PEYTO

Exploration & Development Corp.

2

Interim Report
for the six months ended June 30, 2003

Highlights

	Three Months Ended June 30		%	Six Months Ended June 30		%
	2003	2002	Chang	**2003**	2002	Change
Operations						
Production						
Natural gas (mcf/d)	**62,577**	38,194	*64*	**60,029**	36,630	*64*
Oil & NGLs (bbl/d)	**2,870**	1,512	*90*	**2,780**	1,461	*90*
Barrels of oil equivalent (boe/d @ 6:1)	**13,299**	7,878	*69*	**12,785**	7,566	*69*
Average product prices						
Natural gas ($/mcf)	**7.80**	4.43	*76*	**8.14**	4.44	*83*
Oil & NGLs ($/bbl)	**33.94**	29.95	*13*	**38.89**	27.30	*42*
Average operating expenses ($/boe)	**1.88**	1.67	*13*	**1.47**	1.56	*(6)*
Field Netback ($/boe)	**31.53**	19.72	*60*	**33.23**	19.62	*69*
Financial ($000)						
Revenue	**53,307**	19,530	*173*	**107,977**	36,680	*194*
Royalties (net of ARTC)	**12,866**	4,197	*207*	**27,687**	7,669	*261*
Funds from operations before trust reorganization costs	**36,791**	13,185	*179*	**74,154**	25,284	*193*
Funds from operations	**(7,360)**	13,185	*(156)*	**29,948**	25,284	*18*
Earnings (loss)	**(1,642)**	6,362	*(126)*	**16,853**	12,288	*37*
Capital expenditures	**18,895**	28,270	*(33)*	**59,380**	50,819	*17*
Common shares outstanding (000)	**43,452**	43,143	*1*	**43,452**	43,143	*1*
Weighted average shares outstanding (000)	**43,452**	43,095	*1*	**43,449**	42,642	*2*
Diluted shares outstanding (000)	**43,452**	44,733	*(3)*	**43,449**	43,985	*(1)*
As at June 30						
Debt, including working capital deficit				**140,303**	86,953	*61*
Shareholders’ equity				**88,042**	53,685	*64*
Total assets				**298,020**	178,900	*67*
Per share data ($/share)						
Funds from operations before trust reorganization costs	**0.85**	0.31	*174*	**1.71**	0.59	*190*
Funds from operations	**(0.17)**	0.31	*(155)*	**0.69**	0.59	*17*
Earnings (loss)	**(0.04)**	0.15	*(127)*	**0.39**	0.29	*34*

Report from the president

PEYTO Energy Trust is pleased to present the financial and operating results of Peyto Exploration & Development Corp. for the three month period ended June 30, 2003.

- The plan to reorganize Peyto Exploration & Development Corp. into an energy trust received overwhelming shareholder and optionholder approval at the annual and special meeting held on June 24, 2003. The reorganization was effective on July 1, 2003.
- Production increased 69 percent year over year, with natural gas averaging 62.6 mmcf per day and oil and natural gas liquids averaging 2,870 barrels per day. Peyto achieved production growth for the thirteenth consecutive quarter, increasing 8 percent from the first quarter of 2003.
- During the quarter, capital expenditures of $18.9 million added five boes of proved producing reserves for each boe of reserves produced. This five fold reserve replacement ratio was achieved utilizing only 51% of the quarterly cash flow before restructuring costs.
- High heat content natural gas combined with a successful hedging strategy resulted in a gas price for the quarter of $7.80 per mcf of which the hedging program contributed $0.37 per mcf.
- Operating costs increased from the previous quarter due in part to higher volumes being processed through third party facilities in the new areas. As new processing facilities are built, operating costs in these areas are expected to decline.
- Cash flow, before one time restructuring costs of $44.1 million, was $36.8 million or $0.85 per share, a 2 percent decrease from the first quarter of 2003.
- Debt, including working capital deficit was $140.3 million at June 30, 2003. Upon conversion to a trust, a private placement of 1.9 million trust units was completed for proceeds of $29.9 million which reduced net debt to $110.4 million.
- Bank lines were increased to $180 million effective upon the conversion to a trust.

