Rights") of the Trust, as designated from time to time by the board of directors of AmalgamationCo, the value of which will be based primarily on the value of the Units and the distributions paid to Unitholders. The Market Component will provide an increased incentive for these Service Providers to contribute to the future success of the Trust, thus enhancing the value of the Units for the benefit of all the Unitholders of the Trust. The Market Component is meant to mirror, to the extent possible, Peyto's current Option Plan.

Rights shall be granted by the board of directors from time to time, at its sole discretion, to Service Providers. No Service Provider shall have any right to be granted Rights, except as may be specifically granted by the board of directors.

The grant price ("Grant Price") per Right in respect of Rights granted in 2003 shall be equal to the weighted average of the per Unit closing price of Units of the Trust traded through the facilities of the TSX on the five (5) consecutive trading days immediately preceding the date of grant. The Rights will vest equally (as to $\frac{1}{3}$ per year) over three (3) years on December 31 of each year, beginning on December 31, 2003. At the end of each year the vested (being $\frac{1}{3}$ of the grant) Rights will be paid out based on the formula set forth in the following paragraph. At the beginning of each year, the board of directors of AmalgamationCo will use its discretion to determine whether to award new Rights. Such new Rights will be granted effective January 1 and will be issued at a Grant Price equal to the Year End Market Price (as defined below). All Rights that have vested will expire at the end of the year regardless of whether they are in the money or not.

Upon the exercise of each Right, the Trust shall pay to the holder of such Right an amount equal to 1.33 multiplied by the sum of (i) the weighted average of the per Unit closing price of Units of the Trust traded through the facilities of the TSX on the five (5) consecutive trading days immediately preceding the end of the calendar year ("Year End Market Price") less the Grant Price for such Right and (ii) the amount of the cash distributed by the Trust per Unit from the Grant Date to the date of exercise. For greater certainty, the sum calculated in (i) above may be negative if the weighted average trading price is less than the Grant Price. The 1.33 multiplier is being utilized to neutralize the difference in tax treatment from the exercise of Options pursuant to the Option Plan and the cash payouts under the Market Component. The gain realized by a holder of Options under the Option Plan was taxed at the capital gains rate of 50%. The gain realized by a holder of Rights under the Market Component will be taxed at 100%.

To date, no Rights have been issued. Following the Effective Date, it is anticipated that approximately 3,000,000 Rights will be issued to Service Providers. It is the current intention of the Trust to keep the number of Rights outstanding at a number which is no greater than 7% of the issued and outstanding Trust Units.

Value Based Component

The principal purpose of the Value Base Component ("Value Component") is to advance the interests of the Trust and its subsidiaries by providing for bonuses for key employees of AmalgamationCo and its subsidiaries who are designated as participants thereunder. The goal in implementing the Value Component is to attract and retain such key employees, make their compensation competitive with other opportunities, and provide them with an incentive to strive to achieve the financial and business objectives of the Trust and its subsidiaries. The overriding philosophy of the Value Component is to reward the designated employees for accretive value generation. The Value Component is designed to recognize individual performance that has played a role in creating incremental value per Unit but not to reward for increases in commodity prices.

The Value Component will be administered by the Chief Executive Officer of AmalgamationCo, who will select the participants in the Value Component from among key employees of AmalgamationCo and its subsidiaries and will allocate participation points to each such participant. Recommendations regarding the allocations made by the Chief Executive Officer will be reviewed by the compensation committee of the board of directors. Allocations and payments made to the Chief Executive Officer will be determined by the board of directors of AmalgamationCo. 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 Proven Producing Reserves calculated using a discount rate of 8%. The change in Proven Producing Reserves will be calculated on a calendar year basis. The Proven Producing Reserves shall be calculated by Paddock, or another independent oil and gas reservoir engineer, at the end of a fiscal year, using the following year's constant price forecast for all calculations. The bonuses under the Value Component shall be paid in cash.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

There exists no indebtedness of the directors or executive officers of AmalgamationCo, or any of their associates, to AmalgamationCo, nor is any indebtedness of the directors or executive officers to another entity the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by AmalgamationCo.

DIVIDENDS

It is not anticipated that AmalgamationCo will declare or pay dividends in the near future. Any decision to pay dividends on its shares will be made by the board of directors of AmalgamationCo on the basis of AmalgamationCo's earnings, financial requirements and other conditions existing at such future time.

MATERIAL CONTRACTS

Following the completion of the Arrangement, AmalgamationCo will be a party to all of the material contracts of each of AcquisitionCo and Peyto. The following is a list of material contracts to which AmalgamationCo is, or will become, a party:

1. the Arrangement Agreement (see the section in the Information Circular entitled "*The Arrangement*"); and
2. the NPI Agreement (see "*NPI Agreement*" above).

