PEYTO

Exploration & Development Corp.

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Interim Report
for the nine months ended September 30, 2001

Highlights

	Three Months Ended Sept. 30			Nine Months Ended Sept. 30		
			%			%
	2001	2000	Change	**2001**	2000	Change
Operations						
Production						
Oil & NGLs (bbl/d)	**815**	313	*160*	**637**	215	*196*
Natural gas (mcf/d)	**22,431**	9,425	*138*	**17,241**	5,889	*193*
Barrels of oil equivalent (boe/d @ 10:1)	**3,058**	1,256	*143*	**2,361**	804	*194*
Average product prices						
Oil & NGLs ($/bbl)	**30.48**	38.83	*(22)*	**34.84**	37.73	*(8)*
Natural gas ($/mcf)	**4.32**	5.55	*(22)*	**6.69**	5.14	*30*
Average operating expenses ($/boe)	**1.38**	3.15	*(56)*	**1.83**	3.73	*(51)*
Financial ($000)						
Revenue	**11,195**	5,930	*89*	**37,568**	10,468	*259*
Royalties (net of ARTC)	**2,082**	1,442	*44*	**8,629**	2,396	*260*
Funds from operations	**8,115**	3,805	*113*	**25,956**	6,511	*299*
Net earnings	**3,486**	1,715	*103*	**12,554**	2,960	*324*
Capital expenditures	**18,472**	5,383	*243*	**57,926**	23,766	*144*
As at September 30						
Working capital deficit				**8,503**	1,389	*512*
Long term debt				**43,364**	10,219	*324*
Shareholders' equity				**33,827**	14,765	*129*
Total assets				**114,017**	33,321	*242*
Common shares outstanding (000)				**41,816**	37,699	*11*
Weighted average common shares outstanding (000)				**41,499**	31,865	*30*
Per share data ($/share)						
Funds from operations						
Basic	**0.19**	0.11	*73*	**0.63**	0.20	*215*
Diluted	**0.19**	0.11	*73*	**0.62**	0.19	*226*
Earnings						
Basic	**0.08**	0.05	*60*	**0.30**	0.09	*233*
Diluted	**0.08**	0.05	*60*	**0.30**	0.09	*233*

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, 2001.

Quarterly Review

Production increased 143% to 3,058 boe per day (barrels of oil equivalent with natural gas production converted on a 10:1 basis) from 1,256 boe per day in the same period in 2000. Peyto produced 22.4 million cubic feet (mmcf) of natural gas and 815 barrels of natural gas liquids and oil per day. Production gains and lower costs combined to increase cash flow from $3,805,000 in 2000 to $8,115,000 in 2001. Relative to the second quarter of 2001, these production gains and lower costs fully offset the decline in commodity prices. Earnings increased 103% over the quarter from $1,715,000 in 2000 to $3,486,000 in 2001. Product prices averaged $4.32 per mcf for gas and $30.48 per barrel for natural gas liquids and oil. Operating costs decreased from $3.15 to $1.38 per barrel of oil equivalent. On the basis of operating costs plus interest expense plus general and administrative costs per unit of production, Peyto has become one of the lowest cost producers in the industry at $3.32 per boe. Cash flow per boe of production during the quarter was $28.85. Capital spending totaled $18,472,000 for the quarter. Drilling expenditures totaled $15,538,000 and accounted for 84% of the total capital spending during the quarter.

Activity Update

Completing, equipping and pipeline operations continue to be very active since the end of the quarter. Production has averaged 4,400 boe per day (10:1) during the first fifty days of the fourth quarter. Plans are underway for the fourth expansion of Peyto's Sundance gas processing plant.

Outlook

Continued production growth is forecast to result in record cash flow for the final quarter of 2001. Peyto is well positioned to continue its aggressive exploration and development program in the Central Deep Basin Area of Alberta. The inventory of opportunities continues to expand. Shareholders and interested investors are encouraged to visit Peyto's website, www.peyto.com, for more information on the company.

Don T. Gray, P.Eng.
President and Chief Executive Officer
November 20, 2001

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 nine months ended September 30, 2001 and the audited consolidated financial statements for the year ended December 31, 2000.

