

**PEYTO ENERGY TRUST**

**Notice of  
Annual Meeting of Unitholders  
to be held on May 29, 2007**

The annual meeting of the unitholders of Peyto Energy Trust will be held in McLeod Hall A of the Telus Convention Centre located at 120 - 9<sup>th</sup> Avenue S.E., Calgary, Alberta on Tuesday, May 29, 2007 at 2:30 p.m. (Calgary time) to:

1. receive and consider our financial statements for the year ended December 31, 2006, together with the auditors' report thereon;
2. fix the number of directors of Peyto Exploration & Development Corp. to be elected at the meeting at seven (7) members;
3. elect seven (7) directors of Peyto Exploration & Development Corp.;
4. appoint the auditors and authorize the directors to fix their remuneration as such; and
5. transact such other business as may properly be brought before the meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the meeting are set forth in the information circular-proxy statement accompanying this notice.

If you are unable to attend the meeting in person we request that you date and sign the enclosed form of proxy and mail it to or deposit it with our Corporate Secretary, c/o Valiant Trust Company, Suite 310, 606 - 4<sup>th</sup> Street S.W., Calgary, Alberta, T2P 1T1. In order to be valid and acted upon at the meeting, forms of proxy must be returned to the aforesaid address not less than 24 hours before the time for holding the meeting or any adjournment thereof.

Only unitholders of record at the close of business on April 23, 2007 will be entitled to vote at the meeting, unless that unitholder has transferred any trust units subsequent to that date and the transferee unitholder, not later than 10 days before the meeting, establishes ownership of the trust units and demands that the transferee's name be included on the list of unitholders.

DATED at Calgary, Alberta this 30<sup>th</sup> day of April, 2007.

By order of the Board of Directors of  
Peyto Exploration & Development Corp.

(signed) "*Darren Gee*"  
President and Chief Executive Officer

## **PEYTO ENERGY TRUST**

Information Circular-Proxy Statement  
for the Annual Meeting to be held on May 29, 2007

### **PROXIES**

#### **Solicitation of Proxies**

This information circular proxy statement is furnished in connection with the solicitation of proxies for use at the annual meeting of the unitholders of Peyto Energy Trust to be held on Tuesday, May 29, 2007 in McLeod Hall A of the Telus Convention Centre located at 120 – 9<sup>th</sup> Avenue S.E., Calgary, Alberta, and at any adjournment thereof. Forms of proxy must be addressed to and reach Valiant Trust Company, Suite 310, 606 - 4<sup>th</sup> Street S.W., Calgary, Alberta, T2P 1T1, not less than 24 hours before the time for holding the meeting or any adjournment thereof. Only unitholders of record at the close of business on April 23, 2007 will be entitled to vote at the meeting, unless that unitholder has transferred any trust units subsequent to that date and the transferee unitholder, not later than 10 days before the meeting, establishes ownership of the trust units and demands that the transferee's name be included on the list of unitholders.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation.

The persons named in the enclosed form of proxy are officers of Peyto Exploration & Development Corp. As a unitholder you have the right to appoint a person, who need not be a unitholder, to represent you at the meeting. To exercise this right you should insert the name of the desired representative in the blank space provided on the form of proxy and strike out the other names or submit another appropriate proxy.

#### **Advice to Beneficial Holders of Trust Units**

The information set forth in this section is of significant importance to you if you do not hold your trust units in your own name. Only proxies deposited by unitholders whose names appear on our records as the registered holders of trust units can be recognized and acted upon at the meeting. If trust units are listed in your account statement provided by your broker, then in almost all cases those trust units will not be registered in your name on our records. Such trust units will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such trust units are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Limited, which acts as nominees for many Canadian brokerage firms. Trust units held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your trust units.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your trust units are voted at the meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered unitholders. However, its purpose is limited to instructing the registered unitholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("Broadridge"). Broadridge mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternately, you can call their toll-free telephone number or visit their internet site to vote your trust units. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of trust units to be represented at the meeting. If you receive a voting instruction form from Broadridge it cannot be used as a proxy to vote trust units directly at the meeting as the proxy must be returned to Broadridge well in advance of the meeting in order to have the trust units voted.

#### **Revocability of Proxy**

You may revoke your proxy at any time prior to a vote. If you or the person you give your proxy attends personally at the meeting you or such person may revoke the proxy and vote in person. In addition to revocation in any other

manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation. To be effective the instrument in writing must be deposited either at our head office at any time up to and including the last business day before the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof.

### **Persons Making the Solicitation**

This solicitation is made on behalf of our management. We will bear the costs incurred in the preparation and mailing of the form of proxy, notice of annual meeting and this information circular-proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by our directors, officers and employees who will not be remunerated therefore.

### **Exercise of Discretion by Proxy**

The trust units represented by proxy in favour of management nominees will be voted on any poll at the meeting. Where you specify a choice with respect to any matter to be acted upon the trust units will be voted on any poll in accordance with the specification so made. If you do not provide instructions your trust units will be voted in favour of the matters to be acted upon as set out herein. The persons appointed under the form of proxy which we have furnished are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual meeting and with respect to any other matters which may properly be brought before the meeting or any adjournment thereof. At the time of printing this information circular proxy statement, we know of no such amendment, variation or other matter.

## **VOTING UNITS AND PRINCIPAL HOLDERS THEREOF**

We are authorized to issue an unlimited number of trust units without nominal or par value which may be issued for such consideration as may be determined by resolution of the Board of Directors. As at April 23, 2007, there were 105,712,364 trust units issued and outstanding. As a holder of trust units you are entitled to one vote for each trust unit you own.

To the knowledge of our directors and officers, as at April 23, 2007 no person or company beneficially owned, directly or indirectly, or exercised control or direction, over more than 10% of the trust units.

As at March 31, 2007, our directors and officers, as a group, beneficially owned, directly or indirectly, or exercised control over 19.6 million trust units or approximately 19% of the issued and outstanding trust units.

## **QUORUM FOR MEETING**

A quorum for the meeting is two or more persons either present in person or represented by proxy and representing in the aggregate not less than 5% of our outstanding trust units. If a quorum is not present at the meeting within one-half hour after the time fixed for the holding of the meeting, the meeting will be adjourned to such day being not less than 21 days later and to such place and time as may be determined by the chairman of the meeting. At such meeting, the unitholders present either personally or by proxy shall form a quorum.

## **APPROVAL REQUIREMENT**

All of the matters to be considered at the meeting are ordinary resolutions requiring approval by more than 50% of the votes cast in respect of the resolution by or on behalf of unitholders present in person or represented by proxy at the meeting.

## **MATTERS TO BE ACTED UPON AT THE MEETING**

### **Election of Directors**

At the meeting, the unitholders will be asked to fix the number of directors of Peyto Exploration & Development Ltd. to be elected at the meeting at seven (7) members and to elect seven (7) directors.

Management is soliciting proxies, in the accompanying form of proxy, for an ordinary resolution in favour of fixing the Board of Directors at seven (7) members, and in favour of the election as directors, until the next annual meeting of unitholders of Peyto Energy Trust, of the seven (7) nominees set forth below:

Rick Braund  
 Donald Gray  
 Michael MacBean  
 C. Ian Mottershead  
 Brian Davis  
 Darren Gee  
 Gregory Fletcher

In the event that a vacancy among such nominees occurs because of death or for any reason prior to the meeting, the proxy shall not be voted with respect to such vacancy.

