PEYTO

Exploration & Development Corp.

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Interim Report
for the nine months ended September 30, 2002

Highlights

	Three Months Ended September 30			Nine Months Ended September 30		
			%			%
	2002	2001	Change	**2002**	2001	Change
Operations						
Production						
Natural gas (mcf/d)	**45,018**	22,431	*101*	**39,457**	17,241	*129*
Oil & NGL (bbl/d)	**2,009**	815	*147*	**1,646**	637	*158*
Barrels of oil equivalent (boe/d 6:1)	**9,512**	4,553	*109*	**8,222**	3,511	*134*
Average product prices						
Natural gas ($/mcf)	**3.49**	4.32	*(19)*	**4.08**	6.69	*(39)*
Oil & NGL ($/bbl)	**33.67**	30.48	*10*	**29.92**	34.84	*(14)*
Average operating expenses ($/boe)	**1.36**	0.93	*46*	**1.48**	1.23	*20*
Financial ($000)						
Revenue	**20,676**	11,195	*85*	**57,355**	37,568	*53*
Royalties (net of ARTC)	**5,122**	2,082	*146*	**12,791**	8,629	*48*
Funds from operations	**13,474**	8,115	*66*	**38,757**	25,956	*49*
Net earnings	**5,957**	3,486	*71*	**18,244**	12,554	*45*
Capital expenditures	**24,105**	18,472	*30*	**74,924**	57,926	*29*
As at September 30						
Debt, including working capital deficit				**97,116**	51,867	*87*
Shareholders' equity				**60,109**	33,827	*78*
Total assets				**204,241**	114,017	*79*
Common shares outstanding (000)				**43,321**	41,816	*4*
Weighted average common shares outstanding (000)				**42,856**	41,499	*3*
Per share data ($/share)						
Funds from operations						
Basic	**0.31**	0.19	*63*	**0.90**	0.63	*43*
Diluted	**0.30**	0.19	*58*	**0.90**	0.62	*45*
Earnings						
Basic	**0.14**	0.08	*75*	**0.43**	0.30	*43*
Diluted	**0.13**	0.08	*63*	**0.43**	0.30	*43*

Report from the president

PEYTO Exploration & Development Corp. is pleased to present its third quarter financial and operating results for the period ended September 30, 2002.

Quarterly Review

For the three months ended September 30, 2002, Peyto achieved corporate records for production, cash flow and earnings. Daily production averaged 45 mmcf of natural gas and 2,009 barrels of oil and natural gas liquids. Gas and liquids production per share for the quarter increased 94% and 138% respectively, over the same period in 2001. Despite a 19% drop in natural gas prices, our production gains increased cash flow from $8.1 million in 2001 to a record $13.5 million in 2002. Earnings increased from $3.5 million in 2001 to $6.0 million. Natural gas prices declined by 21% from the previous quarter, averaging $3.49 per mcf with oil and natural gas liquids averaging $33.67 per barrel. The AECO daily spot gas price for the quarter, weighted by month for production, was $3.01 per gigajoule (GJ). Due to the high heat content of Peyto's gas, this equated to $3.48 per mcf or a 16% premium to the price per GJ. Revenue attributable to the Company hedging program for the quarter was $47,000 or $0.01 per mcf relative to AECO daily spot price. Operating costs averaged $1.36 per barrel of oil equivalent ("boe", natural gas converted on a 6:1 basis throughout). Our total cost structure (production, interest and general and administrative expense) decreased quarter over quarter by 21% from $2.86 to $2.26 per boe. Total net debt at the end of the quarter was $97 million and as a ratio of production decreased by 20% from the same period in 2001. Capital expenditures for the quarter totaled $24.1 million. Drilling projects continued at record levels during the quarter representing 96% of the total capital spent.

