PEYTO

Exploration & Development Corp.

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Interim Report
for the three months ended March 31, 2017

HIGHLIGHTS

	3 Months Ended March 31		%
	2017	2016	Change
Operations			
Production			
Natural gas (mcf/d)	**549,037**	567,230	*-3%*
Oil & NGLs (bbl/d)	**9,586**	7,008	*37%*
Thousand cubic feet equivalent (Mcfe/d @ 1:6)	**606,556**	609,278	-
Barrels of oil equivalent (boe/d @ 6:1)	**101,093**	101,546	-
Production per million common shares (boe/d)*	**613**	638	*-4%*
Product prices			
Natural gas ($/mcf)	**2.96**	3.06	*-3%*
Oil & NGLs ($/bbl)	**48.14**	33.60	*43%*
Operating expenses ($/Mcfe)	**0.29**	0.23	*26%*
Transportation ($/Mcfe)	**0.17**	0.16	*6%*
Field netback ($/Mcfe)	**2.79**	2.72	*3%*
General & administrative expenses ($/Mcfe)	**0.04**	0.03	*33%*
Interest expense ($/Mcfe)	**0.20**	0.17	*18%*
Financial ($000, except per share*)			
Revenue	**187,849**	179,351	*5%*
Royalties	**10,635**	6,985	*52%*
Funds from operations	**139,305**	139,907	-
Funds from operations per share	**0.85**	0.88	*-3%*
Total dividends	**54,387**	52,520	*4%*
Total dividends per share	**0.33**	0.33	-
Payout ratio	**39**	38	*3%*
Earnings	**40,255**	41,943	*-4%*
Earnings per diluted share	**0.24**	0.26	*-8%*
Capital expenditures	**153,874**	175,763	*-12%*
Weighted average common shares outstanding	**164,800,637**	159,142,526	*4%*
As at March 31			
End of period shares outstanding (includes shares to be issued)	**164,874,175**	159,239,543	*4%*
Net debt	**1,203,988**	1,181,963	*2%*
Shareholders' equity	**1,632,390**	1,655,093	*-1%*
Total assets	**3,543,556**	3,503,784	*1%*

**all per share amounts using weighted average common shares* outstanding

	3 Months Ended March 31	
($000 except per share)	**2017**	2016
Cash flows from operating activities	**121,137**	138,118
Change in non-cash working capital	**16,160**	(1,112)
Change in provision for performance based compensation	**2,008**	2,901
Funds from operations	**139,305**	139,907
Funds from operations per share	**0.85**	0.88

(1) Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. Management believes that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Funds from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, funds from operations, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that funds from operations should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations cannot be assured and future distributions may vary.

Report from the president

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the first quarter of the 2017 fiscal year. A 74% operating margin (1) and a 21% profit margin (2) in the quarter delivered an annualized 10% return on equity (ROE) and 8% return on capital employed (ROCE). Additional highlights included:

- **Earnings of $0.24/share, dividends of $0.33/share.** Earnings of $40 million were generated in the quarter while dividends of $54 million were paid to shareholders. Dividend payments represented a before tax payout ratio of 39% of Funds from Operations ("FFO"). This was also the 49th consecutive quarter of earnings.

- **Funds from operations of $0.85/share.** Generated $139.3 million in FFO in Q1 2017 similar to the $139.9 million in Q1 2016 (down 3% per share) as 5% higher revenues were offset by higher cash costs.

- **Cash costs of $0.89/Mcfe ($0.70/Mcfe or $4.20/boe excluding royalties).** Total cash costs, including $0.19/Mcfe royalties, $0.29/Mcfe operating costs, $0.17/Mcfe transportation, $0.04/Mcfe G&A and $0.20/Mcfe interest, were up over Q1 2016 mainly due to increased royalties from higher commodity prices, increased firm transportation tolls, and increased operating costs due to increased well count and reduced facility utilization. For the remainder of the year, per unit cash costs are expected to fall with lower operating expenses and transportation tolls combined with increased production volumes.

- **Capital investment of $154 million**. A total of 45 gross wells (43 net) were drilled in the first quarter, 33 gross wells (31 net) were completed, and 32 gross wells (30 net) brought on production. Over the last 12 months new wells brought on production accounted for 35,388 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $447 million, equates to an annualized capital efficiency of $12,600/boe/d. At the end of the quarter, Peyto had 23 gross wells that were waiting on completion and/or tie in.