The names and municipalities of residence of all of the persons nominated for election as directors, the approximate number of trust units beneficially owned, directly or indirectly, or over which control or direction is exercised, by each of them, the dates on which they became directors, and their principal occupations, as of April 23, 2007, were as follows:

Name and Age	Principal Occupation	Year Became Director	Number of Trust Units Beneficially Owned Directly or Indirectly or Over Which Control or Direction is Exercised
<b>Rick Braund</b> Calgary, Alberta Age: 51	Chairman of Buck Oil Ltd., a private oil and gas company, since 1999	October, 1998	2,427,675
<b>Donald Gray</b> Calgary, Alberta Age: 41	Private Investor; prior thereto, Mr. Gray was the Chief Executive Officer of Peyto from August 2006 to January 2007; prior thereto, Mr. Gray was the President and Chief Executive Officer of Peyto from October 1998 to August 2006	October, 1998	5,072,812
<b>Michael MacBean</b> <sup>(1)(2)(3)</sup> Swift Current, Saskatchewan Age: 39	Chief Executive Officer of Diamond Energy Services Inc., an oil services company since October 1998	June, 2003	211,500
<b>C. Ian Mottershead</b> <sup>(1)(2)(3)</sup> Vancouver, British Columbia Age: 66	Private Investor since June 2003; prior thereto, Mr. Mottershead was an officer of Phillips, Hager & North Investment Management Ltd., a Canadian investment manager, from July 1980 to June 2003	July, 2003	277,372
<b>Brian Davis</b> <sup>(1)(2)(3)</sup> Houston, Texas Age: 41	Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994	August, 2006	189,240

Name and Age	Principal Occupation	Year Became Director	Number of Trust Units Beneficially Owned Directly or Indirectly or Over Which Control or Direction is Exercised
<b>Darren Gee</b> Calgary, Alberta Age: 39	President and Chief Executive Officer of Peyto since January 2007 and President of Peyto since August 2006; prior thereto, Mr. Gee was the Vice-President, Engineering of Peyto from March 2001 to August 2006; prior thereto, Mr. Gee was a Manager of Exploitation Engineering for Husky Energy Inc.'s northwest plains business unit from April 2000 to April 2001	January, 2007	1,385,448
<b>Gregory Fletcher</b> <sup>(1)(2)(3)</sup> Calgary, Alberta Age: 58	President of Sierra Energy Inc., a private oil and gas production company, since 1997	January, 2007	10,000

Notes:

- (1) Member of the audit committee, which is required under the *Business Corporations Act* (Alberta).
- (2) Member of the reserve committee.
- (3) Member of the compensation and nominating committee.
- (4) We do not have an executive committee.

The information as to voting securities beneficially owned, directly or indirectly, is based upon information furnished to us by the nominees.

### Director's Biographies

#### ***Rick Braund***

Mr. Braund is a co-founder and the former Chairman of the Board of Directors of Peyto Exploration & Development Corp. Mr. Braund has over 25 years of experience in the Canadian oil and gas business, with both private and publicly traded corporations. Mr. Braund has previously acted for Peyto Exploration & Development Corp. in the land department.

#### ***Donald Gray***

Mr. Gray is a co-founder and former President and Chief Executive Officer of Peyto Exploration & Development Corp. Mr. Gray holds a BSC in petroleum engineering from Texas A&M University and has over 15 years experience in the Canadian oil and gas business in various capacities. Mr. Gray co-founded Peyto Exploration & Development Corp. in 1998 and efficiently grew production from zero to greater than 20,000 boe/day.

#### ***Michael MacBean***

Mr. MacBean is the Chairman of the Audit Committee of Peyto Exploration & Development Corp. Mr. MacBean is primarily engaged as Chief Executive Officer of Diamond Energy Services LP, a partnership engaged in the energy services sector. From 1995 through 1998, Mr. MacBean served as Controller and subsequently Senior Investment Analyst for ARC Financial Corporation. During this time Mr. MacBean also served as Vice-President, Finance for ARC Energy Trust. Prior to 1995, Mr. MacBean was the Manager of Financial Reporting and Taxation for Mannville Oil & Gas. Mr. MacBean received his Bachelor of Commerce Degree from the University of Saskatchewan in 1990. In 1993 Mr. MacBean received his C.A. designation from the Institute of Chartered Accountants of Alberta. In February 2007 Mr. MacBean received his Chartered Directors (C. Dir) designation from McMaster University.

***C. Ian Mottershead***

Mr. Mottershead is the Chairman of the Board of Directors and of the Compensation and Nominating Committee of Peyto Exploration & Development Corp. Mr. Mottershead spent 35 years in the investment management business at Harris & Partners from 1967 to 1972, Maclean McCarthy (1972 to 1980) and Phillips, Hager & North (1980 to 2003). During this tenure, Mr. Mottershead spent approximately 23 years as an analyst of oil and gas companies for investment (1980 to 2003). Mr. Mottershead received an MBA from Queens University in 1968 and his Chartered Financial Analyst designation in 1973.

***Brian Davis***

Mr. Davis is the Chairman of the Reserves Committee of Peyto Exploration & Development Corp. Mr. Davis is primarily engaged as the Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994. Mr. Davis has acquired significant experience and exposure to accounting and financial issues. Mr. Davis holds a BSC in petroleum engineering from College Station, Texas, USA.

***Darren Gee***

Mr. Gee is the President and Chief Executive Officer of Peyto Exploration & Development Corp. and was previously the Vice-President, Engineering of Peyto Exploration & Development Corp. commencing in 2000. Mr. Gee has over 10 years experience in the Canadian oil and gas business and was previously a Manager of Exploitation Engineering for Husky Energy Inc.'s northwest plains business unit from April 2000 to April 2001. Prior thereto, Mr. Gee was the Chief Exploitation Engineer for Renaissance Energy from February 1997 to August 2000. Mr. Gee has a BSC in mechanical engineering from the University of Alberta.

***Gregory Fletcher***

Mr. Fletcher is primarily engaged as the President of Sierra Energy Inc., a private oil and gas production company that he founded in 1997. Mr. Fletcher is also a director of Diamond Energy Services LP, a private oilfield service limited partnership, a director of Calfrac Well Services Ltd., a public oilfield service company, and a director of Total Energy Services Ltd., the administrator of Total Energy Services Trust, a public oilfield services income trust. From June 1998 to May 1999, Mr. Fletcher was also the President, Chief Executive Officer and a director of Canadian Conquest Exploration Inc. and prior to 1997 he was President, Chief Executive Officer and a director of Aztec Resources Ltd. In these roles, Mr. Fletcher has acquired significant experience and exposure to accounting and financial reporting issues. Mr. Fletcher holds a BSC in geology from the University of Calgary.

**Penalties or Sanctions**

No proposed director has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory relating to trading in securities, promotion or management of a publicly traded issuer or theft or fraud or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body or self regulatory authority that would be likely to be considered important to a reasonable investor making or deciding whether to vote for a proposed director.

**APPOINTMENT OF AUDITORS**

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of Deloitte & Touche LLP, Chartered Accountants, as our auditors, to hold office until the next annual meeting of the unitholders and to authorize the directors to fix their remuneration as such. Deloitte & Touche LLP was first appointed auditor of Peyto Energy Trust on June 3, 2004.

## DIRECTORS' AND OFFICERS' COMPENSATION

### Compensation and Nominating Committee

The Compensation and Nominating Committee is comprised of Messrs. Mottershead, MacBean, Davis and Fletcher. None of these directors are executive officers or employees of Peyto Exploration & Development Corp. The Compensation and Nominating Committee meets from time to time each year for the purpose of, among other things, reviewing the overall compensation policy of Peyto Exploration & Development Corp. The Compensation and Nominating Committee makes recommendations to the Board of Directors on salaries of officers, bonus allocations and directors' compensation. The Board of Directors reviews all recommendations of the Compensation and Nominating Committee relating to compensation matters before final approval.