Gross revenues totaled $11.2 million during the third quarter of 2001 (Q3 2000 - $5.9 million) and $37.6 million for the first nine months of 2001 (2000 - $10.5 million). These increases of 89 percent and 259 percent, respectively, are a result of higher production volumes. The price of natural gas averaged $4.32 per mcf for the third quarter of 2001 (Q3 2000 - $5.55 per mcf) and $6.69 per mcf for the first nine months of 2001 (2000 - $5.14 per mcf). Oil and natural gas liquids prices averaged $30.48 for the third quarter of 2001 (Q3 2000 - $38.83 per barrel) and $34.84 per barrel for the first nine months of 2001 (2000 - $37.73 per barrel)

Natural gas production for the quarter increased by 138 percent to 22.4 mmcf per day from 9.4 mmcf per day in the same quarter of 2000. Third quarter oil and natural gas liquids production increased by 160 percent to 815 bbl/d in 2001 from 313 bbl/d in 2000. Production for the first nine months averaged 2,361 barrels of oil equivalent ("boe", natural gas converted on a 10:1 basis) per day up 194 percent from 804 boe per day for the first nine months of 2000.

2001 royalties to date, net of Alberta Royalty Tax Credit (ARTC), increased by 260 percent to $8.6 million from $2.4 million in 2000 due to higher gross revenues associated with increased production volumes. The 2001 average royalty rate, before ARTC, was 24 percent compared to 26 percent for the same period in 2000.

Due to increased production volumes, operating costs for the nine month period rose to $1.2 million in 2001 from $0.8 million in 2000. On a barrel of oil equivalent basis, operating costs declined by 51 percent to $1.83 per boe in 2001 from $3.73 per boe in 2000. The decrease in operating costs was primarily the result of the Peyto operated processing plant, which came on production in the second quarter of 2000 thereby eliminating the reliance on third party facilities as well as generating processing income.

Net general and administrative expenses increased by 12 percent to $432,000 in the first nine months of 2001 from $385,000 in 2000. On a boe basis, net general and administrative expenses decreased by 61 percent to $0.67 per boe in 2001 from $1.76 per boe in 2000. This reduction was the result of the increase in production volumes while maintaining a similar level of staff.

Financing charges for the first nine months of 2001 were $1.2 million up from $358,000 in 2000. The increase was due to higher debt levels associated with Peyto's 2001 capital expenditures totaling $57.9 million compared with $23.8 million for the comparable period in 2000.

Depreciation, depletion and site restoration expenses were $4.1 million in the first nine months of 2001 compared to $1.1 million for the same period in 2000 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 increased to $6.42 in 2001 from $4.94 in 2000 as a result of significant facilities, processing plant and pipeline investments incurred during 2001.

The provision for future income tax increased to $9.3 million in 2001 from $2.5 million in 2000. The increase in the tax provision in 2001 is a direct result of the increased profitability in Peyto due to significantly higher production volumes.

Funds from operations for 2001 were $26.0 million compared with $6.5 million in 2000. This 299% increase was the result of increased production volumes and lower operating costs. On a per share basis, the first nine months of 2001 resulted in funds from operations of $0.63 per share versus $0.20 per share in 2000. Peyto's field netback for the period improved from $33.07 per boe in 2000 to $43.06 per boe in 2001. On the basis of operating costs plus depletion plus general and administrative costs per unit of production, Peyto has become one of the lowest cost producers among the industry's top 100 companies. Relative to the industry average in 2000, Peyto's 2001 costs were 59% lower. Net income in 2001 was $12.6 million or $0.30 per share compared with $2.9 million in 2000 or $0.09 per share.

At September 30, 2001, long term debt stood at $43.3 million and the Corporation had a working capital deficiency of $8.5 million resulting in a net debt to running cash flow ratio of approximately 1.6:1. Peyto's $57.9 million capital program was funded through cash flow, working capital and long term debt.

Quarterly information

	2001			2000	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Oil & NGLs (bbl/d)	**815**	621	472	348	313
Natural gas (mcf/d)	**22,431**	15,502	13,694	9,590	9,425
Barrels of oil equivalent (boe/d @ 10:1)	**3,058**	2,171	1,842	1,307	1,256
Average product prices					
Oil & NGLs ($/bbl)	**30.48**	36.82	39.89	43.92	38.83
Natural gas ($/mcf)	**4.32**	7.02	10.30	9.16	5.55
Average operating expenses ($/boe)	**1.38**	2.29	2.06	3.81	3.15
Field netback ($/boe)	**31.02**	44.88	61.33	56.63	35.70
Financial ($000)					
Revenue	**11,195**	11,987	14,386	9,486	5,930
Royalties (net of ARTC)	**2,082**	2,667	3,880	2,219	1,442
Funds from operations	**8,115**	8,160	9,681	5,947	3,805
Net earnings	**3,486**	4,450	4,618	2,946	1,715
Capital expenditures	**18,472**	18,641	20,813	19,821	5,383
Common shares outstanding (000)	**41,816**	41,813	41,646	39,799	37,699
Per share data ($/share)					
Funds from operations					
Basic	**0.19**	0.20	0.24	0.17	0.11
Diluted	**0.19**	0.19	0.23	0.15	0.11
Earnings					
Basic	**0.08**	0.11	0.11	0.09	0.05
Diluted	**0.08**	0.10	0.11	0.07	0.05