Activity Update

Since the beginning of the year, Peyto has drilled or re-entered 48 gross (41.7 net) wells targeting gas at depths greater than 2,200 meters. Of these wells, 90 per cent were in the Sundance area and will be on-stream by the end of the year. Our plan is to keep five drilling rigs active in the greater Sundance area into 2003. In October 12 mmcf/d of additional compression was added to the Sundance gas plant bringing the total compression at the plant to 87 mmcf/d. In order to fully utilize the 100 mmcf/d of refrigeration capacity at the plant, another 12 mmcf/d of compression is scheduled for installation in January 2003.

Outlook

Our low risk, value oriented approach continues to deliver industry leading results. We are on track to exceed our year end value and production targets, measured on a per share basis. This year we have more than doubled our land base in the Deep Basin Cardium gas play. We will apply the same proven methodical approach utilized at Sundance to unlock the economic potential of the Cardium in our new areas. Over the next several years our new areas will add significantly to the portfolio of natural gas exploration and development opportunities available to 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, P.Eng.
President and Chief Executive Officer
November 18, 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.

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 and nine month periods ended September 30, 2002 and the audited consolidated financial statements for the year ended December 31, 2001.

Gross revenues totaled $20.7 million during the third quarter of 2002 (Q3 2001 - $11.2 million) and $57.4 million for the first nine months of 2002 (2001 - $37.6 million). These increases of 85 percent and 53 percent, respectively, are a result of higher production volumes despite lower natural gas prices. The price of natural gas averaged $3.49 per mcf for the third quarter of 2002 (Q3 2001 - $4.32 per mcf) and $4.08 per mcf for the first nine months of 2002 (2001 - $6.69 per mcf). Peyto's gas revenue is reported before transportation costs which are classified as operating costs. Oil and natural gas liquids prices averaged $33.67 for the third quarter of 2002 (Q3 2001 - $30.48 per barrel) and $29.92 per barrel for the first nine months of 2002 (2001 - $34.84 per barrel).

Natural gas production for the quarter increased 101 percent to 45.0 mmcf per day from 22.4 mmcf per day in the same quarter of 2001. Oil and natural gas liquids production increased 147 percent to 2,009 bbl/d in 2002 from 815 bbl/d in 2001. Production for the first nine months averaged 8,222 barrels of oil equivalent ("boe", natural gas converted on a 6:1 basis) per day up 134 percent from 3,511 boe per day for the first nine months of 2001. All references to barrel of oil equivalent are reported on the accepted energy equivalent of six thousand cubic feet of natural gas being equivalent to one barrel of oil.

The 2002 royalties to date, net of Alberta Royalty Tax Credit (ARTC), increased 48 percent to $12.8 million from $8.6 million in 2001. The 2002 average royalty rate, before ARTC, was 23 percent compared to 24 percent for the same period in 2001. 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 corporation, which can differ significantly.

Due to increased production volumes, operating costs for the nine month period ending September 30, 2002 rose to $3.3 million from $1.2 million in 2001. On a barrel of oil equivalent basis, operating costs were $1.48 per boe for the first nine months of 2002 compared to $1.23 per boe for the same period of 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 (see Note 5 to financial statements).

Net general and administrative expenses increased by 10 percent to $477,000 in the first nine months of 2002 from $432,000 in 2001. On a boe basis, net general and administrative expenses decreased by 53 percent to $0.21 per boe for the first nine months of 2002 from $0.45 per boe for the same period of 2001.

Financing charges for the first nine months of 2002 were $1.7 million up 40 percent from $1.2 million in 2001. The increase was due to higher debt levels associated with Peyto's aggressive 2002 capital program. On a per boe basis, interest charges were down 41 percent from $1.30 per boe for the nine month period of 2001 to $0.77 per boe for the same period of 2002.

Depreciation, depletion and site restoration expenses were $7.8 million in the first nine months of 2002 compared to $4.1 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 $3.49 in 2002 from $4.32 in 2001 as a result of successful reserve additions.

The 2002 provision for future income taxes increased to $12.7 million compared to $9.3 million in 2001 as a result of increased profitability due to higher production volumes.

