

# PEYTO EXPLORATION & DEVELOPMENT CORP.

## Information Circular - Proxy Statement for the Annual and Special Meeting to be held on June 6, 2002

### Solicitation of Proxies

**This Information Circular - Proxy Statement is furnished in connection with the solicitation of proxies by the management of PEYTO EXPLORATION & DEVELOPMENT CORP.** (the "Corporation") for use at the Annual and Special Meeting of the shareholders of the Corporation (the "Meeting") to be held on the 6<sup>th</sup> day of June, 2002 at 2:30 p.m. (Calgary time) at the Imperial Room at the Hyatt Regency Calgary, 700 Centre Street South, Calgary, Alberta, and at any adjournment thereof, for the purposes set forth in the Notice of Annual and Special Meeting. Instruments of Proxy must be received by the Secretary of the Corporation c/o Computershare Trust Company of Canada, Suite 600, Western Gas Tower, 530 - 8th Avenue S.W., Calgary, Alberta, T2P 3S8 not less than 48 hours (excluding Saturdays, Sundays and holidays) before the time for the holding of the Meeting or any adjournment thereof. The Board of Directors of the Corporation (the "Board") has fixed the record date for the Meeting at the close of business on May 1, 2002 (the "Record Date"). Only shareholders of the Corporation of record as at that date are entitled to receive notice of the Meeting. Shareholders of record will be entitled to vote those shares included in the list of shareholders entitled to vote at the Meeting prepared as at the Record Date, unless any such shareholder transfers shares after the Record Date and the transferee of those shares establishes ownership of such shares and demands, not later than ten days prior to the Meeting that the transferee's name be included in the list of shareholders entitled to vote at the Meeting, in which case such transferee shall be entitled to vote such shares at the Meeting.

The instrument appointing a proxy shall be in writing and shall be executed by the shareholder or the shareholder's attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized.

**The persons named in the enclosed form of proxy are directors and/or officers of the Corporation. Each shareholder has the right to appoint a proxyholder other than the persons designated in the form of proxy, who need not be a shareholder, to attend and to act for the shareholder at the Meeting. To exercise such right, the names of the nominees of management should be crossed out and the name of the shareholder's appointee should be legibly printed in the blank space provided.**

### Revocability of Proxy

A shareholder who has submitted a proxy may revoke it at any time prior to the exercise thereof. If a person who has given a proxy attends personally at the Meeting at which such proxy is to be voted, such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by instrument in writing executed by the shareholder or the shareholder's attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized and deposited either at the registered office of the Corporation at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof, and upon either of such deposits, the proxy is revoked.

### Advice to Beneficial Holders of Common Shares

**The information set forth in this section is of significant importance to many shareholders who do not hold their common shares ("Common Shares") in their own name.** Only proxies deposited by shareholders whose names appear on the records of the Corporation as the registered holders of Common Shares can be recognized and acted upon at the Meeting. If Common Shares are listed in your account statement provided by your broker, then in almost all cases those Common Shares will not be registered in your name on the records of the Corporation. Such Common Shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Limited, which acts as nominees for many Canadian brokerage firms. Common Shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your shares.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the Meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your shares are voted at the Meeting. Often, the form of proxy supplied by your broker is identical to the Instrument of Proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to the Independent Investor Communications Corporation. The Independent Investor Communications Corporation mails a scannable Voting Instruction Form in lieu of the Instrument of Proxy. You are asked to complete and return the Voting Instruction Form to them by mail or facsimile. Alternately, you can call their toll-free telephone number to vote your shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of shares to be represented at the Meeting. **If you receive a Voting Instruction Form from Independent Investor Communications Corporation it cannot be used as a proxy to vote shares directly at the Meeting as the Voting Instruction Form must be returned to Independent Investor Communications Corporation well in advance of the Meeting in order to have the shares voted.**

### **Persons Making the Solicitation**

**The solicitation is made on behalf of the management of the Corporation.** The costs incurred in the preparation and mailing of the Instrument of Proxy, Notice of Annual and Special Meeting and this Information Circular - Proxy Statement will be borne by the Corporation. In addition to solicitation by mail, proxies may be solicited by personal interviews, telephone or other means of communication and by directors, officers and employees of the Corporation, who will not be specifically remunerated therefor.

### **Exercise of Discretion by Proxy**

The shares represented by proxy in favour of management nominees shall be voted on any ballot at the Meeting and, where the shareholder specifies a choice with respect to any matter to be acted upon, the shares shall be voted on any ballot in accordance with the specification so made.

**In the absence of such specification, the shares will be voted in favour of the matters to be acted upon. The persons appointed under the Instrument of Proxy furnished by the Corporation are conferred with discretionary authority with respect to amendments or variations of those matters specified in the Proxy and Notice of Annual and Special Meeting. At the time of printing this Information Circular - Proxy Statement, management of the Corporation knows of no such amendment, variation or other matter.**

## **MATTERS TO BE ACTED UPON AT MEETING**

### **Election of Directors**

At the Meeting it is proposed that 6 directors be elected to hold office until the next annual meeting or until their successors are elected or appointed. There are presently 6 directors of the Corporation, each of whom retire from office at the Meeting.