INDUSTRY CONDITIONS

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. For a discussion of certain industry conditions affecting the oil and gas industry generally, see "*Industry Conditions*" in Peyto's AIF which is incorporated by reference into the Information Circular.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as disclosed in the Information Circular, including this Appendix, none of the directors, officers or principal shareholders of AmalgamationCo and no associate or affiliate of any of them, has or has had any material interest in any transaction or any proposed transaction which materially affects AmalgamationCo or any of its affiliates.

There are potential conflicts of interest to which the directors and officers of AmalgamationCo will be subject in connection with the operations of AmalgamationCo. In particular, certain of the directors and officers of AmalgamationCo are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of AmalgamationCo, POT and the Trust or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of AmalgamationCo, POT and the Trust. See "*Directors and Officers*" above. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

APPENDIX G
INFORMATION CONCERNING PEYTO OPERATING TRUST

TABLE OF CONTENTS

	Page
PEYTO OPERATING TRUST.....	3
POT Units.....	4
POT Unitholders Limited Liability.....	4
Cash Distributions	5
Meetings of POT Unitholders.....	5
POT Notes	5
Trustee	6
Delegation of Authority, Administration and Trust Governance.....	6
Liability of the POT Trustee and AmalgamationCo.....	7
Amendments to the POT Indenture	7
Termination of POT.....	8
RISK FACTORS	8
INDUSTRY CONDITIONS	8

PEYTO OPERATING TRUST

POT will be an open-ended unincorporated trust governed by the laws of the Province of Alberta and created pursuant to the POT Indenture. The head and principal office of POT will be located at Suite 2900, 450 – 1st Street S.W., Calgary, Alberta, T2P 5H1.

Subsequent to the completion of the POT Transaction, POT will hold all of the Undeveloped Properties, all of the AmalgamationCo Securities and an interest in the NPI Agreement. Through POT's holding of the Undeveloped Properties, it will develop and exploit its oil and gas properties and any additional oil and gas properties that are acquired by POT in the future (collectively, the "Oil and Gas Exploration Business"). It is intended that POT will be created for, among other things, the following purposes:

- (a) the direct or indirect conduct and pursuit of, and the participation in, the Oil and Gas Exploration Business including entering into all of the transactions contemplated by, and all reorganizational steps in relation or ancillary to, the POT Transaction, including the issuance of the POT Notes and the acquisition of the NPI;
- (b) acquiring, holding, transferring, disposing of, investing in, operating and otherwise dealing with assets, securities (whether debt or equity) and other interests or properties of whatever nature or kind of or issued by affiliates, associates or other persons involved, directly or indirectly, in the Oil and Gas Exploration Business and, for greater certainty, POT is expressly authorized to achieve the foregoing purposes to invest, directly or indirectly, in one or more partnerships (whether limited or general) as a partner thereof and to acquire and hold royalty interests and securities of AmalgamationCo;
- (c) borrowing at any time and from time to time such sum of money or otherwise incurring such indebtedness, upon such terms and subject to such conditions, for such length of time and for the purposes set forth in paragraphs (a) and (b) above and, in order to secure the repayment of any sum so borrowed or indebtedness so incurred, executing and delivering, under seal and otherwise, such notes, bonds or other obligations as may be required, including promissory notes, mortgages, pledges, hypothecations and/or charges upon the assets of POT;
- (d) the guaranteeing of any debts or liabilities, present or future, direct or indirect, absolute or contingent, matured or not of any affiliate of POT pursuant to any credit facility, note indenture, swap, or other instrument for the purposes set forth in paragraphs (a) and (b) above;
- (e) without limiting the generality of paragraphs (a) and (b) above, the transfer of any direct or indirect ownership or working interest in, or any asset or property used in connection with, the Oil and Gas Exploration Business to one or more affiliates and the retention of royalty interests in such working interest, asset or property;
- (f) without limiting the generality of paragraphs (a) and (b) above, the acquisition, creation or retention of any other royalty interests related to the Oil and Gas Exploration Business;
- (g) temporarily holding cash and other short term investments in connection with and for the purposes of POT's activities, including paying administration and trust expenses, paying any amounts required in connection with the redemption of POT Units and making distributions to the Trust;
- (h) issuing POT Units and other securities of POT (including securities convertible into or exchangeable for POT Units or other securities of POT, or warrants, special warrants, options or other rights to acquire POT Units or other securities of POT), for the purposes of:
 - (i) obtaining funds to conduct the activities described in paragraphs (a) and (b) above, including raising funds for further acquisitions;
 - (ii) repayment of any indebtedness or borrowings of POT;

- (iii) establishing and implementing rights plans, distribution reinvestment plans, POT Unit purchase plans, and incentive option and other compensation plans, if any, established by POT;
- (iv) carrying out any of the transactions contemplated by the POT Transaction; and
- (v) making non-cash distributions as contemplated by the POT Indenture, including distributions pursuant to distribution reinvestment plans, if any, established by POT;
- (i) repurchasing, redeeming, transferring, consolidating or canceling POT Units or other securities of POT, subject to the provisions of the POT Indenture and applicable law; and
- (j) engaging in all activities ancillary or incidental to any of those activities set forth in the preceding paragraphs.

