

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

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Transfer Agent

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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*