Financial statements

Balance Sheet

As at	**September 30 2001 (unaudited)**	December 31 2000 (audited)
Assets		
Current assets		
Cash	**$ 43,925**	$ 53,027
Accounts receivable	**11,632,315**	11,620,928
Prepaids	**371,558**	247,053
	12,047,798	11,921,008
Property, plant and equipment *(Note 2)*	**108,884,103**	50,958,564
Accumulated depreciation & depletion	**(6,915,269)**	(2,822,474)
	101,968,834	48,136,090
	$ 114,016,632	$ 60,057,098
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**$ 20,406,532**	$ 19,477,534
Capital taxes payable	**144,754**	68,804
	20,551,286	19,546,338
Long term debt *(Note 3)*	**43,364,110**	13,199,728
Site restoration provision	**163,961**	117,845
Future income taxes	**16,110,188**	6,884,091
Shareholders' equity		
Share capital *(Note 4)*	**15,514,875**	14,551,045
Retained earnings	**18,312,212**	5,758,051
	33,827,087	20,309,096
	$ 114,016,632	$ 60,057,098

Financial statements

Statements of Earnings and Retained Earnings
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	**2001**	2000
Revenue				
Oil and gas sales, net	**$ 9,113,043**	$ 4,488,219	**$ 28,938,889**	$ 8,072,431
Interest and other income	**2,138**	31	**12,422**	627
	9,115,181	4,488,250	**28,951,311**	8,073,058
Expenses				
Operating	**387,927**	364,414	**1,181,384**	818,468
General and administrative	**59,574**	114,591	**431,951**	385,226
Interest	**487,443**	204,184	**1,241,733**	358,106
Depletion, depreciation and site restoration	**1,808,045**	613,250	**4,138,911**	1,083,340
	2,742,989	1,296,439	**6,993,979**	2,645,140
Earnings before taxes	**6,372,192**	3,191,811	**21,957,332**	5,427,918
Future income tax expense	**(2,820,892)**	(1,477,411)	**(9,263,106)**	(2,468,298)
Capital tax expense	**(64,857)**	-	**(140,065)**	-
Earnings for the period	**3,486,443**	1,714,400	**12,554,161**	2,959,620
Retained earnings (deficit), beginning of period	**14,825,769**	1,097,058	**5,758,051**	(148,162)
Retained earnings, end of period	**$ 18,312,212**	$ 2,811,458	**$ 18,312,212**	$ 2,811,458
Earnings per share				
Basic	**$0.08**	$0.05	**$0.30**	$0.09
Diluted	**$0.08**	$0.05	**$0.30**	$0.09

Financial statements

Statements of Cash Flows
(unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2001	2000	**2001**	2000
Cash provided by (used in)				
Operating Activities				
Earnings for the period	**$ 3,486,443**	$ 1,714,400	**$ 12,554,161**	$ 2,959,620
Items not requiring cash:				
Future income taxes	**2,820,892**	1,477,411	**9,263,106**	2,468,298
Depletion, depreciation and site restoration	**1,808,045**	613,250	**4,138,911**	1,083,340
Funds from operations	**8,115,380**	3,805,061	**25,956,178**	6,511,258
Change in non-cash working capital from operations	**(4,200,739)**	1,487,366	**2,983,758**	(346,333)
	3,914,641	5,292,427	**28,939,936**	6,164,925
Financing Activities				
Issue of common shares, net of costs	**(5,210)**	2,697,382	**926,820**	2,773,833
Convertible debenture	**-**	(2,700,000)	**-**	-
Increase in long term debt	**10,178,360**	2,241,115	**30,164,382**	9,069,236
	10,173,150	2,238,497	**31,091,202**	11,843,069
Investing Activities				
Additions to property, plant and equipment	**(18,471,606)**	(5,383,020)	**(57,925,539)**	(19,639,917)
Change in non-cash working capital related to investing activities	**4,341,384**	(2,138,336)	**(2,114,701)**	699,452
Cash acquired in acquisition of Largo Petroleum Inc.	**-**	-	**-**	543,148
	(14,130,222)	(7,521,356)	**(60,040,240)**	(18,397,317)
Net increase (decrease) in cash	**(42,431)**	9,568	**(9,102)**	(389,323)
Cash, beginning of period	**86,356**	44,834	**53,027**	443,725
Cash, end of period	**$ 43,925**	$ 54,402	**$ 43,925**	$ 54,402
Funds from operations per share				
Basic	**$0.19**	$0.11	**$0.63**	$0.20
Diluted	**$0.19**	$0.11	**$0.62**	$0.19