POT Units

The POT Indenture will provide that an unlimited number of POT Units may be created and issued pursuant to the POT Indenture. The holders of POT Units ("POT Unitholders") will be entitled to receive distributions on the POT Units in accordance with the terms of the POT Indenture and such other distributions as may be made pursuant to the POT Indenture. In the event of the liquidation, dissolution or winding up of POT or other distribution of assets of POT among POT Unitholders for the purpose of winding up its affairs, the POT Unitholders will be entitled to participate in the distribution in equal amounts per POT Unit on all of the POT Units at the time outstanding without preference or distinction. The POT Unitholders will be entitled to receive notice of and to attend all annual and special meetings of the POT Unitholders and to one (1) vote in respect of each POT Unit held at all such meetings. Each POT Unitholder will be entitled to require POT to redeem at the demand of the POT Unitholder all or any part of the POT Units registered in the name of the POT Unitholder at a price determined in accordance with the terms of the POT Indenture. In addition, POT will be able to call for redemption all or any part of the outstanding POT Units registered in the name of POT Unitholders at a price determined in accordance with the terms of the POT Indenture.

POT Unitholders Limited Liability

The POT Indenture will provide that no POT Unitholder, in its capacity as such, shall incur or be subject to any liability in contract or in tort or of any other kind whatsoever to any person in connection with the Trust Property (as defined in the POT Indenture) or the obligations or the affairs of POT or with respect to any act performed by Valiant Trust Company (the "POT Trustee") or by any other person pursuant to the POT Indenture or with respect to any act or omission of the POT Trustee or any other person in the performance or exercise, or purported performance or exercise, of any obligation, power, discretion or authority conferred upon the POT Trustee or such other person or with respect to any transaction entered into by the POT Trustee or by any other person pursuant to the POT Indenture. The POT Indenture will also provide that no POT Unitholder shall be liable to indemnify the POT Trustee or any such other person with respect to any such liability or liabilities incurred by the POT Trustee or by any such other person or persons or with respect to any taxes payable by POT or by the POT Trustee or by any other person on behalf of or in connection with POT; provided, however, to the extent that, notwithstanding the foregoing, any such liabilities are determined by a court of competent jurisdiction to be liabilities of POT Unitholders, such liabilities shall only be enforceable against, and shall be satisfied only out of, the Trust Property. If any POT Unitholder shall be held personally liable as such to any other person in respect of any debt, liability or obligation incurred by or on behalf of POT, or any action taken on behalf of POT, such POT Unitholder shall be entitled to indemnity and reimbursement out of the Trust Property to the full extent of such liability and to the costs of any litigation or any other proceedings in which such liability shall have been determined, including, without limitation, the reasonable fees and disbursements of counsel.

The POT Indenture will provide that all contracts signed by or on behalf of POT must contain a provision to the effect that such obligation will not be binding upon POT Unitholders personally. Notwithstanding the terms of the POT Indenture, POT Unitholders may not be protected from liabilities of POT to the same extent a shareholder is protected from the liabilities of a corporation. Personal liability may also arise in respect of claims against POT (to

the extent that claims are not satisfied by POT) that do not arise under contracts, including claims in tort, claims for taxes and possibly certain other statutory liabilities.

The activities of POT and its wholly-owned subsidiary, AmalgamationCo, will be conducted, upon the advice of counsel, in such a way and in such jurisdictions as to avoid as far as possible any material risk of liability to the POT Unitholders for claims against POT including by obtaining appropriate insurance, where available, for the operations of POT and AmalgamationCo and having contracts signed by or on behalf of POT include a provision that such obligations are not binding upon POT Unitholders personally.

Cash Distributions

POT intends to make monthly cash distributions to the Trust (as the sole POT Unitholder) to coincide with the making of distributions by the Trust to the Trust Unitholders. The Administrator will have discretion as to the amount of income of POT which will be paid or declared payable to POT Unitholders and a portion of said income may be retained by POT and used to conduct exploration and development activities. Accordingly, POT may be taxable if less than its net income is paid or payable to POT Unitholders.