### Report on Compensation

TO: The Unitholders of Peyto Energy Trust

#### *Executive and Employee Compensation Strategy*

Our compensation policies are founded on the principal that executive and employee compensation should be consistent with unitholders' interests and, therefore, the compensation strategy employed is weighted towards variable or performance based compensation. The objectives of the program are to attract and retain a high quality management and employee team and to motivate performance by tying a significant portion of the compensation to performance measures. The Compensation and Nominating Committee evaluates these objectives on an ongoing basis. We pay base salaries at or slightly below the median of our industry peers. We do not have a pension plan or other form of formal retirement compensation. Our compensation plan consists of the following items:

- base salary
- market based bonus
- reserves or value based bonus

The compensation of all our employees, including executive officers, is consistent with the above policies. A description of the criteria used in each element of compensation is set forth below.

#### *Base Salaries*

Our policy is that salaries for our executive officers and other employees are competitive within our industry and generally set at or slightly below the median salary level among entities our size.

#### *Market Based Bonus*

The purpose of the market based bonus (the "Market Component") is to provide officers, consultants, employees and other service providers, as applicable (all of which are hereinafter called "Service Providers"), of Peyto Energy Trust and any of its subsidiaries, including Peyto Exploration & Development Corp., with an opportunity to be issued allocations of the Market Component (referred to herein as "Rights"), as designated from time to time by the Board of Directors of Peyto Exploration & Development Corp., the value of which will be based primarily on the market value of the trust units and the distributions paid to unitholders. The Market Component provides an increased incentive for these Service Providers to contribute to the future success of Peyto Energy Trust, thus enhancing the value of the trust units for the benefit of all the unitholders. The Market Component is meant to mirror, to the extent possible, Peyto Exploration & Development Corp.'s previously outstanding option plan, with the exception that all payments are made in cash.

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 shall be generally equal to the weighted average of the per trust unit closing price of trust units traded through the facilities of the Toronto Stock Exchange on the five (5) consecutive trading days immediately preceding the date of grant. The Rights will have vesting

schedules as is determined by the Board of Directors, in their sole discretion. The Rights issued in 2003 and 2004 vest equally (as to  $\frac{1}{3}$  per year) over three (3) years on December 31 of each year, while the Rights granted in 2005 and 2006 generally vest in three years. At the end of each year, the vested Rights will be paid-out based on the formula set forth in the following paragraph. At the beginning of each calendar year, the Board of Directors of Peyto Exploration & Development Corp. will use its discretion to determine whether to award new Rights, the number of Rights awarded, if any, the vesting schedule of such Rights and the allocations. 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). In certain circumstances, a new Service Provider may be granted Rights at the time they commence providing services, the Grant Price of such Rights shall be the market price of the trust units at such time. 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 vesting of each Right, Peyto Energy Trust shall pay to the holder of such Right an amount equal to the sum of (i) the weighted average of the per trust unit closing price of trust units traded through the facilities of the Toronto Stock Exchange 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 Peyto Energy Trust per trust unit from the Grant Date to the date of vesting. For greater certainty, the sum calculated in (i) above may be negative if the weighted average trading price is less than the Grant Price. For grants made prior to 2007, this amount is multiplied by 1.33. The 1.33 multiplier is being utilized to neutralize the difference in tax treatment from the exercise of a stock option and the cash payouts under the Market Component. The gain realized by a holder of stock options is 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%. For grants subsequent to January 1, 2007, the 1.33 multiplier will not be utilized.

To date, 14.2 million Rights (inclusive of 1.6 million Rights granted in 2007) have been issued of which, 1.9 million vested on December 31, 2005 and 1.5 million vested on December 31, 2006 and were paid out shortly thereafter. To date, 2.6 million unvested Rights have been cancelled. Compensation expense with respect to Rights vested, for December 31, 2005 totalled \$45.0 million and for December 31, 2006 totalled \$8.5 million. Effective January 1, 2007, 1.6 million Rights were issued, with such Rights vesting in their entirety on December 31, 2009. It is the current intention of Peyto Energy Trust to keep the number of Rights outstanding at a number, which is no greater than 7% of the issued and outstanding trust units. There are currently 4.2 million Rights outstanding, notionally representing 4% of the issued and outstanding trust units.

### ***Reserves/Value Based Bonus***

The principal purpose of the Reserves/Value Based Component ("Value Component") is to advance the interests of Peyto Energy Trust and its subsidiaries by providing for bonuses for key employees and directors of Peyto Exploration & Development Corp. and its subsidiaries who are designated as participants thereunder. Currently, non-management directors do not participate in this plan. The goal in implementing the Value Component is to attract and retain such key employees and directors, make their compensation competitive with other opportunities, and provide them with an incentive to strive to achieve the financial and business objectives of Peyto Energy 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 trust unit but not to reward for increases in commodity prices.

The Value Component will be administered by the Chief Executive Officer of Peyto Exploration & Development Corp., who will select the participants in the Value Component from among key employees of Peyto Exploration & Development Corp. 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 and Nominating Committee of the Board of Directors. Allocations and payments made to the Chief Executive Officer will be determined by the Board of Directors of Peyto Exploration & Development Corp. Under the Value Component, the bonus pool is currently comprised of 3% of the annual 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 an 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, if any, under the Value Component shall be paid in cash. Compensation expense with respect to the Value Component totalled \$4.6 million in 2006 (2005 - \$12.8 million).

### ***Chief Executive Officer Compensation***

The compensation of the Chief Executive Officer of Peyto Exploration & Development Corp. is based on the same principles as our overall compensation strategy. Accordingly, a significant portion of the Chief Executive Officer's compensation is tied to performance measures. The base salary and bonus allocations made to the Chief Executive Officer reflect the role and responsibilities inherent in the position of Chief Executive Officer.

Given the unique nature of Peyto Exploration & Development Corp.'s business, the Compensation and Nominating Committee did not place significant emphasis on external compensation comparisons. However, comparison to other executives employed by Peyto Exploration & Development Corp. was considered by the Compensation and Nominating Committee. Given the nature of Peyto Exploration & Development Corp.'s business development and the roles adopted by the executive team, the Chief Executive Officer's overall compensation was, for the fiscal year end 2006, comparable to the compensation of the Chief Operating Officer and higher than other executives employed by Peyto Exploration & Development Corp. If either the nature of Peyto Exploration & Development Corp.'s operations or the role played by the Chief Executive Officer changes, the level of the Chief Executive Officer's compensation, relative to other executives, may also change.

The bonuses awarded by Peyto Exploration & Development Corp. reward executives for performance on several dimensions, namely, the increase in market price of Peyto Energy Trust's trust units, the amount of cash distributions paid on the trust units as well as growth in proven producing reserve value. The bonus granted under the market based bonus vests over a three year period. Over the last three financial years, Peyto Energy Trust grew on all these performance parameters and the Chief Executive Officer compensation reflects this growth. However, the quantum of the Chief Executive Officer's bonus has reflected the relative performance on these three dimensions.

For the year ended December 31, 2006, Mr. Gray was paid a salary of \$250,000, was paid \$645,981 pursuant to the vesting of Rights under the market based bonus and was paid \$0 pursuant to the reserves value based bonus. For the year ended December 31, 2006 Mr. Gee was paid a salary of \$185,000, was paid \$1,937,943 pursuant to the vesting of Rights under the market based bonus and was paid \$466,059 pursuant to the reserves value based bonus.