Unless otherwise directed, it is the intention of management to vote proxies in the accompanying form in favour of the election as directors of the 6 nominees hereinafter set forth:

Rick Braund  
 Donald Gray  
 Brian Craig  
 Mike Broadfoot  
 J.H.T. (Jim) Riddell  
 Stephen J. Chetner

The names and municipalities of residence of the persons nominated for election as directors, the number of voting securities of the Corporation beneficially owned, directly or indirectly, or over which each exercises control or direction, the offices held by each in the Corporation, the period served as director and the principal occupation of each are as follows:

<b>Name and Municipality of Residence</b>	<b>Offices Held and Time as Director</b>	<b>Number of Common Shares Beneficially Owned Directly and Indirectly <sup>(2)</sup></b>	<b>Principal Occupation</b>
Rick Braund Calgary, Alberta	Chairman of the Board since October 1998	1,418,648 (3.37%)	Chairman of Buck Oil Ltd., a private oil and gas company since 1991.
Donald Gray Calgary, Alberta	President, Chief Executive Officer and Director since October 1998	1,795,755 (4.2%)	President, Chief Executive Officer and a Director of the Corporation.
Brian Craig <sup>(1)</sup> Calgary, Alberta	Director since October 1998	600,000 (1.4%)	President and Chief Executive Officer of Stormworks Inc. a private venture capital and consulting firm.
Mike Broadfoot <sup>(1)</sup> Calgary, Alberta	Director since October 1998	1,081,000 (2.5%)	President and Chief Executive Officer of Engage Energy, a natural gas and power marketing company, headquartered in Calgary.
J.H.T. (Jim) Riddell <sup>(3)</sup>	Director since February 8, 2000	348,436 (0.8%)	Corporate Operations Officer of Paramount Resources Ltd., a publicly traded oil and gas company.
Stephen J. Chetner <sup>(1)</sup>	Director since December, 2000	183,000 (0.4%)	Partner at Burnet, Duckworth & Palmer LLP, Barristers and Solicitors

Notes:

- (1) Member of audit committee. The Corporation does not have an executive committee.
- (2) The directors and officers also hold options to acquire an aggregate of 3,054,667 Common Shares at exercise prices of \$0.52, \$2.60, \$2.70, \$3.09, \$4.03 and \$5.51 per Common Share, which options expire on January 18, 2005 (as to options to acquire 11,000 Common Shares at an exercise price of \$0.52), February 7, 2006 (as to options to acquire 825,555 Common Shares at an exercise price of \$2.60), February 14, 2006 (as to options to acquire 330,222 Common Shares at an exercise price of \$2.70), February 21, 2006 (as to options to acquire 266,666 Common Shares at an exercise price of \$2.70), July 10, 2006 (as to options to acquire 400,000 Common Shares at an exercise price of \$3.09), January 14, 2007 (as to options to acquire 300,000 Common Shares at an exercise price of \$4.03) and March 15, 2007 (as to options to acquire 921,224 Common Shares at an exercise price of \$5.51).
- (3) Paramount Resources Ltd. holds an aggregate 4,238,636 Common Shares or 9.8% of the issued and outstanding Common Shares.

The information as to shares beneficially owned, directly or indirectly or over which control or direction is exercised, is based upon information furnished to the Corporation by the nominees.

### **Appointment of Auditors**

Unless otherwise directed, it is management's intention to vote the proxies in favour of an ordinary resolution to appoint the firm of Ernst and Young LLP, Chartered Accountants, Calgary, Alberta, to serve as auditors of the Corporation until the next annual meeting of the shareholders and to authorize the directors to fix their remuneration as such. Ernst and Young LLP have been the Corporation's auditors since 1999.

## **Ratification and Approval of 2002 Share Option Plan**

Shareholders will be asked at the Meeting to consider, and if thought advisable, ratify and approve a new stock option plan (the "2002 Plan") which will supercede and replace the existing stock option plan of the Corporation (the "Old Plan"). The 2002 Plan contains terms and conditions substantially the same as those of the Old Plan, but allows the Corporation to grant additional options to acquire Common Shares compared with the Old Plan. The maximum number of Common Shares issuable on exercise of options pursuant to the Old Plan was 4,178,005 Common Shares. The 2002 Plan is proposed to provide for the issuance by the Corporation of up to 4,314,262 Common Shares (being approximately 10% of the Common Shares outstanding at the date hereof).

The Old Plan, was approved by shareholders of the Corporation on November 21, 2001. The Corporation currently has outstanding options to purchase 3,453,667 Common Shares under the Old Plan. If the 2002 Plan is approved as proposed, the outstanding options will remain in effect and be exercisable in accordance with their terms and be deemed to be issued under the terms of the 2002 Plan. If the 2002 Plan is approved, it will allow the Corporation to issue an additional 1,279,147 options to acquire Common Shares (1,142,890 of which are as a result of the exercise of options under the Old Plan and 136,257 of which are a result of an increase in the Common Shares outstanding). Approval of the 2002 Plan will also constitute ratification of all outstanding stock options, including the options granted which exceed the limit under the Old Plan. It is the current intention of the Corporation to have shareholders approve a new option plan each year, so that it may annually address the total number of options available under the plan for that year.

Shareholders are also being asked to give the Board of Directors the discretion to make such changes to the 2002 Plan as are required for compliance with the rules of the Toronto Stock Exchange.

Unless otherwise directed, it is management's intention to vote proxies in favor of the following ordinary resolution to ratify and approve the 2002 Plan:

BE IT RESOLVED as an ordinary resolution of Peyto Exploration & Development Corp. (the "Corporation") that the 2002 share option plan of the Corporation in the form attached as Schedule "A" to the Information Circular - Proxy Statement of the Corporation dated May 1, 2002, be and is hereby ratified and approved.

## **INFORMATION CONCERNING THE CORPORATION**

### **Voting Shares and Principal Holders Thereof**

As at May 1, 2002, 43,142,622 Common Shares of the Corporation were issued and outstanding, each such share carrying the right to one vote on a ballot at the Meeting. A quorum for the transaction of business at the Meeting is not less than 2 persons present holding or representing not less than 5% of the shares entitled to be voted at the Meeting.