Meetings of POT Unitholders

The POT Indenture will provide that meetings of POT Unitholders (being the Trust) must be called and held for, among other matters, electing the POT Trustee, appointing or changing the auditors of POT, any matter under which applicable law or applicable stock exchange rules would require the approval of the POT Unitholders had POT been a reporting issuer in the jurisdictions in which the Trust is a reporting issuer and had the POT Units been listed for trading on the exchanges where the Trust Units are listed for trading, the approval of amendments to the POT Indenture (except as described under "*Amendments to the POT Indenture*"), the sale, lease or exchange of all or substantially all of the property of POT, except in certain circumstances, the authorization of the termination, liquidation or winding up of POT, except in certain circumstances, and the approval of a combination or merger or similar transaction between POT and any other person that is not an affiliate or associate of POT, in certain circumstances.

POT Notes

The following summary of the material attributes and characteristics of the POT Notes does not purport to be complete and is qualified in its entirety by reference to the provisions of a note indenture (the "Note Indenture") to be dated on or before the effective date of the POT Transaction and made between POT and Valiant Trust Company, as trustee (the "Note Trustee"), which will contain a complete statement of such attributes and characteristics. The POT Notes will be issued under the Note Indenture.

Terms and Issue of POT Notes

Pursuant to the POT Transaction, POT Notes will be issued by POT to the Trust pursuant to the Note Indenture as partial consideration for the transfer of all of the outstanding securities of AmalgamationCo from the Trust to POT. The Note Indenture provides that initially only one global POT Note certificate will be issued which will represent all POT Notes issued under the POT Transaction. The global POT Note certificate will be issued to the Note Trustee in trust for the Trust.

The POT Notes will be unsecured and bear interest from the date of issue at a rate which is expected to be approximately 5% per annum. Interest will be payable for each month during the term on the 10th day of the month following such month, or the next business day if such day is not a business day. The first interest payment is intended to be due on August 10, 2003 for the period commencing on the effective date of the POT Transaction and ending on July 31, 2003.

In contemplation of the possibility that POT Notes may be distributed to Trust Unitholders upon the redemption of their Trust Units, the Note Indenture will provide that if persons other than the Trust (the "Non-Fund Holders") own POT Notes having an aggregate principal amount in excess of \$1,000,000, either the Trust or the Non-Fund Holders

shall be entitled, among other things, to require the Note Trustee to exercise the powers and remedies available under the Note Indenture upon an event of default and, with the Trust, the Non-Fund Holders may provide consents, waivers or directions relating generally to the variance of the Note Indenture and the rights of noteholders. The Note Indenture will allow the Trust flexibility to delay payments of interest or principal otherwise due to it while payment is made to other noteholders, and to allow other noteholders to be paid out before the Trust. Any delayed payments will be due 5 days after demand.

Ranking

The POT Notes will be unsecured debt obligations of POT and will rank *pari passu* with all other unsecured indebtedness of POT, but subordinate to all secured debt.

Events of Default

The Note Indenture will provide that any of the following shall constitute an Event of Default: (i) default in payment of the principal of the POT Notes when required; (ii) the failure to pay all of the interest obligations on the POT Notes for a period of 90 days; (iii) if POT has defaulted and a demand for payment has been made under any material instrument, indenture or document evidencing indebtedness of more than \$5 million in the aggregate and POT has failed to remedy such default within applicable curative periods; (iv) certain events of winding-up, liquidation, bankruptcy, insolvency, receivership or seizure; (v) default in the observance or performance of any other covenant or condition of the Note Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Note Trustee to POT specifying such default and requiring POT to rectify the same; (vi) POT ceasing to carry on its business other than as contemplated in this Information Circular; and (vii) material default by POT under material agreements if property having a fair market value in excess of \$5 million in the aggregate is liable to forfeiture or termination.

Trustee

Valiant Trust Company will be the initial POT Trustee. The POT Trustee, subject only to the specific limitations contained in the POT Indenture, will have, free from any power of control on the part of the Trust, full, absolute and exclusive power, control and authority over the Trust Property and over the affairs of POT to the same extent as if the POT Trustee was the sole and absolute beneficial owner of such property in its own right, to do all such acts and things as in its sole judgment and discretion are necessary or incidental to, or desirable for, carrying out the purposes of POT set forth in the POT Indenture. The POT Indenture will provide that the POT Trustee shall exercise its powers and carry out its functions thereunder as POT Trustee honestly, in good faith and in the best interests of POT and the POT Unitholders and, in connection therewith, shall exercise that degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances.

The initial term of the POT Trustee's appointment will be until the third annual meeting of the Trust Unitholders. The Trust Unitholders shall, at the third annual meeting of the Trust Unitholders, direct the Trust to reappoint, or appoint a successor to, the POT Trustee for an additional three year term, and thereafter, the Trust Unitholders shall direct the Trust to reappoint, or appoint a successor to, the POT Trustee at the annual meeting of the Trust Unitholders three years following the reappointment or appointment of the successor to the POT Trustee. The POT Trustee may resign on giving not less than 60 days' notice in writing to AmalgamationCo.