### ***Summary***

The Board of Directors believe that long-term unitholder value is enhanced by compensation based upon corporate performance achievements. Through the plans described above, a significant portion of the compensation for all employees, including executive officers, is based on corporate performance, as well as industry-competitive pay practices.

Board Members:           C. Ian Mottershead  
                                  Michael MacBean  
                                  Brian Davis  
                                  Gregory Fletcher

### **Compensation of Named Executive Officers**

The following table sets forth information concerning the compensation paid to our Chief Executive Officer, Vice-President, Finance and the next three highest paid executive officers for the years ended December 31, 2006, 2005 and 2004.

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$) <sup>(3)</sup>	Other Annual Compensation (\$)	Awards		Payouts	
					Securities Under Options /SARS Granted (#) <sup>(4)(5)</sup>	Restricted Trust Units or Restricted Share Trust Units (\$)	LTI Payouts (\$)	
Donald Gray President and Chief Executive Officer <sup>(9)</sup>	2006	250,000	645,981	Nil	Nil	Nil	N/A	Nil
	2005	210,000	15,302,021	Nil	120,000	Nil	N/A	Nil
	2004	210,000	13,419,509	Nil	297,000	Nil	N/A	Nil
Darren Gee President and Chief Executive Officer <sup>(10)</sup>	2006	172,667	2,404,002	Nil	310,000	Nil	N/A	Nil
	2005	145,000	8,860,842	Nil	320,000	Nil	N/A	Nil
	2004	145,000	7,209,332	Nil	224,000	Nil	N/A	Nil
Scott Robinson Executive Vice-President and Chief Operating Officer <sup>(2)</sup>	2006	176,667	2,844,295	Nil	310,000	Nil	N/A	Nil
	2005	165,000	5,561,910	Nil	340,000	Nil	N/A	Nil
	2004	165,000	4,181,378	Nil	200,000	Nil	N/A	Nil
Kathy Turgeon Vice-President, Finance <sup>(6)</sup>	2006	150,000	384,833	Nil	188,000	Nil	N/A	Nil
	2005	-	-	Nil	-	Nil	N/A	Nil
	2004	-	-	-	-	-	-	-
Kenneth Veres Vice-President, Exploration <sup>(7)</sup>	2006	160,000	318,448	Nil	260,000	Nil	N/A	Nil
	2005	126,000	1,532,284	Nil	240,000	Nil	N/A	Nil
	2004	-	-	-	-	-	-	-
Glenn Booth Vice-President, Land <sup>(8)</sup>	2006	160,000	291,996	Nil	260,000	Nil	N/A	Nil
	2005	72,159	666,000	Nil	Nil	Nil	N/A	Nil
	2004	-	-	-	-	-	-	-

Notes:

- (1) The value of perquisites and other personal benefits received by the named executive officers is not greater than \$50,000 and 10% of the total salary and bonus for the period.
- (2) On January 1, 2004 Mr. Scott Robinson was hired as Vice-President, Operations at a salary of \$165,000, on an annualized basis. On August 8, 2006 he became the Executive Vice-President and Chief Operating Officer.
- (3) Such amounts have been paid in 2007 pursuant to both the Market Based Bonus and Reserves Based Bonus.
- (4) The number represents Rights issued pursuant to the Market Based Bonus.
- (5) 2004 grants are prior to the 2 for 1 trust unit split which was effective May 31, 2005.
- (6) Appointed Vice-President, Finance on January 1, 2006, prior thereto Ms. Turgeon was the Controller.
- (7) On March 7, 2005 Mr. Kenneth Veres was hired as Vice-President, Exploration at a salary of \$150,000, on an annualized basis.
- (8) On July 6, 2005 Mr. Glenn Booth was hired as Vice-President, Land at a salary of \$150,000 on an annualized basis.
- (9) Retired from his position as President on August 8, 2006 and his position of Chief Executive Officer on January 1, 2007.
- (10) Became President on August 8, 2006. On January 1, 2007 Mr. Darren Gee was appointed the Chief Executive Officer.

**Rights Granted During the Year Ended December 31, 2006**

Rights issued pursuant to the Market Based Bonus are listed below, as their value depends, in part, on the market price of the trust units. For more information on the Market Based Bonus, please see "*Board of Directors Report on Compensation - Market Based Bonus*".

The following table sets forth details with respect to all Rights granted pursuant to the Market Based Bonus to our Chief Executive Officer, Vice-President, Finance and the next three highest paid executive officers during 2006.

Name	Rights Granted (#)	Percentage of Total Rights Granted to Employees in 2006 (%)	Base Price (\$/Security)	Market Value of Securities Underlying Rights on Date of Grant (\$/Security)	Expiration Date
Donald Gray <sup>(1)</sup>	150,000	7	\$25.38	\$25.38	December 31, 2008
Darren Gee	170,000	8	\$25.38	\$25.38	December 31, 2008
Kathy Turgeon	70,000	3	\$25.38	\$25.38	December 31, 2008
Scott Robinson	170,000	8	\$25.38	\$25.38	December 31, 2008
Kenneth Veres	140,000	7	\$25.38	\$25.38	December 31, 2008
Glenn Booth	140,000	7	\$25.38	\$25.38	December 31, 2008

Note:

- (1) Subsequently cancelled August 8, 2006.

### Rights Vested During the Year Ended December 31, 2006 and Year End Values

The following table sets forth with respect to our Chief Executive Officer, Vice-President, Finance and the next three highest paid executive officers, the number of Rights vested pursuant to the Market Based Bonus, and the number of unvested Rights and their value based upon the five (5) day weighted average trading price immediately preceding year end of the trust units of \$17.68 and the aggregate amount of distributions paid as at December 31, 2006.

Name	Securities Acquired on Exercise (#)	Rights Vested (#)	Aggregate Value Realized (\$) <sup>(1)</sup>	Balance of Rights at Year End (#)		Value of In-The-Money Rights at Year End (\$)	
				Vested	Unvested	Vested	Unvested
Donald Gray	-	60,000	645,981	-	-	-	-
Darren Gee	-	180,000	1,937,943	-	310,000	-	-
Kathy Turgeon	-	84,000	179,683	-	188,000	-	-
Scott Robinson	-	200,000	2,419,270	-	310,000	-	-
Kenneth Veres	-	120,000	-	-	260,000	-	-
Glenn Booth	-	120,000	-	-	260,000	-	-

Note:

- (1) Included as part of the annual bonus as set forth in the annual compensation table above.

### Director and Officer Equity Ownership

The following tables set out each current Directors' and Officers' equity ownership interest in Peyto Energy Trust and any changes in the ownership interest since March 27, 2006.

