

highlights

| Six Months Ended June 30 | 2000 | 1999 | % Change |
|-------------------------------------|---------|--------|-------------|
| Operations | | | |
| Production | | | |
| Oil & NGLs (bbl/d) | 165 | 34 | 385 |
| Natural gas (mcf/d) | 4,092 | 454 | 801 |
| Barrels of oil equivalent (boe/d) | 574 | 79 | 627 |
| Average product prices | | | |
| Oil & NGLs (\$/bbl) | 36.67 | 16.82 | 118 |
| Natural gas (\$/mcf) | 4.65 | 2.84 | 63 |
| Average operating expenses (\$/boe) | 4.37 | 5.58 | (22) |
| Financial (\$000) | | | |
| Revenue (net of royalties) | 3,584 | 223 | 1,507 |
| Funds from operations | 2,706 | 8 | 33,725 |
| Net earnings (loss) | 1,245 | (51) | - |
| Capital expenditures | 18,383 | 997 | 1,743 |
| As at June 30 | | | |
| Working capital surplus (deficit) | (2,049) | 371 | - |
| Long-term debt | 7,978 | 15 | 53,086 |
| Shareholders' equity | 11,488 | 1,648 | 597 |
| Total assets | 28,169 | 2,928 | 862 |
| Common shares outstanding (000) | 33,199 | 13,109 | 153 |
| Per share data (\$/share) | | | |
| Funds from operations | 0.09 | 0.00 | - |
| Earnings (loss) | 0.04 | (0.00) | - |

report from president

PEYTO Exploration & Development Corp. is pleased to present its second quarter financial and operating results for the period ended June 30, 2000.

Quarterly Review

Production increased 821% to 921 boe per day (barrels of oil equivalent with natural gas production converted on a 10:1 basis) from 100 boe per day in the same period in 1999. Peyto produced 6.9 million cubic feet (mmcf) of natural gas and 236 barrels of oil and natural gas liquids per day. As a result of this production growth combined with the increase in commodity prices, quarterly cash flow increased to \$2,479,000 (\$0.08 per share) and earnings to \$1,183,000 (\$0.04 per share). Product prices averaged \$4.87 per mcf of gas and \$36.46 per barrel of oil and natural gas liquids with associated operating costs of \$3.91 per boe. Capital spending totaled \$10,068,000 for the quarter.

During the quarter, Peyto completed construction of its Sundance gas processing plant and gathering system. A total of seven (6.3 net) operated gas wells were connected to the plant at June 30.

Activity Update

Peyto has connected an additional four (3.4 net) operated gas wells to the Sundance plant since June 30. Drilling, re-entry, completion and pipeline operations have now resumed. Expansion of the Sundance plant from 10 to 20 mmcf per day is on track to be completed during the third quarter.

On July 27, 2000 Peyto exercised its right to redeem the \$2,700,000 convertible debenture issued January 24, 2000 to Paramount Resources Ltd. Paramount has elected to convert the entire debenture to 4,500,000 common shares of Peyto effective August 25, 2000.

Outlook

Significant production growth is expected as processing and gathering capacity is brought online in the next few months. The corporation's inventory of low risk, high impact development projects has never been greater. Peyto will continue to aggressively exploit and expand its core area at Sundance, 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
August 22, 2000

quarterly information

| | 2000 | | 1999 | |
|-------------------------------------|--------|--------|--------|--------|
| | Q2 | Q1 | Q4 | Q3 |
| Operations | | | | |
| Production | | | | |
| Oil & NGLs (bbl/d) | 236 | 91 | 48 | 40 |
| Natural gas (mcf/d) | 6,852 | 1,288 | 376 | 736 |
| Barrels of oil equivalent (boe/d) | 921 | 220 | 86 | 113 |
| Average product prices | | | | |
| Oil & NGLs (\$/bbl) | 36.46 | 37.20 | 27.89 | 24.80 |
| Natural gas (\$/mcf) | 4.87 | 3.51 | 3.37 | 3.44 |
| Average operating expenses (\$/boe) | 3.91 | 6.30 | 9.44 | 5.08 |
| Financial (\$000) | | | | |
| Revenue (net of royalties) | 3,039 | 545 | 176 | 221 |
| Funds from operations | 2,479 | 227 | (80) | 95 |
| Net earnings (loss) | 1,183 | 62 | (83) | 42 |
| Capital expenditures | 10,068 | 8,315 | 4,737 | 1,144 |
| Common shares outstanding (000) | 33,199 | 31,451 | 24,527 | 13,109 |
| Per share data (\$/share) | | | | |
| Funds from operations | 0.08 | 0.01 | (0.00) | 0.01 |
| Earnings (loss) | 0.04 | 0.00 | (0.00) | 0.00 |