Delegation of Authority, Administration and Trust Governance

POT will not be managed by a third party manager. Following completion of the Arrangement, POT will be managed by AmalgamationCo. The POT Trustee, on behalf of POT, will enter into an administration agreement (the "Administration Agreement") pursuant to which AmalgamationCo will provide certain administrative services and facilities to POT. For information respecting the principal occupations and experience and qualifications of the initial directors and officers of AmalgamationCo, see Peyto's AIF, "*Directors and Officers*" and "*Annual Meeting Matters – Election of Directors*" in the body of the Information Circular.

Pursuant to the POT Indenture and the Administration Agreement, the POT Trustee will grant broad discretion to AmalgamationCo to administer and manage the day-to-day operations of POT, to act as agent for POT, to execute documents on behalf of POT, and to make executive decisions for and on behalf of POT.

Liability of the POT Trustee and AmalgamationCo

The POT Trustee, AmalgamationCo, and their respective directors, officers, employees and agents shall not be liable to any POT Unitholder or annuitant for any action taken in good faith in reliance on any documents that are, prima facie, properly executed, for any depreciation of, or loss to, POT incurred by reason of the retention or sale of any property, for any inaccuracy or omission in any evaluation provided by AmalgamationCo or any other appropriately qualified person, for relying on any such evaluation, for any action or failure to act of AmalgamationCo, or for any other action or failure to act (including, without limitation, the failure to compel in any way any former trustee to redress any breach of trust or any failure by AmalgamationCo to perform its duties under the POT Indenture or any material contract), unless such liabilities arise principally and directly from a breach of the POT Trustee's standard of care as set out in the POT Indenture or the POT Trustee's or such director's, officer's, employee's or agent's gross negligence, willful default or fraud.

The POT Trustee shall not be liable to any POT Unitholder or annuitant for any action or failure to act which is taken in good faith in relation to any matter arising from or relating to the POT Indenture or any material contract where such action or failure to act is based upon the opinion or advice of or information obtained from any expert, provided that the POT Trustee has satisfied its standard of care in the POT Indenture in selecting such expert. In addition, the POT Indenture will contain other customary provisions limiting the liability of the POT Trustee and of AmalgamationCo and indemnifying the POT Trustee and AmalgamationCo from and against any such liabilities.

Amendments to the POT Indenture

Once settled, the POT Indenture may be amended or altered from time to time by special resolution.

The POT Trustee will be able to, without the approval of any of the POT Unitholders (being the Trust) or any other person, amend the POT Indenture for the purpose of:

- (a) prior to Closing, for any purpose in the sole discretion of the POT Trustee or Peyto; or
- (b) at any time for the purpose of:
 - (i) ensuring continuing compliance, by POT, with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the POT Trustee or POT;
 - (ii) providing, in the bona fide opinion of the POT Trustee, additional protection for the POT Unitholders;
 - (iii) making minor corrections, or removing or curing any conflicts or inconsistencies between the provisions of the POT Indenture or any supplemental indenture and any other agreement of POT or any applicable law or regulation of any jurisdiction or any prospectus filed with any regulatory or governmental body with respect to POT, provided that, in the opinion of counsel to POT and the POT Trustee in each case, the rights of the POT Unitholders are not materially prejudiced thereby;
 - (iv) making amendments which, in the opinion of counsel to POT and the POT Trustee, are necessary or desirable in the interests of the POT Unitholders as a result of changes in taxation laws or in their interpretation or administration; and
 - (v) making amendments provided that, in the opinion of the POT Trustee, the rights of the POT Unitholders are not materially prejudiced thereby.

Termination of POT

The POT Unitholders (being the Trust) will be able to pass a special resolution requiring the POT Trustee to distribute to POT Unitholders all Trust Property.

Unless POT is earlier terminated or extended by vote of the POT Unitholders, the POT Trustee shall commence to wind-up the affairs of POT on December 31, 2099.

RISK FACTORS

For a summary of certain risk factors relating to the Trust and the ownership of Trust Units which prospective investors should carefully consider before making an investment decision relating to Trust Units, certain of which risk factors will also be applicable to the business and operations of POT, see Appendix E, "*Information Concerning the Trust – Risk Factors*". A Securityholder should consider carefully all such risk factors.

INDUSTRY CONDITIONS

The oil and gas industry is subject to extensive controls and regulations imposed by various levels of government. For a discussion of certain industry conditions affecting the oil and gas industry generally, see "*Industry Conditions*" in Peyto's AIF which is incorporated by reference into this Information Circular.

APPENDIX H
PRO FORMA STATEMENT OF INCOME AND
FUNDS AVAILABLE FOR DISTRIBUTION

Peyto Energy Trust

COMPILATION REPORT

To the Directors of
Peyto Exploration & Development Corp.