- **Production maintained at 101,000 boe/d.** First quarter 2017 production of 607 MMcfe/d (101,093 boe/d) was the same as Q1 2016 (down 4% on a per share basis). The significant deferral of completions and tie-ins in the quarter resulted in an estimated 13,000 boe/d of behind pipe production.

First Quarter 2017 in Review

Peyto maintained the same level of drilling activity during the first quarter of 2017 as it had in the last half of 2016, despite a 100% increase in Western Canadian drilling rig count. Company activity was split 70/30 between the Greater Sundance and Brazeau River areas. Peyto's 9 drilling rigs operating in Q1 drilled even more wells than 10 rigs did in Q1 2016, however, the pace of completions was reduced to avoid paying a premium for fracturing services as competition intensified. This prudent decision left Peyto with an unusually high number of drilled but uncompleted (DUC) wells at the end of the quarter. As activity levels moderate, these completions and tie-ins are expected to begin, coinciding with the traditionally lower cost summer months. This deferral also meant incremental cash costs were incurred without a commensurate production increase. It is expected per unit cash costs will return to target levels for the balance of the year as incremental volumes are realized. Average 2016 drilling and completion costs of $2.7 million per horizontal well were up slightly in Q1 2017 to $2.9 million, resulting from completion design changes rather than cost inflation. Peyto added 55 sections (35,072 net acres) of new land in Q1 2017, both at Crown land sales and through private purchases, the vast majority of it in the Brazeau area. Combined with 118 square miles of 3D seismic obtained over the winter, Peyto has already identified over 85 new locations on this land which adds to future drilling inventory and supports Brazeau's continued expansion. The Brazeau gas plant expansion is now expected to occur in the third quarter coinciding with the well completion schedule.

1. Operating Margin is defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.
2. Profit Margin is defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.
Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

Exploration & Development

First quarter 2017 activity was focused in the Greater Sundance and Brazeau River areas on the Company's traditional, sweet, liquids rich, natural gas resource plays. Four of the nine drilling rigs operated by Peyto were active in the Brazeau area developing Wilrich and Notikewin plays as well as testing Cardium faults that exist throughout the area. The remaining five rigs were spread throughout the Greater Sundance Area working mostly on the Spirit River group of formations including the Notikewin, Falher and Wilrich. In total, 40 horizontal and 5 vertical wells were drilled.

Drilling activity included both infill development drilling and step out drilling in newer areas and along unproven trends. In Brazeau, where well control is sparser, these step out locations first required vertical test delineation to help define some of the more complicated channel trends. This extra step helped overcome the directional drilling challenges experienced on a handful of Brazeau wells in Q4 2016.

The 45 gross wells that were drilled across the land base was the largest Q1 drilling program in Peyto's history, the details of which are shown in the following table:

	Field							Total Wells Drilled
Zone	**Sundance**	**Nosehill**	**Wildhay**	**Ansell**	**Berland**	**Kisku/ Kakwa**	**Brazeau**	
Belly River							1	1
Cardium	1						4	5
Notikewin		4		7			4	15
Falher	2	1	3					6
Wilrich	7			5			6	18
Bluesky								
Total	10	5	3	12			15	45

Horizontal well drilling costs in Q1 2017 were slightly lower than the 2016 average costs despite longer horizontal laterals and the vertical stratigraphic tests required for some wells. Meanwhile completion costs (per meter of horizontal lateral) were up 20% due to changes in completion design including increased stage count, and increased water and nitrogen volumes. Service rates and completion cost per stage, however, remained similar to that of 2016. The following table illustrates the ongoing cost efficiency designed to contribute to lower overall development costs and ultimately greater returns:

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 Q1**
Gross Hz Spuds	52	70	86	99	123	140	126	**40**
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,309	4,197	**4,313**
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,460	**1,547**
Drilling ($MM/well)	$2.76	$2.82	$2.79	$2.72	$2.66	$2.16	$1.82	**$1.82**
$ per meter	$734	$723	$694	$651	$626	$501	$433	**$423**
Completion ($MM/well)	$1.36	$1.68	$1.67	$1.63	$1.70	$1.21	$0.86	**$1.09**
$ per Hz Length (m)	$1,017	$1,286	$1,231	$1,153	$1,166	$792	$587	**$705**
$ '000 per Stage	$231	$246	$257	$188	$168	$115	$79	**$83**

Capital Expenditures

During the first quarter of 2017, Peyto spent $67 million on drilling, $36 million on completions, $13 million on wellsite equipment and tie ins, $25 million on facilities and major pipeline projects, $6 million on new Crown lands, $4 million on seismic, and $3 million on acquisitions, for total capital investments of $154 million.

