PEYTO

Exploration & Development Corp.

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Interim Report
for the three months ended March 31, 2002

Highlights

	Three Months Ended March 31		
	2002	2001	% Change
Operations			
Production			
Natural gas (mcf/d)	**35,049**	13,694	*156*
Oil & NGL (bbl/d)	**1,409**	472	*199*
Barrels of oil equivalent (boe/d @ 10:1)	**4,913**	1,842	*167*
Average product prices			
Natural gas ($/mcf)	**4.46**	10.30	*(57)*
Oil & NGL ($/bbl)	**24.42**	39.89	*(39)*
Average operating expenses ($/boe)	**2.12**	2.06	*3*
Financial ($000)			
Revenue	**17,150**	14,386	*19*
Royalties (net of ARTC)	**3,472**	3,880	*(11)*
Funds from operations	**12,098**	9,681	*25*
Net earnings	**5,925**	4,618	*28*
Capital expenditures	**22,549**	20,813	*8*
As at March 31			
Debt, including working capital deficit	**71,976**	31,087	*132*
Shareholders’ equity	**47,207**	25,803	*83*
Total assets	**155,390**	78,886	*97*
Common shares outstanding (000)	**42,976**	41,646	*3*
Weighted average common shares outstanding (000)	**42,184**	40,906	*3*
Per share data ($/share)			
Funds from operations			
Basic	**0.29**	0.24	*21*
Diluted	**0.28**	0.23	*22*
Earnings			
Basic	**0.14**	0.11	*27*
Diluted	**0.14**	0.11	*27*

Report from the president

PEYTO Exploration & Development Corp. is pleased to present its first quarter financial and operating results for the period ended March 31, 2002.

Quarterly Review

Gas production for the quarter increased 156% over the same period in 2001. Daily production averaged 35.0 mmcf of natural gas and 1,409 barrels of oil and natural gas liquids. Despite a 57% drop in natural gas prices, our production gains and lower total costs per boe increased quarterly cash flow from $9.7 million in 2001 to $12.1 million in 2002. Quarterly earnings increased from $4.6 million in 2001 to $5.9 million in 2002. Product prices averaged $4.46 per mcf for gas and $24.42 per barrel for oil and natural gas liquids. Operating costs averaged $2.12 per barrel of oil equivalent ("boe", natural gas converted on a 10:1 basis throughout). Our total cost structure (production, interest and general and administrative expense) decreased 29% from $4.82 per boe to $3.41 per boe. The drop from the abnormally high energy prices in the first quarter of 2001 resulted in a 53% reduction in the field netback to $28.81 per boe from $61.33 per boe for Q1 2001. In order to take full advantage of the historically low drilling, completion and borrowing costs we accelerated exploration and development activity to a record level with total capital expenditures of $22.5 million during the quarter. Bank lines were expanded to $100 million in March.

Netback Analysis

The following table summarizes Peyto's corporate netback for the first quarter and includes a simplified look at the current forward strip for the upcoming summer and winter periods. At this time, none of Peyto's hedges for the summer months are out of the money and we have no hedges in place beyond October 31, 2002 (see Note 5 to Financial Statements for complete summary of hedges). We have used the first quarter cost and royalty structures against the forward strip in order to calculate what our corporate netback would be if the assumptions materialize to be actuals.

	Q1 2002	Summer AECO Jun 1/02 – Oct 31/02	Winter AECO Nov 1/02 – March 31/03
Average Gas Price ($CDN/GJ)	$3.88	$4.83	$5.79
Average Heating Value (GJ/mcf)	1.15	1.15	1.15
PEYTO Plant gate Gas Price ($CDN/mcf)	$4.46	$5.55	$6.66
Average Oil & NGL Price ($CDN/bbl)	$24.42	$28.00	$28.00
% Gas, BOE (10:1)	71%	71%	71%
% Oil & NGL, boe (10:1)	29%	29%	29%
Gas, Oil & NGL Revenue ($/boe)	$38.78	$47.56	$55.40
Royalties net of ARTC ($/boe)	$7.85	$9.99	$11.63
Operating Costs ($/boe)	$2.12	$2.12	$2.12
Field Netback ($/boe)	$28.81	$35.45	$41.64
G&A Costs ($/boe)	$0.23	$0.23	$0.23
Interest Costs ($/boe)	$1.06	$1.06	$1.06
Corporate Netback ($/boe)	$27.52	$34.16	$40.35

Assumptions: *Oil and NGL price based on March 2002 actuals*
AECO forward strip based on quotes from a large financial institution at May 14, 2002 close
Royalties and costs based on Q1 2002 actuals

Activity Update

For the first five months of 2002, our production in the Sundance area has been limited by our existing plant capacity. The 50 mmcf per day expansion of our 100% owned and operated Sundance gas plant is on track for startup in June 2002. This fourth expansion in the first two years of the facility's life will ultimately increase the gas processing capacity to 98 mmcf per day. Twenty-one gross (17.9 net) successful gas wells, all with a total depth greater than 2,200 meters, have now been drilled or re-entered, cased and completed since year end. We plan to keep three drilling rigs active in the greater Sundance area throughout the year.

