



PENGROWTH

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March 6th, 2007

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Alberta Securities Commission
British Columbia Securities Commission
Autorite des marches financiers
Saskatchewan Financial Services Commission
The Manitoba Securities Commission
Nova Scotia Securities Commission
c/o
Kyler Wells
Legal Counsel, Corporate Finance
Ontario Securities Commission
20 Queen Street West
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Toronto, Ontario
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RE: Request for Comments on Proposed Amendments to NP 41-201

Dear Sirs:

I have had an opportunity to read the Request for Comments on the Proposed Amendments to National Policy 41-201 Income Trusts and Other Indirect Offerings. The timing of your request however, has not permitted a proper and full analysis of all of the proposals. Accordingly, my comments are more general in nature.

Generally I understand the direction and intent of the proposals, and the need to standardize the calculation of distributable cash and disclosure of the risks to an organization. The proposal in Section 2.6 is that issuers highlight adjustments in an effort to allow investors to anticipate distributable cash amounts and the sustainability of the distributions. This is akin to asking issuers to also predict the level of sales, prices, operating costs and other material drivers of distributable cash.

I am having some difficulty in understanding how adjusting a GAAP number for a specified reporting period by future expectations or risks will improve consistency or aid the reader of financial statements. This proposed requirement appears throughout the document, and raises the risk of estimation error, inconsistent application across issuers, difficulty in justifying management's assertions and forward looking information required to calculate distributable cash. The unintended result may in fact be less consistency and comparability in the calculation and presentation of distributable cash.

In paragraph 2.1 and 2.6 of the recommendations, the suggestion seems to be that a deduction or adjustment for maintaining productive capacity, or replacing mineral reserves is appropriate. In section 6.5.1, the expectation is raised that "a quantitative discussion about expected annual capital maintenance expenditure levels relative to current levels" occurs. The calculation of such an adjustment is unlikely to be done in a consistent manner. Specifically, in the case of the oil and gas royalty trusts, reserve replacement does not always occur, and in fact may not occur in any oil and gas exploration and development corporation.

To force royalty trusts to estimate future replacement costs begs the question as to how replacement costs are calculated. For example, the widely reported measure of finding and development costs would differ from the cost of adding current production. Finding and development costs and outright acquisition costs for reserves vary significantly over time, and using historical or single point in time measures that equate to the reporting period may prove to be inaccurate for the reader to form an expectation of maintenance of productive capacity. To perform the calculation, only to then caution the reader that "actual results may vary, perhaps materially, from the forward-looking adjustments" would only serve to raise more questions and runs counter to the intent of increased consistency across reporting issuers.

The Proposed Amendments also suggest in several places that a discussion around the sustainability of the distributions, and the inherent risks to the distributions. In addition, there is a suggestion of an analysis of the future distributions, and their sources which introduces both the risk of estimation error, the latitude for management to make assumptions and a departure from consistent disclosure. Many of the suggestions for increased disclosure in the MD&A would seem to be a repeat of general business risks the issuer faces which should already be disclosed.

The recommended course of action appears to force management to speculate further and attempt to quantify with more precision the same business risks as they relate to distributable cash. I was encouraged by the observation in 6.5.2 that the concerns raised by section 2.1 and 6.5.2 could be addressed by the table in the Proposal, but the inclusion of net income as one of the measures seemed inconsistent with the earlier assertion that distributable cash is more closely aligned to cash flow from operations.

I appreciate the opportunity to review the Proposed Amendments and hope that some of my observations provide useful feedback for your purposes.

Sincerely,



Chris Webster
Chief Financial Officer