Funds from operations for the first nine months of 2002 were $38.7 million compared with $25.9 million in 2001. This 49% increase was the result of increased production volumes despite lower commodity prices. On a per share basis, the first nine months of 2002 resulted in funds from operations of $0.90 per share versus $0.63 per share in 2001. The decreased natural gas and liquids prices resulted in a field netback for the period of $18.37 per boe in 2002 compared to $28.96 per boe in 2001. Net earnings in 2002 were $18.2 million or $0.43 per share compared with $12.6 million in 2001 or $0.30 per share.

At September 30, 2002, the Company had a working capital deficiency (including the revolving demand loan (see Note 2 to financial statements)) of $97.1 million resulting in a debt to running cash flow ratio of approximately 1.8:1. Peyto's 2002 year to date $74.9 million capital program was funded through cash flow and working capital. Peyto currently has a $105 million line of credit.

Quarterly information

	2002			2001	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	**45,018**	38,194	35,049	30,175	22,431
Oil & NGLs (bbl/d)	**2,009**	1,512	1,409	1,222	815
Barrels of oil equivalent (boe/d @ 6:1)	**9,512**	7,878	7,250	6,251	4,553
Average product prices					
Natural gas ($/mcf)	**3.49**	4.43	4.46	4.32	4.32
Oil & NGLs ($/bbl)	**33.67**	29.95	24.42	23.84	30.48
Average operating expenses ($/boe)	**1.36**	1.67	1.44	1.57	0.93
Field netback ($/boe)	**16.42**	19.72	19.52	19.72	20.83
Financial ($000)					
Revenue (gross)	**20,676**	19,530	17,150	14,679	11,195
Royalties (net of ARTC)	**5,122**	4,197	3,472	2,437	2,082
Funds from operations	**13,474**	13,185	12,098	9,546	8,115
Net earnings	**5,957**	6,362	5,925	4,969	3,486
Capital expenditures	**24,105**	28,270	22,549	22,029	18,472
Common shares outstanding (000)	**43,321**	43,143	42,976	41,999	41,816
Per share data ($/share)					
Funds from operations					
Basic	**0.31**	0.31	0.29	0.23	0.19
Diluted	**0.30**	0.30	0.28	0.22	0.19
Earnings					
Basic	**0.14**	0.15	0.14	0.12	0.08
Diluted	**0.13**	0.14	0.14	0.12	0.08

Financial statements

Balance Sheet

As at		September 30 2002 (unaudited)		December 31 2001 (audited)
Assets				
Current assets				
Cash	**$**	**45,979**	$	1,220
Accounts receivable		**14,806,802**		8,245,973
Prepaids		**491,394**		526,291
		15,344,175		8,773,484
Property, plant and equipment *(Note 2)*		**188,896,334**		121,700,469
	$	**204,240,509**	$	130,473,953
Liabilities and Shareholders' Equity				
Current				
Accounts payable and accrued liabilities	**$**	**34,246,603**	$	13,113,286
Capital taxes payable		**87,770**		245,360
Revolving demand loan *(Note 3)*		**78,126,222**		58,945,472
		112,460,595		72,304,118
Site restoration provision		**297,398**		202,322
Future income taxes		**31,373,362**		18,349,387
		31,670,760		18,551,709
Shareholders' equity				
Share capital *(Note 4)*		**18,583,331**		16,336,504
Retained earnings		**41,525,823**		23,281,622
		60,109,154		39,618,126
	$	**204,240,509**	$	130,473,953