#### Directors

Director	Directors' Equity Ownership and Changes Therein			Market Value of Equity Holdings as at March 31, 2007 (\$)
	Equity Ownership as at March 27, 2006	Equity Ownership as at March 31, 2007	Net Change in Equity Ownership	
	Trust Units	Trust Units	Trust Units	
Rick Braund	2,514,015	2,427,675	(86,340)	41,998,778
Donald Gray	4,775,979	5,072,812	296,833	87,759,648

	Directors' Equity Ownership and Changes Therein			Market Value of Equity Holdings as at March 31, 2007 (\$)
	Equity Ownership as at March 27, 2006	Equity Ownership as at March 31, 2007	Net Change in Equity Ownership	
Director	Trust Units	Trust Units	Trust Units	
John Boyd	8,906,176	9,004,709	98,533	155,781,466
Michael MacBean	221,500	211,500	(10,000)	3,658,950
C. Ian Mottershead	270,456	277,372	6,916	4,798,536
Brian Davis	189,240	189,240	-	3,276,966
Darren Gee	1,294,408	1,385,448	91,040	23,968,250
Gregory Fletcher	-	10,000	10,000	173,000

**Officers**

	Officers' Equity Ownership and Changes Therein			Market Value of Equity Holdings as at March 31, 2007 (\$)
	Equity Ownership as at March 27, 2006	Equity Ownership as at March 31, 2007	Net Change in Equity Ownership	
Officer	Trust Units	Trust Units	Trust Units	
Scott Robinson	298,817	349,037	50,220	6,038,340
Glenn Booth	24,280	35,360	11,080	611,728
Kenneth Veres	39,480	51,570	12,090	892,161
Kathy Turgeon	39,570	48,950	9,380	846,835
Stephen Chetner	528,485	534,333	5,848	9,243,961

**Directors**

Each of the directors of Peyto Exploration & Development Corp. with the exception of Mr. Darren Gee, Mr. Don Gray and Mr. Rick Braund, who in 2006 were employees or consultants of Peyto Exploration & Development Corp., receives an annual retainer plus expenses of attending meetings of the Board of Directors. The retainers range from \$20,000 per annum to \$40,000 per annum depending on committee membership, undertaking the role of a committee chair and other relevant factors considered by the Compensation and Nominating Committee.

It is a requirement that directors hold trust units which have a dollar value, calculated at the time of becoming a director, of not less than \$160,000, which is four times the maximum annual retainer. Directors are expected to reach this level within one year of appointment.

The following chart sets out the compensation of the directors of Peyto Exploration & Development Corp. for 2006.

Name	Independent	Committees Served	Compensation
Rick Braund	No	Not Applicable	Nil
Donald Gray	No	Not Applicable	Nil
John Boyd	Yes	Compensation and Nominating Committee	\$20,000
Brian Craig	Yes	Audit Committee Reserves Committee Compensation and Nominating Committee	\$30,000
Michael MacBean	Yes	Audit Committee (Chair) Reserves Committee Compensation and Nominating Committee	\$40,000
C. Ian Mottershead	Yes	Chairman of the Board Audit Committee Reserves Committee Compensation and Nominating Committee (Chair)	\$40,000

Name	Independent	Committees Served	Compensation
Brian Davis	Yes	Audit Committee Reserves Committee (Chair) Compensation and Nominating Committee	Not Applicable
Darren Gee	No	Not Applicable	Nil
Gregory Fletcher	Yes	Audit Committee Reserves Committee Compensation and Nominating Committee	Not Applicable

Notes:

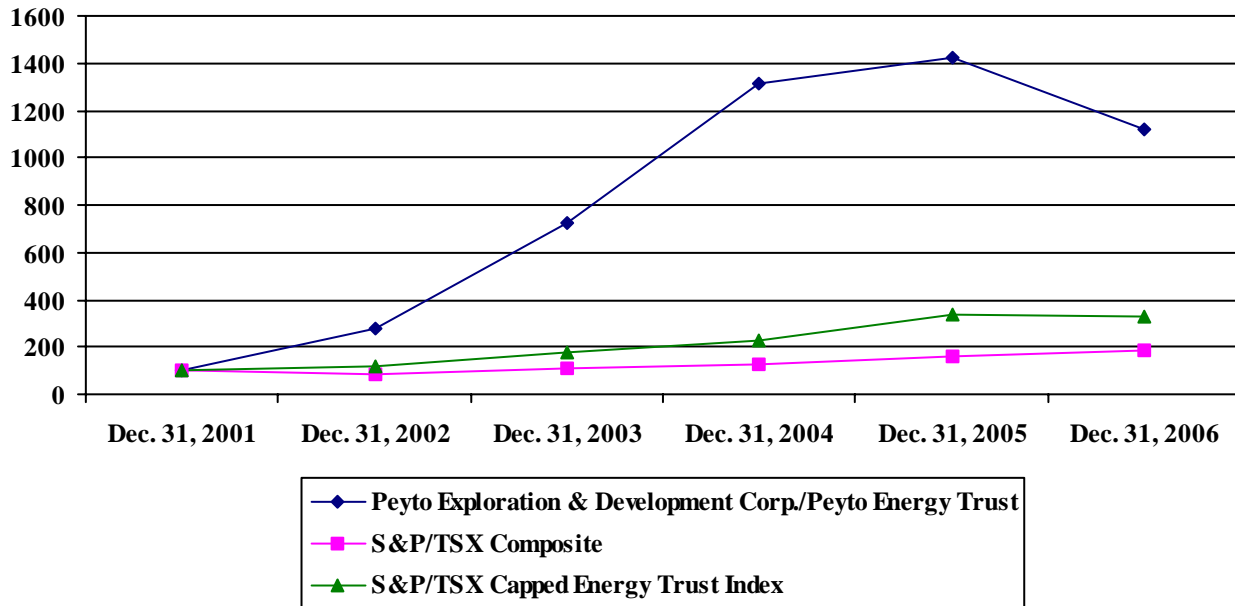
- (1) Payments are made annually after the annual meeting of unitholders.
- (2) Payments set forth above reflect payments made immediately after the annual and special meeting of unitholders held on May 16, 2006. Directors appointed after this date will not be compensated until after the annual meeting of unitholders to be held on May 29, 2007.

**Liability Insurance of Directors and Officers**

Peyto Exploration & Development Corp. maintains directors' and officers' liability insurance coverage, in the amount of \$20 million, for losses to Peyto Exploration & Development Corp. if it is required to reimburse directors and officers, where permitted, and for direct indemnity of directors and officers where corporate reimbursement is not permitted by law. The insurance protects Peyto Exploration & Development Corp. against liability (including costs), subject to standard policy exclusions, which may be incurred by directors and/or officers acting in such capacity for Peyto Exploration & Development Corp. All directors and officers of Peyto Exploration & Development Corp. are covered by the policy and the amount of insurance applies collectively to all. The cost of this insurance policy is \$112,510 per annum.

**Performance Graph**

The following graph illustrates changes from December 31, 2001 to December 31, 2006, in cumulative unitholder return, assuming an initial investment of \$100 in trust units with all cash distributions reinvested, compared to the S&P/TSX Composite Index and the S&P/TSX Capped Energy Trust Index, with all dividends and distributions reinvested.



	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2006
Peyto Exploration & Development Corp./Peyto Energy Trust <sup>(1)</sup>	100	280.86	728.06	1,312.60	1,422.79	1,122.74
S&P/TSX Composite Index <sup>(2)</sup>	100	87.56	110.96	127.03	157.68	184.89
S&P/TSX Capped Energy Trust Index <sup>(3)</sup>	100	119.11	174.38	227.59	339.98	327.33

Notes:

- (1) Represents common shares of Peyto Exploration & Development Corp. prior to July 4, 2003 when the trust units of Peyto Energy Trust commenced trading on the Toronto Stock Exchange following the reorganization.
- (2) The S&P/TSX Composite Index was previously called the TSX 300 Index.
- (3) The S&P/TSX Capped Energy Trust Index was previously called the S&P/TSX Canadian Energy Trust Index.