Reserves

Since year end, proved producing reserves increased 25 percent to 51.5 million boes ("boe", natural gas converted on a 6:1 basis throughout) at June 30, 2003. Net present value of the proved producing reserves (discounted at 10%) increased 31 percent to $647.5 million. Proved producing reserves maintained a consistent 10.6 year reserve life index based on second quarter average production. Peyto successfully drilled and completed 9 wells during the quarter, all of which were previously identified as probable reserves. The Company replaced second quarter production five fold with the same high quality predictable long life proved producing reserves.

An independent review of the proved developed reserves was done as part of the trust reorganization, the review of bank lines, and to establish a starting point for the value based compensation plan. This review did not address any new probable additional opportunities. The following table summarizes Peyto's reserves and the discounted net present value of future cash flow before income tax, using variable pricing, at June 30, 2003.

					Net Present Value ($000) Discounted at			
Reserve Category	**Gas (mmcf)**	**Oil & NGL (mstb)**	**BOE 6:1 (mstb)**	**Reserve Life Index (years)**	**0%**	**4%**	**8%**	**10%**
Proved Producing	243,564	10,878	51,472	10.6	1,309,055	915,934	714,518	647,520
Proved Non-producing	17,954	645	3,637		109,359	49,498	33,055	29,032
Proved Undeveloped	-	-	-		-	-	-	-
Total Proved	261,518	11,523	55,109	11.4	1,418,414	965,432	747,574	676,552
Probable Additional (1)	143,613	6,106	30,042		731,692	360,618	228,663	191,040
Proved + Probable Additional	405,131	17,629	85,151	17.5	2,150,106	1,326,050	976,236	867,592

Based on the Paddock Lindstrom & Associates report effective June 30, 2003

(1) Probable Additional reserves were not reviewed in the June 30, 2003 evaluation.

Activity Update

To date in 2003, Peyto has drilled and cased 45 gross (38 net) gas wells. Peyto currently has five drilling rigs active in Sundance with a sixth rig exploring the new land base. Although a long spring breakup curtailed field operations, Peyto was very active during the quarter acquiring and earning undeveloped land. Since year end, Peyto's undeveloped land base has grown by 45%.

Peyto Energy Trust Reorganization

On July 1, 2003 Peyto completed a plan of arrangement that reorganized Peyto Exploration & Development Corp. into an energy trust. Peyto Energy Trust will make monthly cash distributions to holders of trust units while retaining a sufficient amount of cash to fund its ongoing exploration and development projects. For the second half of 2003, Peyto will distribute 50% of cash flow or a minimum of $0.15 per trust unit per month. The Trust is managed by the existing management team of Peyto Exploration & Development Corp. and will not be subject to management, acquisition or disposition fees.

Highlights of the arrangement are as follows:

- On July 1, 2003, each issued and outstanding common share of Peyto Exploration & Development Corp. was exchanged for one trust unit of Peyto Energy Trust. As a result of this exchange, 43,451,522 trust units were issued.
- All options to acquire common shares were cancelled and the holders received the intrinsic value of the options in cash. In total, $40.9 million was paid upon the cancellation of 3,581,999 options.
- A private placement of trust units was completed in July 2003 with former optionholders resulting in 1,943,600 units being issued for proceeds of $29,873,132. The price per unit, $15.37, was set based on the five day weighted average trading price of the shares prior to July 1, 2003 and was the same price used to determine the intrinsic value of the options.
- Reorganization costs of $3.3 million were incurred which included $1.8 million for bonuses paid upon the cancellation of Peyto's former bonus plan and $1.5 million for financial advisory, accounting and legal fees and the preparation and printing of the Information Circular used in connection with the Plan of Arrangement.
- Upon the conversion to a trust, Peyto's bank lines were increased to $180 million.

Outlook

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

Don T. Gray
President and Chief Executive Officer
August 20, 2003

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

Management's discussion and analysis

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the Company's unaudited interim financial statements for the three and six month periods ended June 30, 2003 and the audited consolidated financial statements for the year ended December 31, 2002.