Financial statements

Statements of Earnings and Retained Earnings
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	**2002**	2001
Revenue				
Oil and gas sales, net	**$ 15,553,798**	$ 9,113,043	**$ 44,564,995**	$ 28,938,889
Interest and other income	**-**	2,138	**-**	12,422
	15,553,798	9,115,181	**44,564,995**	28,951,311
Expenses				
Operating *(Note 5)*	**1,187,755**	387,927	**3,326,069**	1,181,384
General and administrative	**84,969**	59,574	**477,247**	431,951
Interest	**706,351**	487,443	**1,736,669**	1,241,733
Depletion, depreciation and site restoration	**2,995,858**	1,808,045	**7,823,262**	4,138,911
	4,974,933	2,742,989	**13,363,247**	6,993,979
Earnings before taxes	**10,578,865**	6,372,192	**31,201,748**	21,957,332
Future income tax expense	**(4,521,245)**	(2,820,892)	**(12,689,714)**	(9,263,106)
Capital tax expense	**(101,110)**	(64,857)	**(267,833)**	(140,065)
Earnings for the period	**5,956,510**	3,486,443	**18,244,201**	12,554,161
Retained earnings, beginning of period	**35,569,313**	14,825,769	**23,281,622**	5,758,051
Retained earnings, end of period	**$ 41,525,823**	$ 18,312,212	**$ 41,525,823**	$ 18,312,212
Earnings per share				
Basic	**$0.14**	$0.08	**$0.43**	$0.30
Diluted	**$0.13**	$0.08	**$0.43**	$0.30

Financial statements

Statements of Cash Flows
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2002	2001	**2002**	2001
Cash provided by (used in) Operating Activities				
Earnings for the period	**$ 5,956,510**	$ 3,486,443	**$ 18,244,201**	$ 12,554,161
Items not requiring cash:				
Future income taxes	**4,521,245**	2,820,892	**12,689,714**	9,263,106
Depletion, depreciation and site restoration	**2,995,858**	1,808,045	**7,823,262**	4,138,911
Funds from operations	**13,473,613**	8,115,380	**38,757,177**	25,956,178
Change in non-cash working capital related to operating activities	**(90,105)**	(4,200,739)	**152,470**	2,983,758
	13,383,508	3,914,641	**38,909,647**	28,939,936
Financing Activities				
Issue of common shares, net of costs	**467,799**	(5,210)	**2,581,088**	926,820
Increase (decrease) in revolving demand loan	**(1,125,882)**	10,178,360	**19,180,750**	30,164,382
	(658,083)	10,173,150	**21,761,838**	31,091,202
Investing Activities				
Additions to property, plant and equipment	**(24,104,659)**	(18,471,606)	**(74,924,051)**	(57,925,539)
Change in non-cash working capital related to investing activities	**11,394,036**	4,341,384	**14,297,325**	(2,114,701)
	(12,710,623)	(14,130,222)	**(60,626,726)**	(60,040,240)
Net increase (decrease) in cash	**14,802**	(42,431)	**44,759**	(9,102)
Cash, beginning of period	**31,177**	86,356	**1,220**	53,027
Cash, end of period	**$ 45,979**	$ 43,925	**$ 45,979**	$ 43,925

Notes to financial statements

1. Accounting Principles

The interim financial statements of the 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, 2001. 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, 2001.

2. Property, Plant and Equipment

	September 30, 2002 $	December 31, 2001 $
Property, plant and equipment	**205,571,438**	130,693,300
Office furniture and equipment	**266,260**	220,347
	205,837,698	130,913,647
Accumulated depletion and depreciation	**(16,941,364)**	(9,213,178)
	188,896,334	121,700,469

At September 30, 2002, costs of $15,188,000 (September 30, 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

The Company has a revolving credit facility to a maximum of $105,000,000. 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 ("CICA") 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 September 30, 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 and Outstanding - Common shares

	Number of Shares	Amount $
Balance, December 31, 2001	41,999,731	16,336,504
Exercise of stock options	1,321,223	2,620,772
Tax benefits transferred to shareholders	—	(350,976)
Share issue costs, net of associated tax benefits	—	(22,969)
Balance, September 30, 2002	43,320,954	18,583,331

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 4,314,262 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 September 30, 2002		As at December 31, 2001	
	Options	**Weighted - Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**
Opening	**3,310,334**	**$2.39**	2,987,000	$0.63
Granted	**1,629,557**	**$5.41**	3,095,334	$2.71
Exercised	**(1,321,224)**	**$1.98**	(2,017,667)	$0.48
Cancelled	**(50,000)**	**$5.51**	(754,334)	$1.82
Closing	**3,568,667**	**$3.88**	3,310,334	$2.39

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 period of 42,856,189 (for the period ended September 30, 2001 – 41,499,556). 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 for the period ended September 30, 2002 was 42,902,468 (for the period ended September 30, 2001 – 42,233,926).