We have reviewed, as to compilation only, the accompanying unaudited pro forma consolidated statement of earnings and funds available for distribution of Peyto Energy Trust for the three month period ended March 31, 2003 which have been prepared for inclusion in this Information Circular. In our opinion, the unaudited pro forma consolidated statement of earnings and funds available for distribution have been properly compiled to give effect to the proposed transactions and the assumptions described in the notes thereto.

Calgary, Canada
May 23, 2003

(Signed) Ernst & Young LLP
Chartered Accountants

Peyto Energy Trust

PRO FORMA CONSOLIDATED STATEMENT OF EARNINGS
AND FUNDS AVAILABLE FOR DISTRIBUTION
(UNAUDITED)

For the three months ended March 31, 2003

	Peyto Exploration & Development Corp.	Pro Forma Adjustments	Notes	Peyto Energy Trust Pro Forma
Revenue				
Petroleum and natural gas sales	54,670,085			54,670,085
Royalties	(14,945,462)			(14,945,462)
Alberta Royalty Tax Credit	125,000			125,000
	<u>39,849,623</u>			<u>39,849,623</u>
Expenses				
Operating	1,117,044			1,117,044
General and administrative	211,506			211,506
Interest	895,322			895,322
Depletion, depreciation and site restoration	4,968,014			4,968,014
	<u>7,191,886</u>			<u>7,191,886</u>
Earnings before taxes	32,657,737			32,657,737
Future income tax expense	(13,845,281)	(190,256)	2(a)	(5,112,836)
		8,922,701	2(b)	
Current tax expense	(190,256)	190,256	2(a)	-
Capital tax expense	(126,884)			(126,884)
	<u>18,495,316</u>			<u>27,418,017</u>
Earnings				
Add non-cash items:				
Depletion, depreciation and site restoration	4,968,014			4,968,014
Future income taxes	13,845,281	190,256	2(a)	5,112,836
		(8,922,701)	2(b)	
	<u>37,308,611</u>			<u>37,498,867</u>
Funds from operations				
Add:				
Funds from exercise of stock options	134,336	(134,336)	2(c)	-
Funds drawn from revolving credit facility	3,042,746	(190,256)	2(a)	2,986,826
		134,336	2(c)	
	<u>40,485,693</u>			<u>40,485,693</u>
Funds available for distribution and capital expenditures				
Capital expenditures (note 3)	40,485,693			40,485,693
	<u>Funds available for distribution (note 3)</u>			<u>-</u>
Weighted average number of trust units				43,446,337
Basic and diluted earnings per trust unit				0.63
Funds from operations per trust unit				0.86
Funds available for distribution and capital expenditures per trust unit				0.93
Funds available for distribution per trust unit				See Note 3

See accompanying notes

**NOTES TO THE UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF
EARNINGS AND FUNDS AVAILABLE FOR DISTRIBUTION**

For the three months ended March 31, 2003

1. Basis of Presentation

The accompanying unaudited pro forma consolidated statement of earnings and funds available for distribution for the three months ended March 31, 2003 (the "pro forma statement") has been prepared to reflect the proposed plan to convert Peyto Exploration & Development Corp. ("Peyto") from a corporate entity concentrating on growth through the reinvestment of cash flow to a trust entity which will distribute a portion of cash flow to Peyto Energy Trust (the "Trust") Unitholders. The pro forma statement has been prepared based upon the unaudited financial statements of Peyto for the three months ended March 31, 2003 because, in Management's opinion, this period is most representative of Peyto's continuing operations.

The pro forma statement has been prepared by management in accordance with Canadian generally accepted accounting principles. The pro forma statement gives effect to the transactions described in Note 2 as if they had occurred at the beginning of the period. The pro forma statement may not be indicative of the results that actually would have occurred if the events reflected therein had been in effect on the dates indicated or of the results which may be obtained in the future.

Under the proposed Plan of Arrangement as contemplated herein, it is assumed that all holders of Peyto Common Shares will indirectly exchange their common shares for Trust Units on a one to one basis. The Plan of Arrangement is subject to shareholder and court approval.

Accounting policies used in the preparation of the pro forma statement are consistent with those used in the audited financial statements of Peyto for the year ended December 31, 2002 and the unaudited financial statements for the three months ended March 31, 2003, except as discussed below. Accordingly, the pro forma statement should be read in conjunction with the historical financial statements and the notes thereto of Peyto for the year ended December 31, 2002 and the three months ended March 31, 2003. In the opinion of management the pro forma statement includes all necessary adjustments for a fair presentation of the ongoing entity.