The Brazeau East plant site has been prepared and is ready for installation of the equipment, while fabrication of the first refrigeration train and first 6 compressors, capable of 70 mmcf/d, is effectively complete. Installation is scheduled to commence in the third quarter and will take approximately 10 weeks. Once commissioned, Brazeau will have approximately 210 mmcf/d (38,000 boe/d) of total processing capacity.

A $20 million liquids pipeline project which inter-connects the Oldman, Oldman North, Nosehill and Swanson gas plants was constructed during the quarter. All that remains are the final midstream connections which will allow NGLs from the four plants to be directly connected to a Plains Midstream's transmission system and condensate to be connected to the Pembina pipeline system. Start-up of both systems is expected in May and will significantly reduce truck traffic. Estimated annual financial benefits of over $6.5 million per year will begin to be realized, primarily in the form of increased liquids pricing.

Peyto purchased 35 sections of new land at Crown sales in the first quarter, for an average purchase price of $249/acre. In addition, 19.8 net sections were acquired from other operators for an average price of $288/acre.

Commodity Prices

Average daily AECO natural gas prices were $2.55/GJ in Q1 2017, compared to $2.93/GJ in Q4 2016, while Henry Hub spot prices were $3.02/MMBTU versus $3.04/MMBTU, respectively. Natural gas prices both north and south of the border were significantly improved over Q1 2016 ($1.75/GJ & $1.99/MMBTU) even though the colder than normal winter didn't materialize as expected.

On average for Q1 2017, Peyto realized a natural gas price of $2.58/GJ or $2.96/Mcf. This was the result of a combination of approximately 5% being sold in the daily or monthly spot market at an average of $2.73/GJ ($3.14/Mcf) and 95% having been pre-sold at an average hedged price of $2.57/GJ (prices reported net of TCPL fuel charges).

In the first quarter of 2017, Peyto took advantage of higher liquid propane prices by operating its Oldman deep cut process. As a result, Peyto realized an oil and natural gas liquids price of $48.14/bbl in Q1 2017 for its blend of condensate, pentane, butane and propane, which represented 77% of the $62.19/bbl average Canadian Light Sweet posted price, as shown in the following table:

Commodity Prices by Component

		Three Months ended March 31	
		2017	2016
AECO monthly	($/GJ)	**2.80**	2.00
AECO daily	($/GJ)	**2.58**	1.75
Henry Hub spot	($US/mmbtu)	**3.02**	1.99
Natural gas – prior to hedging	($/GJ)	**2.73**	1.93
	($/mcf)	**3.14**	2.22
Natural gas – after hedging	($/GJ)	**2.58**	2.66
	($/mcf)	**2.96**	3.06
Oil and natural gas liquids ($/bbl)			
Condensate ($/bbl)		**60.91**	37.86
Propane ($/bbl)		**15.19**	(7.70)
Butane ($/bbl)		**29.12**	16.58
Pentane ($/bbl)		**64.60**	41.30
Total Oil and natural gas liquids ($/bbl)		**48.14**	33.60
Cnd Light Sweet stream ($/bbl)		**62.19**	40.83

Liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

Financial Results

Peyto's realized natural gas price combined with realized liquids prices, resulted in unhedged revenues totaling $3.61/Mcfe ($3.44/Mcfe including hedging losses). Royalties of $0.19/Mcfe, operating costs of $0.29/Mcfe, transportation costs of $0.17/Mcfe, G&A of $0.04/Mcfe and interest costs of $0.20/Mcfe, all combined for total cash costs of $0.89/Mcfe ($5.34/boe). Cash costs were higher than the previous quarter for a number of reasons. Royalties increased as a result of higher commodity prices. Operating costs increased due, in part, to an increase in producing well count and a reduction in facility utilization. Specific factors contributing to the total operating cost increase included increased methanol and power consumption, and increased maintenance and repair expenses. Transportation costs increased due to higher Nova Gas

Transmission Ltd. ("NGTL") firm service tolls. These total cash costs, when deducted from realized revenues, resulted in a cash netback of $2.55/Mcfe or a 74% operating margin. Historical cash costs and operating margins are shown in the following table and going forward Peyto expects per unit cash costs will return to target levels for the balance of 2017.