Stock Based Compensation

Effective January 1, 2002 the Company adopted CICA Handbook section 3870 Stock-based Compensation and Other Stock-based payments. As permitted by CICA 3870 the Company has applied this change prospectively for new awards granted on or after January 1, 2002. The Company has chosen to recognize no compensation when stock options are granted to employees and directors under stock option plans with no cash settlement features. However, direct awards of stock to employees and stock and stock option awards granted to non-employees have been accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined by the quoted market price of the Company's stock and the fair value of stock options are determined using the Black Scholes option pricing model. In periods prior to January 1, 2002, the Company recognized no compensation when stock or stock options were issued to employees. Pro forma information regarding net income is required and has been determined as if the Company had accounted for its employee stock options granted after December 31, 2001 under the fair value method. The fair value for these options was estimated at the date of granting using a Black-Scholes Option Pricing Model with the following assumptions for 2002: weighted-average risk-free interest rate of 3.0%; dividend yield of 0%; weighted-average volatility factors of the expected market price of the Company's Common Shares of 48%; and a weighted-average expected life of the options of 3 years. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the option vesting periods. The Company's pro forma net income under Canadian GAAP would be reduced by $482,000 for the nine months ended September 30, 2002. Basic and diluted earnings-per-share figures would have been reduced by $0.01 and $0.01 respectively. The weighted average fair value of stock options granted during the nine months ended September 30, 2002 was $1.92 per share.

5. Operating Expenses

The Corporation'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 September 30		**Nine Months Ended September 30**	
	2002	**2001**	**2002**	**2001**
	$	**$**	**$**	**$**
Field expenses	**1,222,090**	683,751	**3,115,734**	1,882,119
Transmission	**498,203**	277,181	**1,332,472**	653,812
Processing & gathering income	**(532,538)**	(573,005)	**(1,122,137)**	(1,354,547)
Total operating costs	**1,187,755**	387,927	**3,326,069**	1,181,384

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 by locking in a minimum and maximum forward price.

A summary of contracts outstanding in respect to the hedging activities at September 30, 2002 were as follows:

Period Hedged	**Type**	**Daily Volume**	**Floor**	**Ceiling**
August, 2002	Fixed	4,000 GJ	$2.61/GJ	
September, 2002	Fixed	4,000 GJ	$3.00/GJ	
September, 2002	Fixed	6,000 GJ	$3.31/GJ	
September, 2002	Fixed	8,000 GJ	$3.26/GJ	
September, 2002	Fixed	10,000 GJ	$3.71/GJ	
October, 2002	Fixed	4,000 GJ	$3.48/GJ	
October, 2002	Fixed	6,000 GJ	$3.31/GJ	
October, 2002	Fixed	8,000 GJ	$3.26/GJ	
April 1, 2002 to Nov. 1, 2002	Costless collar	3,500 GJ	$3.50/GJ	$5.75/GJ
June 1, 2002 to Nov. 1, 2002	Costless collar	3,500 GJ	$3.75/GJ	$6.20/GJ
Nov. 1, 2002 to March 31, 2003	Costless collar	8,000 GJ	$3.50/GJ	$7.00/GJ
Nov. 1, 2002 to March 31, 2003	Costless collar	8,000 GJ	$3.50/GJ	$6.60/GJ
Nov. 1, 2002 to March 31, 2003	Costless collar	6,000 GJ	$3.50/GJ	$6.70/GJ
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

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

Mike Broadfoot

Brian Craig

Stephen Chetner

John Boyd

Auditors
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