As part of the Plan of Arrangement, it is expected that all outstanding stock options will vest and be settled for cash. The pro forma statement does not reflect the cost of settling Peyto's outstanding stock options which, based upon the intrinsic value of the options over the five consecutive trading days ending two days prior to the May 23, 2003 effective date of the Plan of Arrangement, would have been \$39,489,802, before tax. Upon completion of the Plan of Arrangement, there would have been an estimated 43,451,522 Trust Units outstanding assuming all holders of stock options elect to exercise their right to have their vested and unvested options cancelled in consideration of a cash payment equal to the difference between the exercise price and the market value of Peyto's common shares over the five consecutive trading days ending two days prior to the May 23, 2003. If the holders of vested options elected to exercise their options an additional 1,284,972 Trust Units would have been outstanding. The pro forma statement does not reflect the Trust's intended private placement, described elsewhere in the Plan of Arrangement. As the funds from this private placement would be used to finance the option settlement described above, the pro forma statement does not reflect an additional interest expense arising as a result of the cash payment made to settle Peyto's stock option plan.

The Trust is an unincorporated entity established under the laws of the Province of Alberta and created pursuant to a Declaration of Trust dated May 22, 2003. Pursuant to the terms of the Arrangement, Peyto will amalgamate with Peyto Acquisition Corp. and become a wholly owned subsidiary of the Trust.

2. Pro forma Assumptions and Adjustments

The pro forma statement gives effect to the Plan of Arrangement as if it was effective on January 1, 2003. The pro forma statement gives effect to the following assumptions and adjustments:

- (a) Current income taxes of Peyto have been eliminated as the Trust is able to, and intends to claim a deduction for all amounts paid to unitholders. To the extent income is retained in the Trust for additional capital projects, the Trust may be taxable.
- (b) Future income tax expense of Peyto has been decreased by \$8,922,701 to reflect the tax effect of the pro forma adjustments, at the effective tax rate of 15.7%.
- (c) Prior to the Plan of Arrangement, all of Peyto's outstanding options would be settled and accordingly no options would have been exercised during the period.

3. Funds Available for Distribution and Capital Expenditures

Funds available for distribution and capital expenditures represent the funds from operations combined with additional funds of \$2,986,826 drawn from the revolving credit facility to meet current period capital expenditure requirements.

The funds available for distribution and capital expenditures could be distributed entirely to the unitholders or reduced by a discretionary amount to fund capital expenditures or to stabilize distributions by protecting against volatile changes in oil and gas commodity prices. Management of Peyto has indicated that they intend to distribute, on a monthly basis, a minimum of 50% of funds available for distribution with a minimum of \$0.15 per Trust Unit. Management believes, had the Plan of Arrangement been effective January 1, 2003, that Peyto would have retained approximately \$18 million for capital expenditures reducing the additional funds required to be drawn on its revolving credit facility to nil and leaving approximately \$19.5 million or \$0.45 per Trust unit available for distribution.

APPENDIX I

SECTION 191 OF THE *BUSINESS CORPORATIONS ACT* (ALBERTA)

SECTION 191 OF THE *BUSINESS CORPORATIONS ACT* (ALBERTA)

Pursuant to the Interim Order, registered Securityholders have the right to dissent in respect of the Arrangement. Such right of dissent is described in the Information Circular. The full text of Section 191 of the ABCA is set forth below. Note that certain provisions of such section have been modified by the Interim Order which is attached to the Information Circular as Appendix B and pursuant to the Plan of Arrangement which is attached to the Information Circular as Exhibit 1 to Appendix C.

- "191(1) Subject to sections 192 and 242, a holder of shares of any class of a corporation may dissent if the corporation resolves to
- (a) amend its articles under section 173 or 174 to add, change or remove any provisions restricting or constraining the issue or transfer of shares of that class,
 - (b) amend its articles under section 173 to add, change or remove any restrictions on the business or businesses that the corporation may carry on,
 - (c) amalgamate with another corporation, otherwise than under section 184 or 187,
 - (d) be continued under the laws of another jurisdiction under section 189, or
 - (e) sell, lease or exchange all or substantially all its property under section 190.
- (2) A holder of shares of any class or series of shares entitled to vote under section 176, other than section 176(1)(a), may dissent if the corporation resolves to amend its articles in a manner described in that section.
- (3) In addition to any other right the shareholder may have, but subject to subsection (20), a shareholder entitled to dissent under this section and who complies with this section is entitled to be paid by the corporation the fair value of the shares held by the shareholder in respect of which the shareholder dissents, determined as of the close of business on the last business day before the day on which the resolution from which the shareholder dissents was adopted.
- (4) A dissenting shareholder may only claim under this section with respect to all the shares of a class held by the shareholder or on behalf of any one beneficial owner and registered in the name of the dissenting shareholder.
- (5) A dissenting shareholder shall send to the corporation a written objection to a resolution referred to in subsection (1) or (2)
- (a) at or before any meeting of shareholder at which the resolution is to be voted on, or
 - (b) if the corporation did not send notice to the shareholder of the purpose of the meeting or of the shareholder's right to dissent, within a reasonable time after the shareholder learns that the resolution was adopted and of the shareholder's right to dissent.
- (6) An application may be made to the Court by originating notice after the adoption of a resolution referred to in subsection (1) or (2),
- (a) by the corporation, or
 - (b) by a shareholder if he has sent an objection to the corporation under subsection (5),
- to fix the fair value in accordance with subsection (3) of the shares of a shareholder who dissents under this section.
- (7) If an application is made under subsection (6), the corporation shall, unless the Court otherwise orders, send to each dissenting shareholder a written offer to pay him an amount considered by the directors to be the fair value of the shares.