To the knowledge of the directors and senior officers of the Corporation, as at May 1, 2002 no person or company beneficially owned, directly or indirectly, or exercised control or direction over, voting securities of the Corporation carrying more than 10% of the voting rights attached to any class of voting securities of the Corporation.

As at the date hereof, 6,253,041 Common Shares are beneficially owned, directly or indirectly, by the directors and officers of the Corporation or their associates as a group, which represents approximately 14.5% of the currently issued and outstanding Common Shares.

## **DIRECTORS' AND OFFICERS' COMPENSATION**

### **Determination of Executive Compensation**

The Board has appointed a Compensation Committee composed of three non-management directors, Messrs. Broadfoot, Craig and Riddell.

## **Report on Executive Compensation**

The Compensation Committee meets from time to time each year for the purpose of reviewing the overall compensation policy. The Compensation Committee makes specific recommendations to the Board on salaries of officers, bonus payments, stock option allocations and directors' compensation. The Board reviews all recommendations of the Compensation Committee before final approval. Any director who is also an executive officer of the Corporation is excused from the director's meeting during any discussion of his compensation.

The Corporation's compensation philosophy is aimed at attracting and retaining quality and experienced people which is critical to the success of the Corporation. Employee compensation, including executive officer compensation, is comprised of three elements: base salary, short-term incentive compensation (being cash bonuses) and long-term incentive compensation (being stock options).

### **Base Salaries**

Base salary ranges are determined following a review of comparative data for a number of comparable companies within the same industry. It has been and continues to be the Corporation's approach that the base salary of the senior officers of the Corporation, be below the midpoint of salaries for comparable positions in the Corporation's peer group.

### **Bonuses**

In addition to base salaries, the Corporation may award cash bonuses to its employees, including the executive officers. The Board, in consultation with management, establishes annually, the basis on which bonuses will be granted. Under this plan all employees are eligible to receive cash bonuses in the event specified performance targets are met or exceeded by the Corporation.

### **Stock Options**

Individual stock options are granted by the Board on the recommendation of the Compensation Committee in consultation with senior management, in the case of employees, and by the Board after consultation with the Compensation Committee in the case of executive officers, including the President and Chief Executive Officer. Stock options are intended to align executive and shareholder interests by attempting to create a direct link between compensation and shareholder return. Participation in the Corporation's stock option plan rewards overall corporate performance, as measured through the price of the Corporation's shares. In addition, the plan enables executives to develop and maintain a significant ownership position in the Corporation.

Stock options are normally awarded by the Board upon the commencement of employment with the Corporation based on the level of responsibility within the Corporation. Additional grants are made periodically to recognize the exemplary performance of, or the special contribution by, eligible individuals. An annual grant may be made to eligible individuals based on individual performance and the performance of the Corporation during the most recently completed financial year in relation to performance achieved by industry peer corporations during the comparable period.

The Corporation's stock option plan is designed to motivate executives to focus on the long term interests of the Corporation and its shareholders. Options may be exercised at the market price in effect on the date of grant and the realizable value of the executives' option grants is entirely dependent on the appreciation in the market price of the Common Shares.

### **Summary**

The Corporation's compensation policies have allowed the Corporation to attract and retain a team of motivated professionals and support staff working towards the common goal of enhancing shareholder value. The Compensation Committee will continue to review compensation policies to ensure that they are consistent with the performance of the Corporation.

## **REPORT SUBMITTED BY THE COMPENSATION COMMITTEE**

Mike Broadfoot  
Brian Craig  
J. H. T. (Jim) Riddell

## Summary of Executive Compensation

The following table sets forth information concerning the compensation paid to the President and Chief Executive Officer, and the four executive officers for each of the Corporation's last three financial years of the Corporation whose salary and bonus for the financial year ended December 31, 2001 exceeded \$100,000.

### Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$) <sup>(1)</sup>	Awards		Payouts	
					Securities Under Options/SARs Granted (#)	Restricted Shares or Restricted Share Units (\$)	LTIP Payouts (\$)	
Donald Gray President and Chief Executive Officer	2001	140,000	315,000	nil	990,000	nil	n/a	nil
	2000	115,000	250,000	nil	890,000	nil	n/a	nil
	1999	75,000	75,000	nil	490,000	nil	n/a	nil
Roberto Bosdachin Vice-President, Exploration	2001	110,000	225,000	nil	403,334	nil	n/a	nil
	2000	66,000	65,000	nil	500,000	nil	n/a	nil
	1999	nil	nil	nil	nil	nil	n/a	nil
Darren Gee <sup>(2)</sup> Vice-President, Exploration	2001	92,000	120,000	nil	400,000	nil	n/a	nil
	2000	nil	nil	nil	nil	nil	n/a	nil
	1999	nil	nil	nil	nil	nil	n/a	nil
Lyle Skaien <sup>(3)</sup> Vice-President, Operations	2001	55,000	65,000	nil	400,000	nil	n/a	nil
	2000	nil	nil	nil	nil	nil	n/a	nil
	1999	nil	nil	nil	nil	nil	n/a	nil
Sandra Brick Vice-President, Finance	2001	75,000	55,000	nil	150,000	nil	n/a	nil
	2000	51,000	25,000	nil	120,000	nil	n/a	nil
	1999	30,000	10,000	nil	60,000	nil	n/a	nil

Notes:

- (1) Perquisites and other personal benefits do not exceed the lesser of \$50,000 and 10% of the total of the annual salary and bonus for any of the named executive officers.
- (2) On March 6, 2001 Mr. Darren Gee was hired as Vice-President, Exploitation at a salary of \$115,000 on an annualized basis and eligible for bonus payments.
- (3) On July 9, 2001 Mr. Lyle Skaien was hired as Vice-President, Operations at a salary of \$115,000 on an annualized basis and eligible for bonus payments.