Outlook

Our commitment to full cycle value creation continues to deliver unparalleled growth. The expanded gas exploration and development plan that we embarked on at the beginning of 2002 has grown our production base at a time when capital and borrowing costs are at historical lows. The majority of our 2002 capital budget is being used to drill, complete and tie-in low risk development gas wells. Significant production growth is expected for the balance of the year. We encourage you to visit Peyto's website at www.peyto.com for more information on our Company.

Don T. Gray, P.Eng.
President and Chief Executive Officer
May 21, 2002

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 Corporation 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 Corporation, competitive factors and industry capacity, the availability of personnel to manage the Corporation and manage and deliver the commodities produced, the ability of the Corporation 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 Corporation's plans will be achieved.

The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.

Management's discussion and analysis

Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2002 and the audited consolidated financial statements for the year ended December 31, 2001.

Gross revenues totaled $17.2 million during the first quarter of 2002 an increase of 19 percent from $14.4 million for the first three months of 2001. The increased revenue is a result of higher production volumes despite significantly lower commodity prices. The price of natural gas averaged $4.46 per mcf for the first quarter of 2002 down 57 percent from $10.30 per mcf for the first three months of 2001. Oil and natural gas liquids prices averaged $24.42 for the first quarter of 2002, down 39 percent from $39.89 per barrel for the same period in 2001.

Natural gas production for the quarter increased by 156 percent to 35.0 mmcf per day from 13.7 mmcf per day in the same quarter of 2001. First quarter oil and natural gas liquids production increased by 199 percent to 1,409 bbl/d in 2002 from 472 bbl/d in 2001. On a barrel of oil equivalent basis, production for the first three months averaged 4,913 boe per day (natural gas converted on a 10:1 basis) up 167 percent from 1,842 boe per day for the first three months of 2001.

2002 royalties to date, net of Alberta Royalty Tax Credit (ARTC), decreased by 11 percent to $3.5 million from $3.9 million in 2001. The 2002 average royalty rate, before ARTC, was 21 percent compared to 27 percent for the same period in 2001. The reduction in royalties was the result of Peyto's efforts to buy out royalty interests in addition to a number of wells qualifying for the deep gas royalty holiday.

Due to increased production volumes, operating costs for the three month period rose to $940,000 in 2002 from $341,000 in 2001. On a barrel of oil equivalent basis, operating costs were $2.12 per boe in 2002 compared to $2.06 per boe in 2001. 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.

Net general and administrative expenses decreased by 38 percent to $102,000 in the first three months of 2002 from $166,000 in 2001 due to an increase in overhead recoveries associated with the capital program. On a boe basis, net general and administrative expenses decreased by 72 percent to $0.28 per boe in 2002 from $1.00 per boe in 2001. This reduction was the result of the increase in production volumes while maintaining a similar level of staff.

Financing charges for the first three months of 2002 were $467,000 up from $295,000 in 2001. The increase was due to higher debt levels associated with Peyto's aggressive 2002 capital program.

Depreciation, depletion and site restoration expenses were $2.3 million in the first three months of 2002 compared to $1.2 million for the same period in 2001 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 decreased to $5.14 in 2002 from $7.25 in 2001 as a result of the successful reserve additions.

The 2002 provision for future income tax remained unchanged at $3.9 million.

Funds from operations for the first quarter of 2002 were $12.1 million compared with $9.7 million in 2001. This 25% increase was the result of increased production volumes and lower operating costs despite significantly lower commodity prices. The final month of the quarter had cash flow of $5.4 million and accounted for 45% of first quarter cash flow. This was due to the strengthening commodity prices and increased production that averaged 5,303 boe per day for the month. On a per share basis, the first three months of 2002 resulted in funds from operations of $0.29 per share versus $0.24 per share in 2001. The decreased natural gas and liquids prices resulted in a field netback for the period of $28.81 per boe in 2002 compared to $61.33 per boe in 2001. Net income in 2002 was $5.9 million or $0.14 per share compared with $4.6 million in 2001 or $0.11 per share.

At March 31, 2002, the Company had a working capital deficiency (including the revolving demand loan (see Note 2 to financial statements)) of $71.9 million resulting in a debt to running cash flow ratio of approximately 1.5:1. Peyto's first quarter $22.5 million capital program was funded through cash flow and working capital. During the quarter, Peyto's bank lines were expanded to $100 million.