Gross revenues totaled $53.3 million during the second quarter of 2003 (Q2 2002 - $19.5 million) and $107.9 million for the first half of 2003 (2002 - $36.7 million). These increases of 173 percent and 194 percent, respectively, are a result of higher production volumes combined with strong commodity prices. The price of natural gas averaged $7.80 per mcf for the second quarter of 2003 (Q2 2002 - $4.43 per mcf) and $8.14 per mcf for the first half of 2003 (2002 - $4.44 per mcf). Peyto's gas revenue is reported before transportation costs which are classified as operating costs. Oil and natural gas liquids prices averaged $33.94 per barrel for the second quarter of 2003 (Q2 2002 - $29.95 per barrel) and $38.89 per barrel for the first half of 2003 (2002 - $27.30 per barrel). The Company has a hedging program for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of natural gas commodity prices. For the period ended June 30, 2003 approximately 39% of the gas production was collared with an average floor price of $3.71 per GJ and average ceiling of $6.96 per GJ and 8% of gas production was sold at an average fixed price of $7.80 per GJ.

A successful ongoing drilling program resulted in natural gas production for the quarter increasing by 64 percent to 62.6 mmcf per day from 38.2 mmcf per day in the same quarter of 2002. Oil and natural gas liquids production increased 90 percent to 2,870 barrels per day in 2003 from 1,512 barrels per day in 2002. Production for the first half of 2003 averaged 12,785 barrels of oil equivalent ("boe", natural gas converted on a 6:1 basis) per day up 69 percent from 7,566 boe per day for the first half of 2002.

The 2003 royalties to date, net of Alberta Royalty Tax Credit (ARTC), increased 261 percent to $27.7 million from $7.7 million in 2002. The 2003 average royalty rate, before ARTC, was 26 percent compared to 22 percent for the same period in 2002. The royalty rate, expressed as a percentage of sales, will fluctuate from period to period due to the fact that natural gas crown royalties are calculated based on the Alberta Natural Gas Reference Price rather than the price achieved by the Company, which can differ significantly.

Due to increased production volumes, operating costs for the six month period ending June 30, 2003 rose to $3.4 million from $2.1 million in 2002. On a barrel of oil equivalent basis, operating costs were $1.47 per boe for the first half of 2003 compared to $1.56 per boe for the same period of 2002. Operating costs are comprised of field expenses and natural gas transportation costs net of income generated by the processing and gathering of joint venture gas.

General and administrative expenses increased by 51 percent to $591,000 in the first half of 2003 from $392,000 in 2002. On a boe basis, net general and administrative expenses decreased by 10 percent to $0.26 per boe for the first half of 2003 from $0.29 per boe for the same period of 2002.

Financing charges for the first half of 2003 were $1.9 million up 90 percent from $1.0 million in 2002. The increase was due to higher debt levels associated with 2003 capital expenditures. On a per boe basis, interest charges were $0.81 per boe for the six month period of 2003 compared to $0.75 per boe for the same period of 2002.

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

Depreciation, depletion and site restoration expenses were $10.3 million in the first half of 2003 compared to $4.8 million for the same period in 2002 as a direct result of Peyto's increased asset base and production volumes. On a per boe basis, the average depreciation, depletion and site restoration rate was $4.44 per boe in 2003 compared to $3.53 per boe in 2002.

The 2003 provision for future income taxes decreased to $2.8 million compared to $8.2 million in 2002 due to the tax effect of the trust reorganization expenses.

Funds from operations, before trust reorganization costs, for the first half of 2003 were $74.1 million compared with $25.2 million in 2002. This 193 percent increase was the result of increased production volumes combined with stronger commodity prices. On a per share basis, the first half of 2003 resulted in funds from operations before trust reorganization costs of $1.71 per share versus $0.59 per share in 2002. The increased natural gas and liquids prices resulted in a field netback for the period of $33.23 per boe in 2003 compared to $19.62 per boe in 2002. Net earnings for the first half of 2003 were $16.9 million or $0.39 per share compared with $12.3 million in 2002 or $0.29 per share.