### Stock Options

The following table sets forth the details with respect to all options granted to Named Executive Officers during 2001.

Name	Securities Under Option	% of Total Options Granted to Employees in Financial Year	Exercise or Base Price (\$/Security)	Market Value of Securities Underlying Options on the Date of Grant (\$/Security)	Expiration Date
Donald Gray	856,667	28	2.60	2.60	Feb. 7, 2006
Roberto Bosdachin	236,667	8	2.60	2.60	Feb. 7, 2006
Darren Gee	400,000	13	2.70	2.70	Feb. 21, 2006
Lyke Skaien	400,000	13	3.09	3.09	July 10, 2006
Sandra Brick	130,000	4	2.60	2.60	Feb. 7, 2006

The following table sets forth, with respect to the Named Executive Officers, the number of Unexercised Stock Options and SARs and the value of in-the-money stock options and SARs at December 31, 2001:

Name	Securities Acquired or Exercised (#)	Aggregated Value Realized (\$)	Unexercised Stock Options/SARs at FY-End (#) Exercisable/ Unexercisable <sup>(2)</sup>	Value of Unexercised in-the-Money Stock Options/SARs at FY-End <sup>(1)</sup> (\$) Exercisable/ Unexercisable <sup>(2)</sup>
Donald Gray	756,677	1,568,700	990,000	1,633,633
Roberto Bosdachin	333,333	761,665	403,334	859,235
Darren Gee	0	0	400,000	508,000
Lyle Skaien	0	0	400,000	352,000
Sandra Brick	100,000	202,200	150,000	247,100

Notes:

- (1) Closing price on December 31, 2001 of \$3.97 less exercise price.
- (2) All options are currently unexercisable.

The value of the exercisable options (market value of Common Shares less exercise price) at December 31, 2001 was based upon a year-end market price of \$3.97 per Common Share.

### Change of Control Agreements

Each of the Named Executive Officers of the Corporation is a party to a change of control agreement. In the event of a change of control (as defined in the agreements), the executives have the right, for a period of 120 days following the event causing the change of control, to terminate the agreement and be entitled to the following payments: The President and Chief Executive Officer is entitled to a retiring allowance (less required withholdings) equal to the monthly base salary times 24 and a further retiring allowance (less required withholdings) equal to 15% of the previously calculated amount to compensate for the loss of benefits and perquisites. The Vice-President, Exploration, Vice-President, Exploitation, Vice-President, Finance and Vice-President, Operations will be entitled to a retirement allowance (less required withholdings) equal to the sum of the executives' monthly base salary times 12 plus an additional one month (or two months in case of the Vice-President, Operations) of the executives' monthly base salary for each year or part year worked for the Corporation, provided that the retiring balance shall not exceed the executives' monthly base salary times 18, and a further retiring allowance equal to 15% of the amount previously calculated to compensate the executive for the loss of executive benefits and perquisites.

### Directors' Compensation

In the last completed financial year of the Corporation, none of the directors of the Corporation were paid in their capacities as such. However, the directors are reimbursed for miscellaneous out-of-pocket expenses in carrying out their duties as directors. Directors of the Corporation also participate in the Corporation's stock option plan.

### Indebtedness of Directors and Senior Officers

There has not been any indebtedness outstanding by directors or senior officers of the Corporation to the Corporation or its subsidiaries at any time since the commencement of the last completed financial year of the Corporation other than as described in the following table:

Name and Principal Position	Involvement of the Corporation	Largest Amount Outstanding During 2001 (\$)	Amount Outstanding as at May 1, 2002 (\$)
Don Gray <sup>(1)</sup> President and Chief Executive Officer	Lender	40,000	NIL

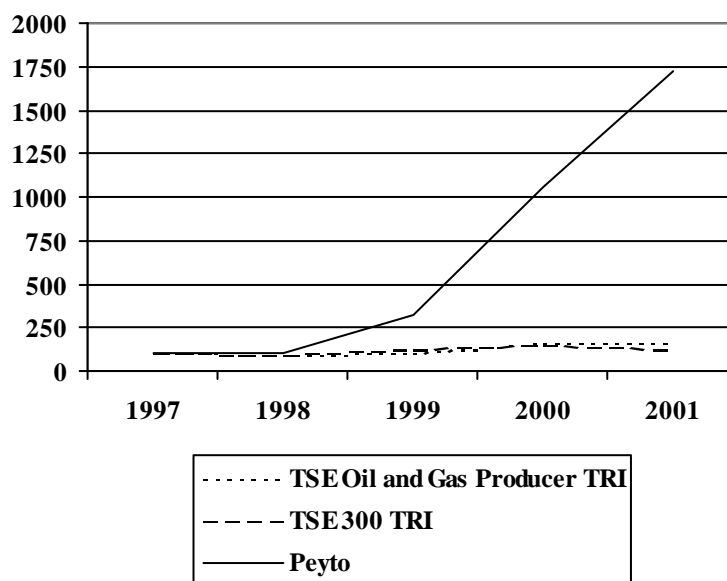
Notes:

- (1) This loan was made to Mr. Gray by the Corporation to facilitate the purchase of Common Shares pursuant to the Corporation's 1999 rights plan. The loan carried an annual interest rate of 5% and was fully repaid in February 2001.

## Performance Graph

The following graph illustrates the Corporation's five year cumulative shareholder return, as measured by the closing price of the Common Shares at the end of each financial year, assuming an initial investment of \$100, compared to the TSE 300 Composite Total Return Index and the TSE Oil and Gas Producers Total Return Index, assuming the reinvestment of dividends where applicable.