Quarterly information

	2002	2001			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Oil & NGLs (bbl/d)	**1,409**	1,222	815	621	472
Natural gas (mcf/d)	**35,049**	30,175	22,431	15,502	13,694
Barrels of oil equivalent (boe/d @ 10:1)	**4,913**	4,240	3,058	2,171	1,842
Average product prices					
Oil & NGLs ($/bbl)	**24.42**	23.84	30.48	36.82	39.89
Natural gas ($/mcf)	**4.46**	4.32	4.32	7.02	10.30
Average operating expenses ($/boe)	**2.12**	2.31	1.38	2.29	2.06
Field netback ($/boe)	**28.81**	29.08	31.02	44.88	61.33
Financial ($000)					
Revenue	**17,150**	14,679	11,195	11,987	14,386
Royalties (net of ARTC)	**3,472**	2,437	2,082	2,667	3,880
Funds from operations	**12,098**	9,546	8,115	8,160	9,681
Net earnings	**5,925**	4,969	3,486	4,450	4,618
Capital expenditures	**22,549**	22,029	18,472	18,641	20,813
Common shares outstanding (000)	**42,976**	41,999	41,816	41,813	41,646
Per share data ($/share)					
Funds from operations					
Basic	**0.29**	0.23	0.19	0.20	0.24
Diluted	**0.28**	0.22	0.19	0.19	0.23
Earnings					
Basic	**0.14**	0.12	0.08	0.11	0.11
Diluted	**0.14**	0.12	0.08	0.10	0.11

Financial statements

Balance Sheet

As at		March 31 2002 (unaudited)		December 31 2001 (audited)
Assets				
Current assets				
Cash	**$**	**1,178**	$	1,220
Accounts receivable		**12,927,655**		8,245,973
Prepaids		**454,585**		526,291
		13,383,418		8,773,484
Property, plant and equipment *(Note 2)*		**142,006,396**		121,700,469
	$	**155,389,814**	$	130,473,953
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	**$**	**25,828,058**	$	13,113,286
Capital taxes payable		**310,821**		245,360
Revolving demand loan *(Note 3)*		**59,220,275**		58,945,472
		85,359,154		72,304,118
Site restoration provision		**233,978**		202,322
Future income taxes		**22,589,506**		18,349,387
		22,823,484		18,551,709
Shareholders' equity				
Share capital *(Note 4)*		**18,000,085**		16,336,504
Retained earnings		**29,207,091**		23,281,622
		47,207,176		39,618,126
	$	**155,389,814**	$	130,473,953

Financial statements

Statements of Earnings and Retained Earnings
(unaudited)

	Three Months Ended March 31	
	2002	2001
Revenue		
Oil and gas sales, net	**$ 13,678,316**	$ 10,505,548
Interest and other income	**-**	3,780
	13,678,316	10,509,328
Expenses		
Operating	**939,589**	341,121
General and administrative	**102,400**	165,519
Interest	**467,056**	295,240
Depletion, depreciation and site restoration	**2,274,930**	1,201,999
	3,783,975	2,003,879
Earnings before taxes	**9,894,341**	8,505,449
Future income tax expense	**(3,897,871)**	(3,860,453)
Capital tax expense	**(71,001)**	(26,927)
Earnings for the period	**5,925,469**	4,618,069
Retained earnings, beginning of period	**23,281,622**	5,758,051
Retained earnings, end of period	**$ 29,207,091**	$ 10,376,120
Earnings per share		
Basic	**$0.14**	$0.11
Diluted	**$0.14**	$0.11

Financial statements

Statements of Cash Flows
(unaudited)

	Three Months Ended March 31	
	2002	2001
Cash provided by (used in)		
Operating Activities		
Earnings for the period	**$ 5,925,469**	$ 4,618,069
Items not requiring cash:		
Future income taxes	**3,897,871**	3,860,453
Depletion, depreciation and site restoration	**2,274,930**	1,201,999
Funds from operations	**12,098,270**	9,680,521
Change in non-cash working capital related to operating activities	**(1,898,697)**	2,998,845
	10,199,573	12,679,366
Financing Activities		
Issue of common shares, net of costs	**2,005,829**	869,643
Increase in revolving demand loan	**274,803**	9,178,334
	2,280,632	10,047,977
Investing Activities		
Additions to property, plant and equipment	**(22,549,201)**	(20,812,672)
Change in non-cash working capital related to investing activities	**10,068,954**	(1,847,266)
	(12,480,247)	(22,659,938)
Net increase (decrease) in cash	**(42)**	67,405
Cash, beginning of period	**1,220**	53,027
Cash, end of period	**$ 1,178**	$ 120,432
Funds from operations per share		
Basic	**$0.29**	$0.24
Diluted	**$0.28**	$0.23