Liquidity and Capital Resources

At June 30, 2003, the Company had a working capital deficiency (including the revolving demand loan) of $140.3 million. Subsequent to June 30, 2003 and the conversion of Peyto to an energy trust, a private placement of 1,943,600 trust units was done with former optionholders for proceeds of $29.9 million. The price per unit, $15.37, was set based on the five day weighted average trading price of the shares prior to July 1, 2003. The proceeds of the private placement were applied to bank lines which would result in net debt of $110.4 million and a debt to running cash flow ratio of approximately 0.75:1 based on annualized second quarter 2003 cash flow before one time restructuring costs. Year to date capital expenditures of $59.4 million were funded through cash flow and working capital.

Subsequent to June 30, 2003 Peyto negotiated a new $180 million line of credit. Management expects the combination of current bank lines and cash flow from operations to be sufficient to support Peyto's 2003 capital expenditure program anticipated to be between $110 and $160 million.

Recent Accounting Pronouncements

In December 2002, the CICA approved Section 3110, Asset Retirement Obligations. Section 3110 is effective for fiscal years beginning on or after January 1, 2004 and requires liability recognition for retirement obligations associated with the Trust's facilities and equipment. These obligations are initially measured at fair value, which is the discounted future value of the liability. This fair value is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the company expects to settle the retirement obligation. The total impact on the Trust's financial statements has not yet been determined.

Business Risks

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

Quarterly information

	2003		2002		
	Q2	Q1	Q4	Q3	Q2
Operations					
Production					
Natural gas (mcf/d)	**62,577**	57,452	50,556	45,018	38,194
Oil & NGLs (bbl/d)	**2,870**	2,689	2,349	2,009	1,512
Barrels of oil equivalent (boe/d @ 6:1)	**13,299**	12,265	10,775	9,512	7,878
Average product prices					
Natural gas ($/mcf)	**7.80**	8.50	5.90	3.49	4.43
Oil & natural gas liquids ($/bbl)	**33.94**	44.23	36.52	33.67	29.95
Average operating expenses ($/boe)	**1.88**	1.01	1.12	1.36	1.67
Field netback ($/boe)	**31.53**	35.09	25.15	16.42	19.72
Financial ($000)					
Revenue	**53,307**	54,670	35,354	20,676	19,530
Royalties (net of ARTC)	**12,866**	14,820	9,311	5,122	4,197
Funds from operations before trust reorganization costs	**36,791**	37,364	23,746	13,474	13,185
Funds from operations	**(7,360)**	37,309	23,746	13,474	13,185
Earnings (loss)	**(1,642)**	18,495	10,310	5,957	6,362
Capital expenditures	**18,895**	40,486	37,627	24,105	28,270
Common shares outstanding (000)	**43,452**	43,452	43,418	43,321	43,143
Per share data ($/share)					
Funds from operations before trust reorganization costs	**0.85**	0.86	0.55	0.31	0.31
Funds from operations	**(0.17)**	0.86	0.55	0.31	0.31
Earnings (loss)	**(0.04)**	0.43	0.24	0.14	0.15

Financial statements

Balance Sheets

As at	**June 30 2003 (unaudited) $**	December 31 2002 (audited) $
Assets		
Current		
Cash	**58,636**	205,558
Accounts receivable	**25,375,138**	18,860,110
Prepaids and deposits	**1,075,624**	894,553
	26,509,398	19,960,221
Property, plant and equipment *(Notes 2 and 3)*	**271,510,805**	222,206,233
	298,020,203	242,166,454
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**43,567,821**	50,778,415
Current taxes payable	**66,095**	166,922
Bank debt *(Note 3)*	**123,178,369**	80,000,000
	166,812,285	130,945,337
Future site restoration and abandonment	**573,562**	380,914
Future income taxes	**42,592,124**	39,773,845
	43,165,686	40,154,759
Shareholders' equity		
Share capital *(Note 4)*	**19,353,471**	19,230,677
Retained earnings	**68,688,761**	51,835,681
	88,042,232	71,066,358
	298,020,203	242,166,454