**Cumulative Total Return on \$100 Investment Made on  
December 31, 1997  
(Assuming Dividends Reinvested)**



	1997	1998	1999	2000	2001
Peyto	100	100	321	1,052	1,726
TSE 300 TRI	100	97	126	152	128
TSE Oil and Gas Producer TRI	100	87	108	157	161

## STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The following summary also addresses each of the guidelines of the TSE with respect to corporate governance including an explanation of any divergence from the stated guidelines.

The board of directors and management believes in the importance of good corporate governance and its effectiveness in promoting enhanced shareholder value. The TSE has required that listed corporations disclose their approach to corporate governance, making particular reference to the guidelines set out in the December 1994 report of the TSE Committee on Corporate Governance. When a corporation's corporate governance system differs from these guidelines, it is required to give an explanation of the differences. The guidelines contained in the TSE report are not mandatory and the TSE report recognizes that the unique characteristics of individual corporations will result in varying degrees of compliance with such guidelines. The board of directors and management will continue to monitor the current initiatives of the securities regulatory authorities in Canada with respect to corporate governance in order to ensure that our corporate governance practice complies with all applicable legal requirements.

TSE Corporate Governance Guidelines	Do we comply?	Comments
<p>1. Board should explicitly assume responsibility for stewardship of the corporation, and specifically for:</p> <p>a. adoption of a strategic planning process;</p> <p>b. identification of principal risks of the corporation's business and ensure the implementation of appropriate risk-management systems;</p> <p>c. succession planning and monitoring senior management;</p> <p>d. communication policy; and</p> <p>e. integrity of internal control and management systems.</p>	Yes	<p>The board has full plenary powers and the statutory responsibilities to oversee the conduct of our business and to supervise management which is responsible for the day-to-day conduct of our business. The board's fundamental objectives are to enhance and preserve long term shareholder value and to ensure that we meet our objectives on an ongoing basis. The board has acknowledged its responsibility for our stewardship, including responsibility for:</p> <ul style="list-style-type: none"> <li>• the appointment of executive officers and for succession planning;</li> <li>• the identification of our principal business risks and ensuring the implementation of appropriate systems to manage these risks;</li> <li>• the approving of all financings and significant acquisitions or dispositions;</li> </ul> <ul style="list-style-type: none"> <li>• ensuring the implementation and integrity of our internal control and management information systems;</li> <li>• approval and monitoring our strategic planning;</li> <li>• monitoring compliance with all significant policies and procedures and applicable laws and regulations; and</li> </ul> <ul style="list-style-type: none"> <li>• ensuring timely and accurate reporting to shareholders of financial and other matters in accordance with applicable law.</li> </ul>
2. Majority of directors should be unrelated.	Yes	Four of the six members of the board are unrelated.
3. Disclose for each director whether he or she is related, and how that conclusion was reached.	Yes	Mr. Braund and Mr. Gray are considered "inside" and "related" directors as they hold the position of Chairman and President and CEO, respectively. All of the other directors are considered to be "outside" and "unrelated" directors as they have no business relationship with us, that are material to either the Corporation or the director.
4. Appoint a committee composed exclusively of non-management directors, the majority of whom are unrelated, with the responsibility of proposing new board nominees and assessing directors.	No	This function is handled by the board of directors as a whole.
5. Implement a process for assessing the effectiveness of the board, its committees and individual directors.	No	The board of directors periodically assesses the effectiveness of the board, its committees and the individual directors.
6. Provide orientation and education programs for new directors.	Yes	We provide orientation to new directors on an <i>ad hoc</i> basis upon them being invited to join the board of directors based upon the directors background and

TSE Corporate Governance Guidelines	Do we comply?	Comments
		knowledge of our operations.
7. Examine the size of the board with a view to effectiveness and consider reducing the size of the Board.	Yes	The board of directors periodically examines the size of the board with respect to the view of its effectiveness. The board of directors believes that its current size is appropriate at this time.
8. Review compensation of directors in light of risks and responsibilities.	Yes	The board of directors annually reviews the compensation of directors.
9. a. Committees should generally be composed of non-management directors; and	Yes	All committees of the board are composed exclusively of non-management directors.
b. a majority of committee members should be unrelated.	Yes	All committees have a majority of unrelated directors.
10. Appoint a committee responsible for approach to corporate governance issues.	No	Given the size of the board of directors we believe that these matters can be handled by the board as a whole.
11. a. Define limits to management's responsibilities by developing mandates for: <ul style="list-style-type: none"> <li data-bbox="256 940 423 966">• the board; and</li> <li data-bbox="256 972 370 997">• the CEO.</li> </ul>	Yes	The President and CEO is accountable to the board for meeting corporate objectives. The board has delegated to the President and CEO the responsibility for the day-to-day management of our business, subject to compliance with plans and objectives approved from time to time by the board.
b. The board should approve the CEO's corporate objectives.	Yes	All plans and corporate objectives are approved by the board.
12. Establish procedures to enable the board to function independently of management.	No	The board has functioned, and is of the view that it can continue to function, independently of management. Given our size and the nature of our business, the board does not believe that it is necessary to appoint a Chairman who is not a member of management and who is an "outside" and "unrelated" director. The board and any committee can meet in the absence of management at their discretion.
13. a. Establish an audit committee with a specifically defined mandate.	Yes	The board has established an audit committee which is responsible for reviewing audit functions and the preparation of financial statements and reviewing and recommending for approval to the board all public disclosure information such as financial statements and prospectuses. The audit committee also ensures that management has effective internal control systems and meets from time to time with external auditors without management present.
b. All members of the audit committee should be non-management directors.	Yes	All of the members of the audit committee are non-management directors.
14. Implement a system to enable individual directors to engage outside advisors, at the corporation's expense.	Yes	Individual directors may engage outside advisors, at our expense, in appropriate circumstances.

**INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

There were no material interests, direct or indirect, of directors and senior officers of the Corporation, any shareholder who beneficially owns more than 10% of the outstanding Common Shares, or any known associate or affiliate of such persons, in any transaction within the last fiscal year and in any proposed transaction which has materially affected or would materially affect the Corporation.

**INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

Management of the Corporation is not aware of any material interest of any director or nominee for director, or senior officer or anyone who has held office as such since the beginning of the Corporation's last financial year or of any associate or affiliate of any of the foregoing in any matter to be acted on at the Meeting.

**OTHER MATTERS**

Management knows of no amendment, variation or other matter to come before the Meeting other than the matters referred to in the Notice of Annual and Special Meeting. However, if any other matter properly comes before the Meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person or persons voting the proxy.

**APPROVAL AND CERTIFICATION**

The contents and sending of this Information Circular - Proxy Statement has been approved by the Directors of the Corporation.

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made.

DATED May 1, 2002

**PEYTO EXPLORATION & DEVELOPMENT CORP.**

(signed) "*Donald T. Gray*"  
President and Chief Executive Officer

(signed) "*Sandra Brick*"  
Vice President, Finance

## SCHEDULE "A"

### PEYTO EXPLORATION & DEVELOPMENT CORP.

#### 2002 SHARE OPTION PLAN

#### 1. Purpose of Plan

The purpose of this plan (the "Plan") is to develop the interest of officers, directors and employees of Peyto Exploration & Development Corp. and its subsidiaries (collectively, the "Corporation") and other persons who provide ongoing management or consulting services to the Corporation in the growth and development of the Corporation by providing them with the opportunity through share purchase options to acquire an increased proprietary interest in the Corporation.

#### 2. Administration

The Plan shall be administered by the Board of Directors of the Corporation, or if appointed, by a committee of directors appointed from time to time by the Board of Directors of the Corporation pursuant to rules of procedure fixed by the Board of Directors (such committee, or if no such committee is appointed, the Board of Directors of the Corporation is hereinafter referred to as the "Committee").

#### 3. Granting of Options

The Committee may from time to time designate directors, officers or employees of the Corporation and its subsidiaries or any other Insider of or Service Provider to the Corporation (collectively, the "Optionees") to whom options ("Options") to purchase Common Shares of the Corporation ("Shares") may be granted and the number of Shares to be optioned to each, provided that:

- (a) the total number of Shares issuable pursuant to the Plan shall not exceed 4,314,262 Shares (the "Share Maximum"), subject to the adjustment as set forth in Section 9 hereof and the other provisions hereof; provided further that the Board of Directors of the Corporation shall have the right, from time to time, to increase the Share Maximum subject to all applicable regulatory approvals and approval of the shareholders of the Corporation, if required by applicable regulatory authorities;
- (b) the number of Shares reserved for issuance to any one Optionee shall not exceed 5% of the aggregate number of issued and outstanding Shares; and
- (c) the maximum number of Shares reserved for issuance pursuant to Options granted to Insiders at any time may not exceed 10% of the number of Outstanding Common Shares;
- (d) the maximum number of Shares which may be issued to Insiders, within a one-year period, may not exceed 10% of the number of Outstanding Common Shares; and
- (e) the maximum number of Shares which may be issued to any one Insider and the Associates of such Insider, within a one-year period, may not exceed 5% of the number of Outstanding Common Shares,

provided that for the purposes of paragraphs (c) through (e) inclusive, an entitlement granted prior to the grantee becoming an Insider may be excluded in determining the number of Shares issuable to Insiders.

The Shares that are reserved for issuance on exercise of Options granted pursuant to this Plan that are cancelled, terminated or expire in accordance with the terms of the Plan prior to the exercise of all or a portion thereof shall be available for a subsequent grant of Options pursuant to this Plan to the extent of any Shares issuable thereunder that are not issued under such cancelled, terminated or expired Options.

#### **4. Vesting**

The Committee may, in its sole discretion, determine the time during which Options shall vest and the method of vesting, acceleration of vesting (including, without limitation, in the case of a takeover bid or other change of control) or that no vesting restriction shall exist. In the absence of any determination by the Committee as to vesting, vesting shall be as to one-third on each of the first, second and third anniversaries of the date of grant.

#### **5. Exercise Price**

The exercise price (the "Exercise Price") of any Option shall be fixed by the Committee when such Option is granted, provided that such price shall not be less than the current market price (the "Current Market Price") of the Shares. For this purpose, "Current Market Price" shall mean the closing trading price per Share on The Toronto Stock Exchange (or if the Shares are not listed on either of such Exchange on such stock exchange as the Shares are then traded) on the last trading day preceding the date of grant on which there was a closing price or, if the Shares are not listed on any stock exchange a price determined by the Committee.