financial statements

Consolidated Balance Sheet

| As at | June 30 2000 (unaudited) | Dec. 31 1999 (audited) |
|--|--------------------------------|------------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 44,834 | \$ 443,725 |
| Accounts receivable | 3,773,998 | 1,291,068 |
| Prepays | 87,708 | 80,346 |
| | 3,906,540 | 1,815,139 |
| Property, plant and equipment | 25,754,903 | 7,460,671 |
| Accumulated depreciation & depletion | (1,492,857) | (137,857) |
| | 24,262,046 | 7,322,814 |
| | \$ 28,168,586 | \$ 9,137,953 |
| Liabilities | | |
| Current | | |
| Accounts payable & accrued liabilities | \$ 5,956,166 | \$ 2,461,785 |
| Convertible debenture | 1,565,064 | - |
| Long term debt | 7,978,121 | 1,150,000 |
| Site restoration provision | 66,382 | 5,461 |
| Future income taxes | 1,114,607 | 627,257 |
| Shareholders' equity | | |
| Contributed surplus | 1,134,936 | - |
| Share capital | 9,256,252 | 5,041,613 |
| Retained earnings (deficit) | 1,097,058 | (148,163) |
| | 11,488,246 | 4,893,450 |
| | \$ 28,168,586 | \$ 9,137,953 |

financial statements

Consolidated Statement of Earnings (unaudited)

| Six Months Ended | | |
|---|---------------------|--------------|
| June 30 | 2000 | 1999 |
| Revenue | | |
| Oil and gas sales, net | \$ 3,584,212 | \$ 222,941 |
| Expenses | | |
| Operating | 454,054 | 80,005 |
| General and administrative | 270,635 | 137,134 |
| Interest | 153,326 | (2,539) |
| Depletion, depreciation and site restoration | 470,090 | 59,169 |
| | 1,348,105 | 273,769 |
| Earnings (loss) before taxes | 2,236,107 | (50,828) |
| Future income taxes | 990,887 | - |
| Earnings (loss) for the period | 1,245,220 | (50,828) |
| Deficit, beginning of period | (148,162) | (56,706) |
| Retained earnings (deficit), end of period | \$ 1,097,058 | \$ (107,534) |
| Common shares outstanding | 33,199,064 | 13,108,671 |
| Earnings (loss) per share | \$0.04 | \$(0.00) |

Consolidated Statement of Cash Flows (Unaudited)

| Six Months Ended | | |
|--|---------------------|-------------|
| June 30 | 2000 | 1999 |
| Cash provided by (used in) | | |
| Operating Activities | | |
| Earnings (loss) for the period | \$ 1,245,220 | \$ (50,828) |
| Items not requiring cash: | | |
| Future income taxes | 990,887 | - |
| Depletion, depreciation and Site restoration | 470,090 | 59,169 |
| Funds from operations | 2,706,197 | 8,341 |
| Change in non-cash working capital from operations | (1,688,118) | (357,290) |
| | 1,018,079 | (348,949) |
| Financing Activities | | |
| Issue of common shares, net of costs | 76,451 | 306,061 |
| Convertible debenture | 2,700,000 | - |
| Increase in long term debt | 6,828,121 | 15,565 |
| | 9,604,572 | 321,626 |
| Investing Activities | | |
| Additions to property, plant and equipment | (11,419,109) | (997,163) |
| Net decrease in cash | (796,458) | (1,024,486) |
| Cash, beginning of period | 841,292 | 1,024,686 |
| Cash, end of period | \$ 44,834 | \$ 200 |
| Funds from operations per share | \$0.09 | \$0.00 |

corporate information

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

Head Office

420, 333 – 5 Avenue SW
Calgary, AB
T2P 3B6

Phone: 403.261.6081

Fax: 403.261.8976

Web: www.peyto.com

Stock Listing Symbol: PEY
Canadian Venture Exchange

PEYTO

Exploration & Development Corp.

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*Interim Report
for the six months ended June 30, 2000*