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, 2000 with the exception of diluted per share calculations. 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 nine months ended September 30, 2001 and the audited consolidated financial statements for the year ended December 31, 2000. Effective January 1, 2001, the Company adopted the treasury stock method of calculating the dilutive effect of outstanding options to acquire common shares as recommended by the CICA. Comparative figures for 2000 have been restated accordingly.

2. Property, Plant and Equipment

	2001 $	2000 $
Property, plant and equipment	**108,664,093**	50,784,483
Office furniture and equipment	**220,010**	174,081
	108,884,103	50,958,564
Accumulated depletion and depreciation	**(6,915,269)**	(2,822,474)
	101,968,834	48,136,090

At September 30, 2001, costs of $8,250,000 (September 30, 2000 - nil) 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. Long Term Debt

In April 2001 Peyto entered into an agreement with the Royal Bank of Canada for a revolving credit facility to a maximum of $50,000,000. 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. In October 2001 the line was increased to $60,000,000.

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, 2000	39,799,064	14,551,045
Exercise of stock options	2,017,667	1,013,657
Share issue costs, net of associated tax benefits	—	(49,827)
Balance, September 30, 2001	41,816,731	15,514,875

On May 28, 2001 Peyto's common shares commenced trading on the Toronto Stock Exchange under the symbol "PEY".

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 September 30, 2001		**As at September 30, 2000**	
	Options	**Weighted - Average Exercise Price**	**Options**	**Weighted-Average Exercise Price**
Opening	**2,987,000**	**$0.63**	1,305,000	$0.19
Granted	**3,095,334**	**$2.71**	2,292,000	$0.79
Exercised	**(2,017,667)**	**$0.48**	(370,667)	$0.27
Cancelled	**(754,333)**	**$1.82**	(239,333)	$0.33
Closing	**3,310,334**	**$2.39**	2,987,000	$0.63

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 41,499,556 (2000 – 31,865,449). 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 2001 was 42,233,926 (2000 – 33,365,310).

5. Financial Instruments

Financial instruments of the Company consist of cash, accounts receivable, accounts payable and accrued liabilities and long term debt. As at September 30, 2001 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 September 30, 2001 were as follows:

Period Hedged	**Daily Volume**	**Floor**	**Ceiling**
April 1 to October 31, 2001	2,000 gigajoules	$5.50/gigajoule	$6.65/gigajoule
April 1 to October 31, 2001	2,000 gigajoules	$5.00/gigajoule	$7.10/gigajoule
April 1 to October 31, 2001	4,000 gigajoules	$5.50/gigajoule	$11.00/gigajoule
November 1, 2001 to April 1, 2002	2,000 gigajoules	$6.00/gigajoule	$10.55/gigajoule
November 1, 2001 to April 1, 2002	2,000 gigajoules	$6.00/gigajoule	$10.80/gigajoule
November 1, 2001 to April 1, 2002	2,000 gigajoules	$6.00/gigajoule	$10.10/gigajoule
November 1, 2001 to April 1, 2002	2,500 gigajoules	$3.50/gigajoule	$5.80/gigajoule
April 1 to October 31, 2002	3,500 gigajoules	$3.50/gigajoule	$5.75/gigajoule

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

Steve Chetner
Corporate Secretary

Directors

Rick Braund

Don Gray

Mike Broadfoot

Brian Craig

Jim Riddell

Stephen Chetner

Auditors
Ernst & Young LLP

Solicitors
Burnet, Duckworth & Palmer

Bankers
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