#### **6. Option Terms**

The period during which an Option is exercisable shall, subject to the provisions of the Plan requiring acceleration of rights of exercise, be such period as may be determined by the Committee at the time of grant provided that no Option may be exercised beyond 5 years from the date of grant. Each Option shall, among other things, contain provisions to the effect that the Option shall be personal to the Optionee (except as provided herein). In addition, each Option shall provide that:

- (a) upon the death of the Optionee, the option shall terminate on the date determined by the Committee which shall not be more than six months from the date of death; and
- (b) if the Optionee shall no longer be a director or officer of, be in the employ of or be providing ongoing management or consulting services to the Corporation, the Option shall terminate on the expiry of the period (the "Termination Date") not in excess of 30 days prescribed by the Committee at the time of grant, following the date that the Optionee ceases to be a director, officer or employee of the Corporation, or ceases to provide ongoing management or consulting services to the Corporation, as the case may be;

provided that the number of Common Shares that the Optionee (or his heirs or successors) shall be entitled to purchase until the Termination Date shall be the number of Common Shares which the Optionee was entitled to purchase on the date of death or the date the Optionee ceased to be an officer, director or employee of, or ceased providing ongoing management or consulting services to, the Corporation, as the case may be.

An Option shall be non-assignable and non-transferable by the Optionee otherwise than by will or the laws of descent and distribution. Notwithstanding the foregoing, the Optionee may transfer the Option (or any part thereof) to (i) the Optionee's spouse, minor children or minor grandchildren (collectively or individually, a "Family Member"), (ii) a family trust (if the Optionee is a trustee and no person, other than the Optionee or a Family Member, is a beneficiary), (iii) a corporation in which the Optionee directly or indirectly controls more than 50% of the votes and all the minority shareholders are Family Members, or (iv) a registered retirement savings plan of the Optionee or of a Family Member, provided that, in any such case, the transfer is permitted by, and is effected in accordance with, the then applicable policies of applicable regulatory authorities. Subsequent to any such permitted transfer, the transferred Options shall nevertheless be deemed, for purposes of the Plan, to continue to be held by the Optionee and shall continue to be subject to the terms and conditions of the Plan as if the Optionee remained the sole holder thereof.

#### **7. Exercise of Option**

Subject to the provisions of the Plan, an Option may be exercised from time to time by delivery to the Corporation at its head office or such other place as may be specified by the Corporation, of a written notice of exercise specifying the number of Common Shares with respect to which the Option is being exercised and accompanied by payment in full of the purchase price of the shares then being purchased.

## **8. Payment of Intrinsic Value of Options in Lieu of Exercise**

Upon exercise of any Options granted under the Plan, the Corporation and the Optionee may mutually agree that the Corporation may pay (subject to any applicable withholding tax) the Intrinsic Value of all or any of the Options exercised to the Optionee in consideration for disposition of the Optionee of the right to receive Shares pursuant to such Options and the termination thereof, which amount may be paid, at the election or deemed election of the Optionee, in cash or in Shares, as provided herein. If the Corporation and the Optionee so mutually agree to the disposition by the Optionee and the termination of all or a portion of the right to receive Shares pursuant to the Options exercised the Corporation shall provide notice to the Optionee that the Optionee shall have a period of not less than 5 days to elect to receive cash or Shares in payment of the Intrinsic Value (and notice that if the Optionee does not elect within such period of time to receive cash or Shares, whether the Optionee will be deemed to have elected to receive cash or Shares). Following the election or deemed election of the Optionee to receive cash or Shares in respect of the Intrinsic Value, the Corporation shall, if the Intrinsic Value is payable in cash, cause a cheque to be issued payable to the Optionee (or as the Optionee may direct) or if the Intrinsic Value is payable in Shares, cause a certificate representing the Shares to be issued in the name of the Optionee (or as the Optionee may direct) to be sent by pre-paid mail or delivered to the Optionee within ten days of exercise of the applicable Options. If the Optionee elects or is deemed to have elected to receive all or any part of the Intrinsic Value in Shares, the number of Shares to be issued shall be determined by dividing the Intrinsic Value of the Options to be terminated and paid for in Shares divided by the weighted average price per share for the Shares for the five consecutive trading days ending on the last trading day preceding the effective date of exercise of the Options on The Toronto Stock Exchange (or if the Shares are not listed on either of such Exchanges on such stock exchange as the Shares are then traded), such weighted average price to be determined by dividing the aggregate sale price of all Shares sold on the said exchange during the said five consecutive trading days by the total number of Shares so sold. Upon such payments being made, the Options which the Corporation has elected to cause the disposition thereof shall terminate and be at an end and the Optionee shall cease to have any further rights in respect thereof.

## **9. Mergers, Amalgamation and Sale**

If the Corporation shall become merged (whether by plan of arrangement or otherwise) or amalgamated within or with another corporation or shall sell the whole or substantially the whole of its assets and undertakings for shares or securities of another corporation, the Corporation shall, subject to this Section 9, make provision that, upon exercise of an Option during its unexpired period after the effective date of such merger, amalgamation or sale, the Optionee shall receive such number of shares of the continuing successor corporation in such merger or amalgamation or the securities or shares of the purchasing corporation as the Optionee would have received as a result of such merger, amalgamation or sale if the Optionee had purchased the shares of the Corporation immediately prior thereto for the same consideration paid on the exercise of the Option and had held such shares on the effective date of such merger, amalgamation or sale and, upon such provision being made, the obligation of the Corporation to the Optionee in respect of the Shares subject to the Option shall terminate and be at an end and the Optionee shall cease to have any further rights in respect thereof.

## **10. Termination of Option in the Event of Take-Over Bid**

In the event a take-over bid (as defined in the *Securities Act* (Alberta), which is not exempt from the take-over bid requirements of Part 13 of the *Securities Act* (Alberta) (or its replacement or successor provisions) shall be made for the Shares of the Corporation, the Corporation may in the agreement providing for the grant of Options herein provide that the Corporation may require the disposition of the Optionee and the termination of any obligations of the Corporation to the Optionee in respect of any Options granted by paying to the Optionee in cash the difference between the exercise price of unexercised Options and the fair market value of the securities to which the Optionee would have been entitled upon exercise of the unexercised Options on such date, which determination of fair market value shall be conclusively made by the Committee, subject to approval by the stock exchanges upon which the Shares are then listed, if required by such exchanges. Upon payment as aforesaid, the Options shall terminate and be at an end and the Optionee shall cease to have any further rights in respect thereof.