Notes to financial statements

1. Accounting Principles

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. These interim financial statements have been prepared on the same basis as the audited financial statements as at and for the year ended December 31, 2001. Management's discussion and analysis of financial conditions and results of operations should be read in conjunction with the unaudited interim financial statements for the three months ended March 31, 2002 and the audited consolidated financial statements for the year ended December 31, 2001

2. Property, Plant and Equipment

	2002	2001
	$	$
Property, plant and equipment	**153,214,764**	130,693,300
Office furniture and equipment	**248,084**	220,347
	153,462,848	130,913,647
Accumulated depletion and depreciation	**(11,456,452)**	(9,213,178)
	142,006,396	121,700,469

At March 31, 2002, costs of $13,575,000 (March 31, 2001 - $8,250,000) related to undeveloped land have been excluded from the depreciation calculation. No general and administration expenses relating to the Company's exploration, development and acquisition programs were capitalized.

3. Revolving Demand Loan

In March 2002 Peyto entered into an agreement with the Bank of Montreal for a revolving credit facility to a maximum of $100,000,000. Outstanding amounts on this facility 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.

Effective January 1, 2002 the Company adopted the recommendations of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants concerning the presentation of revolving demand loans. These new recommendations require that the classification of debt on the balance sheet be based upon the facts existing at the balance sheet date rather than expectations. Prior to the adoption of the new recommendations, the Company presented the demand loan as long term on the basis that the bank had indicated it was not its intention to call for repayment within one year provided there was no adverse change in the financial position of the Company.

While the bank has confirmed that it is not its intention to call for repayment of this loan before March 31, 2003, provided there is no adverse change in the financial position of the Company, this loan is demand in nature and pursuant to the CICA pronouncement is presented as a current liability.

4. Share Capital

Authorized

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

Issued - Common shares

	Number of Shares	Amount $
Balance, December 31, 2001	41,999,741	16,336,504
Exercise of stock options	976,224	2,026,307
Tax benefits transferred to shareholders	—	(350,976)
Share issue costs, net of associated tax benefits	—	(11,750)
Balance, March 31, 2002	42,975,955	18,000,085

Stock Options

The Company has a director and employee stock option plan. The number of common shares reserved for issuance at any one time shall not exceed 4,178,005 shares subject to shareholder and regulatory approval. The exercise price of an option is set at the market price of the common shares at the date of grant. Each option vests over a three year period and has a term of 5 years.

	As at March 31, 2002		As at March 31, 2001	
	Options	**Weighted - Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**
Opening	**3,310,334**	**$2.39**	2,987,000	$0.63
Granted	**1,286,224**	**$5.15**	2,655,334	$2.65
Exercised	**(976,224)**	**$2.08**	(1,847,667)	$0.46
Cancelled	**-**	**-**	(184,334)	$1.33
Closing	**3,620,334**	**$3.45**	3,610,333	$2.17

Per Share Amounts

Earnings per share and funds from operations per share have been calculated based upon the weighted average number of common shares outstanding during the year of 42,184,129 (2001 – 40,906,227). Diluted per share amounts are calculated using the treasury stock method. The weighted average number of common shares used to determine diluted per share amounts in 2002 was 43,187,159 (2001 – 41,203,886).

5. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, accounts payable and accrued liabilities and a revolving demand loan. As at March 31, 2002 there are no significant differences between their carrying values and their estimated market values.

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 process by locking in a minimum and maximum forward price.

A summary of contracts outstanding in respect to the hedging activities at March 31, 2002 were as follows:

Period Hedged	Daily Volume GJ/day	Floor $/GJ	Ceiling $/GJ
Costless Collars:			
November 1, 2001 to April 1, 2002	2,000	$6.00	$10.55
November 1, 2001 to April 1, 2002	2,000	$6.00	$10.80
November 1, 2001 to April 1, 2002	2,000	$6.00	$10.10
November 1, 2001 to April 1, 2002	2,500	$3.50	$5.80
April 1 to October 31, 2002	3,500	$3.50	$5.75
June 1 to October 31, 2002	3,500	$3.75	$6.20
Fixed Price Contracts:			
April 2002	14,000	$4.41	
April 2002	2,000	$4.45	
May 2002	10,000	$4.43	
May 2002	2,000	$4.46	
June 2002	4,000	$4.68	

Corporate information

Officers

Don Gray
President and Chief Executive Officer

Roberto Bosdachin
Vice-President, Exploration

Lyle Skaien
Vice President, Operations

Darren Gee
Vice President, Exploitation

Sandra Brick
Vice President, Finance

Stephen Chetner
Corporate Secretary

Directors

Rick Braund

Don Gray

Mike Broadfoot

Brian Craig

Jim Riddell

Stephen Chetner

Auditors
Ernst & Young LLP

Solicitors
Burnet, Duckworth & Palmer

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