

report to our shareholders

financial statements

PEYTO Exploration & Development Corp. is pleased to present its first quarter financial and operating results for the period ended March 31, 2000.

Quarterly Review

Production increased 283% to 1,300 thousand cubic feet (mcf) of natural gas and 92 barrels of oil and natural gas liquids per day. Production gains and higher commodity prices caused operating income to climb to \$419,091. Product prices averaged \$3.51 per mcf for gas and \$37.20 per barrel for oil and natural gas liquids with associated operating costs of \$0.83 per mcf of gas and \$3.50 per barrel of oil. Capital spending totaled \$8,314,696 for the quarter.

Two gas wells were brought on production and another five were completed by Peyto during the quarter.

On February 9, 2000 the take-over of Largo Petroleum Inc. was completed with the issue of 6,603,755 Peyto common shares.

Activity Update

Peyto has now completed construction of the first phase of its Sundance gas gathering system and processing plant. Seven (6.3 net) operated wells have now been connected to the plant. Drilling and completion operations have been suspended for spring breakup and should start up again by mid June.

Outlook

Over the next few months, Peyto plans to extend its Sundance gas gathering system and expand its gas plant. The corporation will continue to focus on generating and developing low risk, long term, gas projects in the West Central area of Alberta. For more information on the company, please visit Peyto's web site located at www.peyto.com.

Don T. Gray, P. Eng.
President and Chief Executive Officer
May 25, 2000

Consolidated Balance Sheet

| As at | March 31 2000 (unaudited) | December 31 1999 (audited) |
|--|---------------------------------|----------------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 6,531 | \$ 443,725 |
| Accounts receivable | 2,511,039 | 1,291,068 |
| Prepays | 83,719 | 80,346 |
| | 2,601,289 | 1,815,139 |
| Property, plant and equipment | 15,686,576 | 7,460,671 |
| Accumulated depreciation & depletion | (1,137,597) | (137,857) |
| | 14,548,979 | 7,322,814 |
| | \$17,150,268 | \$ 9,137,953 |
| Liabilities | | |
| Current | | |
| Accounts payable & accrued liabilities | \$ 4,443,423 | \$ 2,461,785 |
| Convertible debenture | 1,565,064 | - |
| Long term debt | 2,766,958 | 1,150,000 |
| Site restoration provision | 58,386 | 5,461 |
| Future income taxes | 182,319 | 627,257 |
| | 8,134,118 | 4,893,450 |
| | \$17,150,268 | \$ 9,137,953 |
| Shareholders' equity | | |
| Contributed surplus | 1,134,936 | - |
| Share capital | 7,085,436 | 5,041,613 |
| Deficit | (86,254) | (148,163) |
| | 8,134,118 | 4,893,450 |
| | \$17,150,268 | \$ 9,137,953 |

Consolidated Statement of Earnings and Deficit (Unaudited)

| Three Months Ended March 31 | 2000 | 1999 |
|--|-------------|--------------|
| Revenue | | |
| Oil and gas sales, net | \$ 545,315 | \$ 72,424 |
| Interest and other income | - | 3,455 |
| | 545,315 | 75,879 |
| Expenses | | |
| Operating | 126,224 | 36,165 |
| General and administrative | 151,780 | 65,648 |
| Interest | 39,970 | - |
| Depletion, depreciation and site restoration | 106,834 | 22,703 |
| | 424,808 | 124,516 |
| Earnings (loss) before taxes | 120,507 | (48,637) |
| Future income taxes | 58,599 | - |
| Earnings (loss) for the period | 61,908 | (48,637) |
| Deficit, beginning of period | (148,162) | (56,706) |
| Deficit, end of period | \$ (86,254) | \$ (105,343) |
| Common shares outstanding | 31,451,064 | 13,108,671 |
| Earnings (loss) per share | \$0.00 | \$(0.00) |

corporate information

Consolidated Statement of Cash Flows (Unaudited)

| Three Months Ended | | |
|--|------------------|---------------------|
| March 31 | 2000 | 1999 |
| Cash provided by (used in) | | |
| Operating Activities | | |
| Earnings (loss) for the period | \$ 61,908 | \$ (48,637) |
| Items not requiring cash: | | |
| Future income taxes | 58,599 | - |
| Depletion, depreciation and Site restoration | 106,834 | 22,703 |
| Funds from operations | 227,341 | (25,934) |
| Change in non-cash working capital from operations | 238,715 | (19,322) |
| | 466,056 | (45,256) |
| Financing Activities | | |
| Issue of common shares, net of costs | 50,635 | 306,061 |
| Convertible debenture | 2,700,000 | - |
| Increase in long term debt | 1,616,958 | - |
| | 4,367,593 | 306,061 |
| Investing Activities | | |
| Additions to property, plant and equipment | (5,668,410) | (25,521) |
| | | |
| Net increase (decrease) in cash | (834,761) | 235,284 |
| Cash, beginning of period | 841,292 | 1,024,686 |
| Cash, end of period | \$ 6,531 | \$ 1,259,970 |
| Funds from operations per share | \$0.01 | \$(0.00) |

Officers

Don T. Gray
President and Chief Executive Officer

Roberto Bosdachin
Vice-President, Exploration

Sandra Brick
Controller

Steve Chetner
Corporate Secretary

Directors

Rick Braund
Chairman of the Board

Don T. Gray

Mike Broadfoot

Bill Petrie

Brian Craig

Jim Riddell

Auditors

Ernst & Young

Solicitors

Burnet, Duckworth & Palmer

Bankers

National Bank of Canada

Transfer Agent

Montreal Trust Company of Canada

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Stock Listing Symbol: PEY
Canadian Venture Exchange

PEYTO

Exploration & Development Corp.

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*Interim Report
for the three months ended March 31, 2000*