## **11. Alterations in Shares**

In the event, at any time or from time to time, that the share capital of the Corporation shall be consolidated or subdivided prior to the exercise by the Optionee, in full, of any Option in respect of all of the shares granted or the Corporation shall pay a dividend upon the Shares by way of issuance to the holders thereof of additional Shares, Options with respect to any shares which have not been purchased at the time of any such consolidation, subdivision or stock dividend shall be proportionately adjusted so that the Optionee shall from time to time, upon the exercise of an Option, be entitled to receive the

number of shares of the Corporation he would have held following such consolidation, subdivision or stock dividend if the Optionee had purchased the shares and had held such shares immediately prior to such consolidation, subdivision or stock dividend. Upon any such adjustments being made, the Optionee shall be bound by such adjustments and shall accept the terms of such Options in lieu of the Options previously outstanding.

## **12. Option Agreements**

A written agreement will be entered into between the Corporation and each Optionee to whom an Option is granted hereunder, which agreement will set out the number of Shares subject to Option, the Exercise Price, provisions as to vesting and expiry and any other terms approved by the Committee, all in accordance with the provisions of this Plan. The agreement will be in such form as the Committee may from time to time approve or authorize the officers of the Corporation to enter into and may contain such terms as may be considered necessary in order that the Option will comply with this Plan, any provisions respecting Options in the income tax or other laws in force in any country or jurisdiction of which the person to whom the Option is granted may from time to time be a resident or citizen and the rules of any regulatory body having jurisdiction over the Corporation.

## **13. Regulatory Authorities Approvals**

The Plan shall be subject to the approval, if required, of any stock exchange on which the Common Shares are listed for trading. Any Options granted prior to such approval shall be conditional upon such approval being given and no such Options may be exercised unless such approval, if required, is given.

## **14. Amendment or Discontinuance of the Plan**

The Committee may amend or discontinue the Plan at any time, provided that no such amendment may, without the consent of the Optionee, alter or impair any Option previously granted to an Optionee under the Plan and provided further that any amendment to the Plan should be subject to prior approval of any stock exchange on which the Shares are listed, as required by such exchange, and approval of the shareholders of the Corporation if required by such exchange.

## **15. Shares Duly Issued**

Shares issued upon the exercise of an Option granted hereunder will be validly issued and allotted as fully paid and non-assessable upon receipt by the Corporation of the Exercise Price therefore in accordance with the terms of the Option and the issuance of Shares thereunder will not require a resolution or approval of the Board of Directors of the Corporation.

## **16. Options to Other Persons and Entities**

The provisions herein in respect of the grant of Options shall apply, with the appropriate modifications, to the grant of Options to any person or other entity to whom an Option could have been transferred as provided in the last paragraph of Section 6 hereof, in which case the Option shall nevertheless be deemed, for purposes of the Plan, to be held by the person that is the Service Provider to the Corporation in respect of such person or other entity to whom the Option is actually granted and the Options shall continue to be subject to the terms and conditions of the Plan as if the Service Provider remained the sole holder thereof.

## **17. Definitions**

In this Plan, capitalized terms not otherwise defined in this Plan have the following meanings:

- (a) "Associate" has the meaning ascribed thereto in the *Securities Act* (Ontario) as from time to time amended, supplemented or re-enacted;
- (b) "Common Shares" means the common shares of the Corporation;
- (c) "Insider" of the Corporation means:

- (i) an insider as defined in the *Securities Act* (Ontario) as from time to time amended, supplemented or re-enacted, other than a person who falls within that definition solely by virtue of being a director or senior officer of a subsidiary of the Corporation, and
  - (ii) an Associate of any person who is an insider by virtue of paragraph i.;
- (d) "Intrinsic Value" means, in respect of each Share subject to an Option, an amount equal to the difference between:
- (i) the weighted average price per share for the Shares for five consecutive trading days ending on the last trading day preceding the date in question on The Toronto Stock Exchange (or if the Shares are not listed on The Toronto Stock Exchange on such stock exchange as the Shares are then traded) such weighted average price to be determined by dividing the aggregate sale price of all Shares sold on the said exchange during the said five consecutive trading days by the total number of Shares so sold; and
  - (ii) the exercise price of the Options;
- (e) "Outstanding Common Shares" at the time of any share issuance or grant of stock Options means the aggregate number of Shares that are outstanding immediately prior to the share issuance or grant of stock Options in question on a non-diluted basis, excluding Shares issued pursuant to Share Compensation Arrangements over the preceding one-year period, or such other number as may be determined under the applicable rules and regulations of all regulatory authorities to which the Corporation is subject, including, if listed thereon, The Toronto Stock Exchange;
- (f) "Service Provider" means:
- (i) an employee or Insider of the Corporation; and
  - (ii) any other person or company engaged to provide on-going management or consulting services for the Corporation or any entity controlled by the Corporation;
- (g) "Share Compensation Arrangement" means a stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of shares to one or more Service Providers, including a share purchase from treasury which is financially assisted by the Corporation by way of a loan, guaranty or otherwise; and
- (h) "subsidiary" has the meaning ascribed thereto in the *Securities Act* (Ontario) as from time to time amended, supplemented or re-enacted.

## 18. Effective Date

This amended and restated Plan is effective as of May 1, 2002.

(signed) "*Donald T. Gray*"  
 Donald T. Gray  
 President and Chief Executive Officer