## CORPORATE GOVERNANCE PRACTICES

National Instrument 58-101, entitled "Disclosure of Corporate Governance Practices" ("NI 58-101") requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors that certain prescribed disclosure respecting corporate governance matters be included in its management information circular. The Toronto Stock Exchange also requires listed companies to provide, on an annual basis, the corporate governance disclosure which is prescribed by NI 58-101.

The prescribed corporate governance disclosure for Peyto Exploration & Development Corp. (the "Corporation"), the administrator of Peyto Energy Trust, is that contained in Form 58-101F1 which is attached to NI 58-101 ("Form 58-101F1 Disclosure").

Set out below is a description of the Corporation's current corporate governance practices, relative to the Form 58-101F1 Disclosure.

### 1. Board of Directors

#### (a) Disclose the identity of directors who are independent.

The following five directors of the Corporation are independent (for purposes of NI 58-101):

C. Ian Mottershead (Chairman)  
 Michael MacBean  
 John Boyd  
 Brian Craig (Retired on August 24, 2006)  
 Brian Davis (Appointed on August 24, 2006)  
 Gregory Fletcher (Appointed on January 1, 2007)

#### (b) Disclose the identity of directors who are not independent, and describe the basis for that determination.

Darren Gee is not independent as he occupies the position of President and Chief Executive Officer of the Corporation.

Donald Gray is not independent as he has been an executive of the Corporation within the last three years.

Rick Braund is not independent as he has acted for the Corporation, in various capacities, in the Land Department within the last three years.

#### (c) Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the Board) does to facilitate its exercise of independent judgement in carrying out its responsibilities.

A majority of the directors of the Corporation (currently five of the eight) are independent.

- (d) **If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.**

The following directors are presently directors of other issuers that are reporting issuers (or the equivalent):

<u>Name of Director</u>	<u>Name of Other Reporting Issuers</u>
Gregory Fletcher	Total Energy Services Ltd., the administrator of Total Energy Services Trust Calfrac Well Services Ltd.

- (e) **Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the Board does to facilitate open and candid discussion among its independent directors.**

At the end of or during each meeting of the Board, the members of management of the Corporation and the non-independent directors of the Corporation who are present at such meeting leave the meeting in order for the independent directors to meet. In addition, as the Compensation and Nominating Committee is comprised of all the independent directors, it also serves as a forum for discussion amongst independent members of the Board. In addition, other meetings of the independent directors may be held from time to time if required. The Chairman of the Board also communicates informally, from time to time, with the independent members. Five (5) meetings of the independent directors have been held since the beginning of the Corporation's most recently completed financial year.

- (f) **Disclose whether or not the chair of the Board is an independent director. If the Board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the Board has neither a chair that is independent nor a lead director that is independent, describe what the Board does to provide leadership for its independent directors.**

The Chairman of the Board is C. Ian Mottershead, who is an independent member of the Board. The Chairman presides at all meetings of the Board and, unless otherwise determined, at all meetings of shareholders and to enforce the rules of order in connection with such meetings. The Chairman is to provide overall leadership to the Board without limiting the principle of collective responsibility and the ability of the Board to function as a unit. The Chairman is to endeavour to fulfill his Board responsibilities in a manner that will ensure that the Board is able to function independently of management and is to consider, and allow for, when appropriate, a meeting of independent directors, so that Board meetings can take place without management being present. The Chairman is also to endeavour to ensure that reasonable procedures are in place to allow directors to engage outside advisors at the expense of the Corporation in appropriate circumstances.

- (g) **Disclose the attendance record of each director for all Board meetings held since the beginning of the issuer's most recently completed financial year.**

The attendance record of each of the directors of the Corporation for Board meetings and committee meetings held since January 1, 2006, is as follows:

<u>Name of Director</u>	<u>Attendance Record</u>	
C. Ian Mottershead	6 out of 6	Board Meetings
	4 out of 4	Audit Committee Meetings
	1 out of 1	Reserves Committee Meetings
	2 out of 2	Compensation and Nominating Committee Meetings
Don Gray	6 out of 6	Board Meetings
Rick Braund	6 out of 6	Board Meetings

Name of Director	Attendance Record	
Brian Craig <sup>(1)</sup>	3 out of 5 3 out of 3 1 out of 1 2 out of 2	Board Meetings Audit Committee Meetings Reserves Committee Meetings Compensation and Nominating Committee Meeting
John Boyd	5 out of 6 2 out of 2	Board Meetings Compensation and Nominating Committee Meetings
Michael MacBean	6 out of 6 4 out of 4 1 out of 1 2 out of 2	Board Meetings Audit Committee Meetings Reserves Committee Meetings Compensation and Nominating Committee Meetings
Brian Davis <sup>(2)</sup>	1 out of 1 1 out of 1	Board Meeting Audit Committee Meetings

Notes:

- (1) Resigned from the Board of Directors on August 24, 2006. Mr. Craig's attendance record is for meetings held while he was a director.
- (2) Became a director of the Corporation on August 24, 2006. Mr. Davis' attendance record is for meetings held subsequent to his appointment as a director.

**2. Board Mandate – Disclose the text of the Board's written mandate. If the Board does not have a written mandate, describe how the Board delineates its role and responsibilities.**

The mandate of the Board is attached to this Information Circular as Schedule "A".

**3. Position Descriptions**

- (a) Disclose whether or not the Board has developed written position descriptions for the chair and the chair of each Board committee. If the Board has not developed written position descriptions for the chair and/or the chair of each Board committee, briefly describe how the Board delineates the role and responsibilities of each such position.**

The Board has developed written position descriptions for the Chairman of the Board as well as the Chairman of each of the committees of the Board. The position descriptions are available on the Trust's website under the heading "Corporate Governance".

- (b) Disclose whether or not the Board and Chief Executive Officer have developed a written position description for the Chief Executive. If the Board and Chief Executive Officer have not developed such a position description, briefly describe how the Board delineates the role and responsibilities of the Chief Executive Officer.**

The Board, with the input of the Chief Executive Officer of the Corporation, has developed a written position description for the Chief Executive Officer. The position description is available on the Trust's website under the heading "Corporate Governance".

**4. Orientation and Continuing Education**

- (a) Briefly describe what measures the Board takes to orient new directors regarding (i) the role of the Board, its committees and its directors, and (ii) the nature and operation of the issuer's business.**

While the Corporation does not currently have a formal orientation and education program for new recruits to the Board, the Corporation has historically provided such orientation and education on an informal basis. As new directors have joined the Board, management has provided these individuals with corporate policies, historical information about the Corporation, as well as information on the Corporation's performance and its strategic plan with an outline of the general duties and responsibilities entailed in

carrying out their duties. The Board believes that these procedures have proved to be a practical and effective approach in light of the Corporation's particular circumstances, including the size of the Corporation, limited turnover of the directors and the experience and expertise of the members of the Board.

- (b) **Briefly describe what measures, if any, the Board takes to provide continuing education for its directors. If the Board does not provide continuing education, describe how the Board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.**

No formal continuing education program currently exists for the directors of the Corporation; however, the Corporation encourages directors to attend, enrol or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters and has agreed to pay the cost of such courses and seminars. Each director of the Corporation has the responsibility for ensuring that he maintains the skill and knowledge necessary to meet his obligations as a director.

## 5. Ethical Business Conduct

- (a) **Disclose whether or not the Board has adopted a written code for the directors, officers and employees. If the Board has adopted a written code:**

The Corporation has adopted a Code of Business Conduct and Ethics for directors, officers and employees (the "Code").

- (i) **disclose how a person or company may obtain a copy of the code;**

A copy of the Code may be obtained by contacting the Investor Relations department of the Corporation at (jgrant@peyto.com) and is also available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Trust's website under the heading "Corporate Governance".