See accompanying notes

Financial statements

Statements of Earnings (Loss) and Retained Earnings
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	**2003**	2002
	$	$	**$**	$
Revenue				
Petroleum and natural gas sales, net	**40,440,584**	15,332,881	**80,290,207**	29,011,197
Expenses				
Operating *(Note 5)*	**2,279,021**	1,198,725	**3,396,065**	2,138,314
General and administrative	**434,399**	289,878	**590,849**	392,278
Trust reorganization *(Note 7)*	**44,151,386**	-	**44,206,442**	-
Interest	**984,019**	563,262	**1,879,341**	1,030,318
Depletion, depreciation and site restoration	**5,300,266**	2,552,474	**10,268,280**	4,827,404
	53,149,091	4,604,339	**60,340,977**	8,388,314
Earnings (loss) before taxes	**(12,708,507)**	10,728,542	**19,949,230**	20,622,883
Future income tax expense (recovery)	**(11,018,644)**	4,270,598	**2,826,627**	8,168,469
Current tax expense (recovery)	**(190,256)**	-	**-**	-
Capital tax expense	**142,629**	95,722	**269,513**	166,723
	(11,066,271)	4,366,320	**3,096,140**	8,335,192
Earnings (loss) for the period	**(1,642,236)**	6,362,222	**16,853,080**	12,287,691
Retained earnings, beginning of period	**70,330,997**	29,207,091	**51,835,681**	23,281,622
Retained earnings, end of period	**68,688,761**	35,569,313	**68,688,761**	35,569,313
Earnings (loss) per share *(Note 4)*				
Basic	**(0.04)**	0.15	**0.39**	0.29
Diluted	**(0.04)**	0.14	**0.39**	0.28

See accompanying notes

Financial statements

Statements of Cash Flows
(unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2003	2002	**2003**	2002
	$	$	**$**	$
Cash provided by (used in) Operating Activities				
Earnings (loss) for the period	**(1,642,236)**	6,362,222	**16,853,080**	12,287,691
Items not requiring cash:				
Future income tax expense (recovery)	**(11,018,644)**	4,270,598	**2,826,637**	8,168,469
Depletion, depreciation and site restoration	**5,300,266**	2,552,474	**10,268,280**	4,827,404
Funds from operations	**(7,360,614)**	13,185,294	**29,947,997**	25,283,564
Change in non-cash working capital related to operating activities	**7,083,785**	2,141,272	**213,693**	242,575
	(276,829)	15,326,566	**30,161,690**	25,526,139
Financing Activities				
Issue of common shares, net of costs	**(19,900)**	107,460	**114,436**	2,113,289
Increase in bank debt	**27,951,461**	20,031,829	**43,178,369**	20,306,632
	27,931,561	20,139,289	**43,292,805**	22,419,921
Investing Activities				
Additions to property, plant and equipment	**(18,894,511)**	(28,270,191)	**(59,380,204)**	(50,819,392)
Change in non-cash working capital related to investing activities	**(8,712,379)**	(7,165,665)	**(14,221,213)**	2,903,289
	(27,606,890)	(35,435,856)	**(73,601,417)**	(47,916,103)
Net increase (decrease) in cash	**47,842**	29,999	**(146,922)**	29,957
Cash, beginning of period	**10,794**	1,178	**205,558**	1,220
Cash, end of period	**58,636**	31,177	**58,636**	31,177

See accompanying notes

Notes to financial statements

1. Accounting Principles

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

2. Property, Plant and Equipment

	June 30, 2003 $	December 31, 2002 $
Property, plant and equipment	**302,503,780**	243,180,014
Office furniture and equipment	**340,673**	284,236
	302,844,453	243,464,250
Accumulated depletion and depreciation	**(31,333,648)**	(21,258,017)
	271,510,805	222,206,233

At June 30, 2003, costs of $29,859,840 (December 31, 2002 - $20,122,240) related to undeveloped land have been excluded from the depletion and depreciation calculation. No general and administrative expenses relating to the Company's exploration, development and acquisition programs were capitalized.

3. Bank Debt

The Company has a revolving credit facility to a maximum of $105,000,000. Outstanding amounts bear interest at bank prime and are due on demand. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank. The Company also has a non-revolving credit facility to a maximum of $40,000,000. Outstanding amounts bear interest at bank prime plus 25 bps and are due on demand. For the six months ended June 30, 2003 the combined effective interest rate on amounts outstanding on these facilities was 4.1% (June 30, 2002 – 3.1%).