- (8) Unless the Court otherwise orders, an offer referred to in subsection (7) shall be sent to each dissenting shareholder
 - (a) at least 10 days before the date on which the application is returnable, if the corporation is the applicant, or
 - (b) within 10 days after the corporation is served with a copy of the originating notice, if a shareholder is the applicant.
- (9) Every offer made under subsection (7) shall
 - (a) be made on the same terms, and
 - (b) contain or be accompanied by a statement showing how the fair value was determined.
- (10) A dissenting shareholder may make an agreement with the corporation for the purchase of the shareholder's shares by the corporation, in the amount of the corporation's offer under subsection (7) or otherwise, at any time before the Court pronounces an order fixing the fair value of the shares.
- (11) A dissenting shareholder
 - (a) is not required to give security for costs in respect of an application under subsection (6), and
 - (b) except in special circumstances shall not be required to pay the costs of the application or appraisal.
- (12) In connection with an application under subsection (6), the Court may give directions for
 - (a) joining as parties all dissenting shareholders whose shares have not been purchased by the corporation and for the representation of dissenting shareholders who, in the opinion of the Court, are in need of representation,
 - (b) the trial of issues and interlocutory matters, including pleadings and examinations for discovery,
 - (c) the payment to the shareholder of all or part of the sum offered by the corporation for the shares,
 - (d) the deposit of the share certificates with the Court or with the corporation or its transfer agent,
 - (e) the appointment and payment of independent appraisers, and the procedures to be followed by them,
 - (f) the service of documents, and
 - (g) the burden of proof on the parties.
- (13) On an application under subsection (6), the Court shall make an order
 - (a) fixing the fair value of the shares in accordance with subsection (3) of all dissenting shareholders who are parties to the application,
 - (b) giving judgment in that amount against the corporation and in favour of each of those dissenting shareholders, and
 - (c) fixing the time within which the corporation must pay that amount to a shareholder.
- (14) On
 - (a) the action approved by the resolution from which the shareholder dissents becoming effective,

- (b) the making of an agreement under subsection (10) between the corporation and the dissenting shareholder as to the payment to be made by the corporation for the shareholder's shares, whether by the acceptance of the corporation's offer under subsection (7) or otherwise, or
- (c) the pronouncement of an order under subsection (13),

whichever first occurs, the shareholder ceases to have any rights as a shareholder other than the right to be paid the fair value of his shares in the amount agreed to between the corporation and the shareholder or in the amount of the judgment, as the case may be.

(15) Subsection (14)(a) does not apply to a shareholder referred to in subsection (5)(b).

(16) Until one of the events mentioned in subsection (14) occurs,

- (a) the shareholder may withdraw his dissent, or
- (b) the corporation may rescind the resolution,

and in either event proceedings under this section shall be discontinued.

(17) The Court may in its discretion allow a reasonable rate of interest on the amount payable to each dissenting shareholder, from the date on which the shareholder ceases to have any rights as a shareholder by reason of subsection (14) until the date of payment.

(18) If subsection (20) applies, the corporation shall, within 10 days after

- (a) the pronouncement of an order under subsection (13), or
- (b) the making of an agreement between the shareholder and the corporation as to the payment to be made for his shares,

notify each dissenting shareholder that it is unable lawfully to pay dissenting shareholders for their shares.

(19) Notwithstanding that a judgment has been given in favour of a dissenting shareholder under subsection (13)(b), if subsection (20) applies, the dissenting shareholder, by written notice delivered to the corporation within 30 days after receiving the notice under subsection (18), may withdraw the shareholder's notice of objection, in which case the corporation is deemed to consent to the withdrawal and the shareholder is reinstated to the shareholder's full rights as a shareholder, failing which the shareholder retains a status as a claimant against the corporation, to be paid as soon as the corporation is lawfully able to do so or, in a liquidation, to be ranked subordinate to the rights of creditors of the corporation but in priority to its shareholders.

(20) A corporation shall not make a payment to a dissenting shareholder under this section if there are reasonable grounds for believing that

- (a) the corporation is or would after the payment be unable to pay its liabilities as they become due, or
- (b) the realizable value of the corporation's assets would thereby be less than the aggregate of its liabilities."