- (ii) **describe how the Board monitors compliance with its code, or if the Board does not monitor compliance, explain whether and how the Board satisfies itself regarding compliance with its code; and**

The Board monitors compliance with the Code by requiring that each of the senior officers of the Corporation to affirm in writing on an annual basis his or her agreement to abide by the Code, as to his or her ethical conduct and with respect to any conflicts of interest. Please also see 5(c) below for a discussion of the whistleblower policy.

- (iii) **provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.**

There have been no material change reports filed since the beginning of the Corporation's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the Code.

- (b) **Describe any steps the Board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.**

In accordance with the *Business Corporations Act* (Alberta), directors who are a party to, or are a director or an officer of a person which is a party to, a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. In addition, in certain cases, an independent committee of the Board may be formed to deliberate on such matters in the absence of the interested party.

- (c) **Describe any other steps the Board takes to encourage and promote a culture of ethical business conduct.**

In addition to the Code, the Board has also adopted a "Whistleblower Policy" wherein employees and consultants of the Corporation are provided with the mechanics by which they may raise concerns about incorrect financial reporting, unlawful activities, actions that violate the Code and any other serious improper conduct in a confidential, anonymous process. A copy of this policy is available on the Trust's website under the heading "Corporate Governance".

## **6. Nomination of Directors**

- (a) **Describe the process by which the Board identifies new candidates for Board nomination.**

The Compensation and Nominating Committee is responsible for recommending suitable candidates for nominees for election or appointment as director, and recommending the criteria governing the overall composition of the Board and governing the desirable characteristics for directors. In making such recommendations, the Compensation and Nominating Committee is to consider: (i) the competence and skills that the Board considers to be necessary for the Board, as a whole, to possess; (ii) the competence and skills that the Board considers each existing director to possess; (iii) the competencies and skills that each new nominee will bring to the boardroom; and (iv) whether or not each new nominee can devote sufficient time and resources to his or her duties as a member of the Board. The Compensation and Nominating Committee also monitors the age of the directors to ensure that the mandatory retirement age of 75 is upheld.

The Compensation and Nominating Committee is also to review on a periodic basis the composition of the Board to ensure that an appropriate number of independent directors sit on the Board, and analyze the needs of the Board and recommend nominees who meet such needs.

- (b) **Disclose whether or not the Board has a nominating committee composed entirely of independent directors. If the Board does not have a nominating committee composed entirely of independent directors, describe what steps the Board takes to encourage an objective nomination process.**

The Compensation and Nominating Committee, which is responsible for nominating directors, is comprised of only independent directors.

- (c) **If the Board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.**

See item 6(a).

## **7. Compensation**

- (a) **Describe the process by which the Board determines the compensation for the issuer's directors and officers.**

### *Compensation of Directors*

The Compensation and Nominating Committee conducts a yearly review of directors' compensation having regard to various reports on current trends in directors' compensation and compensation data for directors of reporting issuers of comparative size to the Corporation.

### *Compensation of Officers*

The Chairman of the Compensation and Nominating Committee has ongoing communication with the Chief Executive Officer regarding compensation matters for the upcoming fiscal year. After such background communication, the two meet in person to discuss compensation matters, with the Chairman and the Chief Executive Officer striving to ensure that the executive compensation is consistent with the general principles as set forth under the heading "*Board of Directors Report on Compensation*". The

Chairman and Chief Executive Officer go through the proposed executive compensation for each executive, including salary and participation levels in the bonus plans. The Chairman then meets with the other members of the Compensation and Nominating Committee and briefs them on the discussions held with the Chief Executive Officer. The full Compensation and Nominating Committee discusses the proposed executive compensation, in light of the strategic, operating and financial objectives of the Corporation as well as industry norms and conditions. If general or specific issues are raised, the Compensation and Nominating Committee will debate them. The full Compensation and Nominating Committee then meets with the Chief Executive Officer to discuss such matters and raise any questions or issues they may have regarding executive compensation. In light of the Corporation's size and small number of employees, these meetings allow the Compensation and Nominating Committee to get a sense of the practical issues involved in determining compensation levels for the executives. The Compensation and Nominating Committee then deals specifically with setting the compensation of the Chief Executive Officer. The Compensation and Nominating Committee then discusses and debates, as necessary, the specific executive compensation proposals. If further clarification is necessary, the Chairman will ask the Chief Executive Officer for information. Once the levels are agreed to by the members of the Compensation and Nominating Committee, they are formally approved.

Please also see discussion under the heading "*Board of Directors Report on Compensation*".

- (b) Disclose whether or not the Board has a compensation committee composed entirely of independent directors. If the Board does not have a compensation committee composed entirely of independent directors, describe what steps the Board takes to ensure an objective process for determining such compensation.**

The Compensation and Nominating Committee is comprised entirely of independent directors.

- (c) If the Board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.**

The Compensation and Nominating Committee's responsibility to for formulate and make recommendations to the Board in respect of compensation issues relating to directors and officers of the Corporation. Without limiting the generality of the foregoing, the Compensation and Nominating Committee has the following duties:

- (i) advise the Board on executive compensation matters.
- (ii) review and recommend a compensation philosophy, guidelines and plans for the Corporation's executives and employees.
- (iii) review and approve corporate goals and objectives relevant to Chief Executive Officer compensation.
- (iv) evaluate the Chief Executive Officer's performance in light of those goals, and make recommendations to the Board with regard to the Chief Executive Officer's compensation based on this evaluation.
- (v) in consultation with the Chief Executive Officer, review and approve non-Chief Executive Officer compensation, incentive-compensation plans, and equity-based plans.
- (vi) review and approve all discretionary compensation granted.
- (vii) review and approve fees to be paid to members of the Board of directors.
- (viii) review executive compensation disclosure before it is publicly disclosed.
- (ix) be the forum for meetings of all independent directors of the Corporation.

The Compensation and Nominating Committee is required to be comprised of at least three directors, or such greater number as the Board may determine from time to time. All members of the Committee are required to be independent, as such term is defined for this purpose under applicable securities requirements. Pursuant to the mandate and terms of reference of the Compensation and Nominating Committee, meetings of the Committee are to take place at least two times per year and at such other times as the Chair of the Compensation and Nominating Committee may determine.

- (d) **If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.**

A compensation or consultant has not, at any time since the beginning of the Corporation's most recently completed financial year, been retained to assist in determining compensation for any of the Corporation's directors and officers.

8. **Other Board Committees – If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.**

Other than the audit, compensation and nominating committees, the Corporation has established a Reserves Committee. The Reserves Committee is comprised entirely of independent directors.