While the bank has confirmed that it is not its intention to call for repayment of the revolving facility before June 30, 2004, provided there is no adverse change in the financial position of the Company, these loans are demand in nature and pursuant to the CICA pronouncement are presented as a current liability.

Effective with the conversion of Peyto Exploration & Development Corp. to an energy trust, the Company now has a syndicated $180,000,000 extendible, 364 day revolving credit facility. Outstanding amounts on this facility bear interest at rates determined by the Company's debt to cash flow ratio. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank.

4. Share Capital

Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

Issued and Outstanding - Common shares

	Number of Shares	**Amount $**
Balance, December 31, 2002	43,418,188	19,230,677
Share issue costs, net of tax	-	(11,542)
Exercise of stock options	33,334	134,336
Balance, June 30, 2003	43,451,522	19,353,471

A private placement of trust units was completed in July 2003 with former optionholders resulting in 1,943,600 trust units being issued for proceeds of $29,873,132.

Stock Options

The Company had outstanding stock options as follows:

	As at June 30, 2003		As at December 31, 2002	
	Options	**Weighted - Average Exercise Price**	Options	Weighted-Average Exercise Price
Opening	**3,615,333**	**$3.95**	3,310,333	$2.39
Granted	**-**	**-**	1,679,557	$5.52
Exercised	**(33,334)**	**$4.03**	(1,324,557)	$1.99
Cancelled	**(3,581,999)**	**$3.95**	(50,000)	$5.51
Closing	**-**	**-**	3,615,333	$3.95

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

Per Share Amounts

Earnings per share have been calculated based upon the weighted average number of common shares outstanding during the three and six month periods ended June 30, 2003 of 43,452,522 and 43,448,944 respectively (June 30, 2002 – 43,095,002 and 42,642,082). Diluted per share amounts are calculated using the treasury stock method. The weighted average number of common shares used to determine the diluted per share amount for the three and six month periods ended June 30, 2003 was 43,452,522 and 43,448,944 respectively (June 30, 2002 – 44,733,062 and 43,985,521).

Stock Based Compensation

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

	Three Months Ended June 30		**Six Months Ended June 30**	
	2003	2002	**2003**	2002
	$	$	**$**	$
Earnings (loss)				
As reported	**(1,642,236)**	6,362,222	**16,853,080**	12,287,691
Pro forma	**(1,642,236)**	6,174,012	**16,853,080**	12,042,748
Earnings (loss) per share – basic				
As reported	**(0.04)**	0.15	**0.39**	0.29
Pro forma	**(0.04)**	0.14	**0.39**	0.28
Earnings (loss) per share - diluted				
As reported	**(0.04)**	0.14	**0.39**	0.28
Pro forma	**(0.04)**	0.14	**0.39**	0.27

5. Operating Expenses

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

	Three Months Ended June 30		**Six Months Ended June 30**	
	2003	2002	**2003**	2002
	$	$	**$**	$
Field expenses	**2,347,220**	1,100,962	**3,660,124**	1,893,644
Transmission	**702,022**	432,649	**1,321,936**	834,269
Processing & gathering income	**(770,221)**	(334,886)	**(1,585,995)**	(589,599)
Total operating costs	**2,279,021**	1,198,725	**3,396,065**	2,138,314

6. Financial Instruments

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

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

Based on dealer quotes, had these contracts been closed on June 30, 2003, a gain in the amount of $6,753,250 would have been realized.

7. Peyto Energy Trust Reorganization

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

	Three Months Ended June 30, 2003 $	Six Months Ended June 30, 2003 $
Cash payout of stock options	40,896,442	40,896,442
Bonuses on cancellation of former Peyto plan	1,810,000	1,810,000
Financial advisory, accounting and legal fees, and preparation and printing of the Information Circular	1,444,944	1,500,000
	44,151,386	44,206,442

Corporate information

Officers

Don Gray
President and Chief Executive Officer

Roberto Bosdachin
Vice-President, Exploration

Darren Gee
Vice President, Engineering

Lyle Skaien
Vice President, Operations

Sandra Brick
Vice President, Finance

Stephen Chetner
Corporate Secretary

Directors

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

Auditors
Ernst & Young LLP

Solicitors
Burnet, Duckworth & Palmer LLP

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