The Reserves Committee is responsible for various matters relating to reserves of the Corporation that may be delegated to the Reserves Committee pursuant to National Instrument 51-101 (Standards of Disclosure for Oil and Gas Activities) ("NI 51-101"), including:

- (i) reviewing the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities including reviewing its procedures for complying with its disclosure requirements and restrictions set forth under applicable securities requirements;
  - (ii) reviewing the Corporation's procedures for providing information to the independent evaluator;
  - (iii) meeting, as considered necessary, with management and the independent evaluator to determine whether any restrictions placed by management affect the ability of the evaluator to report without reservation on the Reserves Data (as defined in NI 51-101) (the "Reserves Data") and to review the Reserves Data and the report of the independent evaluator thereon (if such report is provided);
  - (iv) reviewing the appointment of the independent evaluator and, in the case of any proposed change to such independent evaluator, determining the reason therefor and whether there have been any disputes with management;
  - (v) providing a recommendation to the Board as to whether to approve the content or filing of the statement of the Reserves Data and other information that may be prescribed by applicable securities requirements including any reports of the independent engineer and of management in connection therewith;
  - (vi) reviewing the Corporation's procedures for reporting other information associated with oil and gas producing activities; and
  - (vii) generally reviewing all matters relating to the preparation and public disclosure of estimates of the Corporation's reserves.
9. **Assessments – Disclose whether or not the Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted,**

**describe how the Board satisfies itself that the Board, its committees, and its individual directors are performing effectively.**

The Compensation and Nominating Committee is responsible by its terms of reference to evaluate the effectiveness of the Board, committees and individual directors. The Committee has recently begun work in developing the methodologies to be used to evaluate the Board and individual directors. The Board intends to complete its first assessments in fiscal 2007.

**INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

Neither the Trustee, nor any director or executive officer of any subsidiary of Peyto Energy Trust, is, or has at any time since the beginning of Peyto Energy Trust's last completed financial year, been indebted to Peyto Energy Trust or any of its subsidiaries, nor is or has the indebtedness of any such persons to another entity been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by Peyto Energy Trust or any of its subsidiaries.

**AGGREGATE INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, there were no material interests, direct or indirect, of directors or executive officers of Peyto Exploration & Development Corp., any securityholder who beneficially owns, directly or indirectly, or exercise control or direction over more than 10% of the outstanding trust units, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the last completed financial year of Peyto Energy Trust or in any proposed transaction which has materially affected or would materially affect Peyto Energy Trust or any of its subsidiaries.

**INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

Our management is not aware of any material interest of any director or executive officer or anyone who has held office as such since the beginning of our last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the meeting, save as is disclosed herein.

**ADDITIONAL INFORMATION**

Additional information relating to Peyto Energy Trust is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information in respect of Peyto Energy Trust and its affairs is provided in Peyto Energy Trust's annual audited comparative financial statements for the year ended December 31, 2006 and the related management's discussion and analysis. Copies of Peyto Energy Trust's financial statements and related management discussion and analysis are available upon request from Peyto Exploration & Development Corp. at Suite 2900, 450 – 1<sup>st</sup> Street S.W., Calgary, Alberta, T2P 5H1, Attention: Kathy Turgeon, telephone (403) 263-2950, or teletcopy (403) 261-8976.

**OTHER MATTERS**

The management of Peyto Exploration & Development Corp. knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of annual meeting. However, if any other matter properly comes before the meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

The contents and the sending of this information circular proxy statement have been approved by our directors.

Dated: April 30, 2007

## **SCHEDULE "A"**

### **PEYTO EXPLORATION & DEVELOPMENT CORP.**

#### **MANDATE OF THE BOARD OF DIRECTORS**

The Board of Directors (the "Board") of Peyto Exploration & Development Corp. (the "Corporation"), as administrator of Peyto Energy Trust (the "Trust"), is responsible for the stewardship of the Corporation. In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of the Corporation. In general terms, the Board will:

- (A) in consultation with the chief executive officer of the Corporation (the "CEO"), define the principal objective(s) of the Corporation;
- (B) supervise the management of the business and affairs of the Corporation with the goal of achieving the Corporation's principal objective(s) as defined by the Board;
- (C) discharge the duties imposed on the Board by applicable laws; and
- (D) for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.

Without limiting the generality of the foregoing, the Board will perform the following duties:

#### **Strategic Direction, Operating, Capital and Financial Plans**

1. require the CEO to present annually to the Board a yearly business plan for the Corporation's business, which plans must:
  - (a) be designed to achieve the Corporation's principal objectives,
  - (b) identify the principal strategic and operational opportunities and risks of the Corporation's business, and
  - (c) be approved by the Board as a pre-condition to the implementation of such plans;
2. review progress towards the achievement of the goals established in the strategic, operating and capital plans;
3. identify the principal risks of the Corporation's business and take all reasonable steps to ensure the implementation of the appropriate systems to manage these risks;
4. approve the annual operating and capital plans, as may be amended from time to time;
5. approve issuances of additional trust units of the Trust or other securities to the public;
6. monitor the Corporation's progress towards its goals, and to revise and alter its direction through management in light of changing circumstances;

#### **Management and Organization**

7. appoint the CEO and determine the terms of the CEO's employment with the Corporation;
8. in consultation with the CEO, develop a position description for the CEO;
9. evaluate the performance of the CEO at least annually;

10. in consultation with the CEO, establish the limits of management's authority and responsibility in conducting the Corporation's business;
11. in consultation with the CEO, appoint all officers of the Corporation and approve the terms of each officer's employment with the Corporation;
12. receive annually from the CEO the CEO's evaluation of the performance of each senior officer;
13. develop a system under which succession to senior management positions will occur in a timely manner;
14. approve any proposed significant change in the management organization structure of the Corporation;
15. approve all retirement plans, if any, for officers and employees of the Corporation;
16. in consultation with the CEO, establish a communications/disclosure policy for the Corporation;
17. generally provide advice and guidance to management;

### **Finances and Controls**

18. use reasonable efforts to ensure that the Corporation maintains appropriate systems to manage the risks of the Corporation's business;
19. monitor the appropriateness of the Corporation's capital structure;
20. ensure that the financial performance of the Corporation is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
21. in consultation with the CEO, establish the ethical standards to be observed by all officers and employees of the Corporation and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards;
22. require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by the Corporation and its officers and employees;
23. require that the CEO institute, and maintain the integrity of, internal control and information systems, including maintenance of all required records and documentation;
24. review insurance coverage of significant business risks and uncertainties;
25. review and approve the Trust's hedging program;
26. review and approve material contracts to be entered into by the Corporation;
27. recommend to the shareholders of the Corporation a firm of chartered accountants to be appointed as the Corporation's auditors;
28. review distribution levels, based on information from and consultation with management;
29. approve all changes to distribution levels;
30. take all necessary actions to gain reasonable assurance that all financial information made public by the Corporation (including the Corporation's annual and quarterly financial statements) is accurate and complete and represents fairly the Corporation's financial position and performance;

## **Governance**

31. in consultation with the Chairman of the Board, develop a position description for the Chairman of the Board;
32. facilitate the continuity, effectiveness and independence of the Board by, amongst other things,
  - (a) selecting nominees for election to the Board,
  - (b) appointing a Chairman of the Board who is not a member of management,
  - (c) appointing from amongst the directors an audit committee and such other committees of the Board as the Board deems appropriate,
  - (d) defining the mandate of each committee of the Board,
  - (e) ensuring that processes are in place and are utilized to assess the size of the Board, the effectiveness of the Chairman of the Board, the Board as a whole, each committee of the Board and each director,
  - (f) review the orientation and education program for new members to the Board to ensure that it is adequate and effective, and
  - (g) establishing a system to enable any director to engage an outside adviser at the expense of the Corporation;
33. review annually the adequacy and form of the compensation of directors.

## **Delegation**

The Board shall determine the composition of all committees and ensure that such composition is in compliance with all applicable laws.

The Board may delegate its duties to and receive reports and recommendations from any committee of the Board.

## **Meetings**

34. the Board shall meet at least four times per year and/or as deemed appropriate by the Board Chair;
35. minutes of each meeting shall be prepared;
36. the CEO or his designate(s) may be present at all meetings of the Board;
37. Vice-Presidents and such other staff as appropriate to provide information to the Board shall attend meetings at the invitation of the Board.