	2015				2016				2017
($/Mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Revenue	4.17	3.81	3.80	3.58	3.24	2.92	3.16	3.38	**3.44**
Royalties	0.18	0.13	0.15	0.13	0.13	0.10	0.12	0.18	**0.19**
Operating Costs	0.32	0.31	0.28	0.25	0.23	0.26	0.25	0.26	**0.29**
Transportation	0.15	0.15	0.16	0.16	0.16	0.17	0.16	0.16	**0.17**
G&A	0.04	0.04	0.02	0.05	0.03	0.06	0.04	0.03	**0.04**
Interest	0.20	0.19	0.19	0.16	0.17	0.21	0.19	0.18	**0.20**
Total Cash Costs	0.89	0.82	0.80	0.75	0.72	0.80	0.76	0.81	**0.89**
Netback	3.28	2.99	3.00	2.83	2.52	2.12	2.40	2.57	**2.55**
Operating Margin	79%	78%	79%	79%	78%	73%	76%	76%	**74%**

Depletion, depreciation and amortization charges of $1.47/Mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of $0.74/Mcfe, or a 21% profit margin. Dividends of $1.00/Mcfe were paid to shareholders.

Natural Gas Marketing

Peyto's practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in natural gas prices, continued throughout the quarter. For the balance of 2017, approximately 70% of gas volumes have been hedged to protect against increased AECO volatility. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of May 9, 2017:

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2017	114,415,000	99,491,304	2.60	2.99
2018	98,505,000	85,656,522	2.55	2.93
2019	11,300,000	9,826,087	2.49	2.86
2020	910,000	791,304	2.47	2.84
Total	225,130,000	195,765,217	2.57	2.96

**prices and volumes in mcf use Peyto's historic heat content premium of 1.15.*

In order to deal with restricted access to take-away capacity, Peyto has arranged for excess firm transportation on the NGTL system north of the James River receipt point which varies between 103% and 125% of Peyto's forecasted natural gas sales for the remainder of the year. Specific monthly excess service is projected to offset the outage forecast provided by NGTL and safeguard against potential curtailments due to limited capacity. Beyond 2017, Peyto has secured new firm transportation to accommodate its expected production growth.

Activity Update

Peyto currently has 4 drilling rigs working intermittently through breakup. Early April breakup conditions included significant precipitation in the Edson area which has hampered drilling and completion progress. Activity levels will remain weather dependent though the balance of May and into June. The return of normal conditions, expected in June, will enable Peyto to ramp back up to 9 drilling rigs, and associated completion operations, across the Greater Sundance and Brazeau areas.

Since the end of the first quarter, Peyto has spud 6 wells (4.4 net), completed 6 wells (6 net), and brought 4 wells (4 net) onstream. There remains an inventory of 15 drilled but uncompleted wells with estimated production of at least 6,000 boe/d and 6 completed wells with tested production totaling 4,000 boe/d, all awaiting tie in. Of the 6 tested wells waiting on tie-in, three may be delayed until the end of the year as they are located in a new emerging area for Peyto and require a new infrastructure solution.

At West Brazeau, vertical delineation drilling has extended a prolific Notikewin channel trend that exhibits above average reservoir pressure and above average productivity. Peyto will be following up these recent successes with additional wells as soon as weather conditions allow.

Outlook

The bullish commodity outlook last fall which drove aggressive drilling programs in Western Canada this past winter has since softened. This should help relieve some of the inflationary pressures on the service industry and allow Peyto to resume its 2017 capital program of $550-600 million at the expected capital efficiency and with maximum return on invested capital. The Company will continue to remain nimble with its capital investments, always putting profitability before growth. That said, results from this year’s capital program are expected to deliver significant per share growth in production, cashflow and earnings in the second half of 2017.

(signed) *“Darren Gee”*

Darren Gee
President and CEO
May 9, 2017

Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Peyto Exploration & Development Corp. ("Peyto" or the "Company") for the years ended December 31, 2016 and 2015. The financial statements have been prepared in accordance with the International Accounting Standards Board ("IASB") most current International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standards ("IAS").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 8, 2017. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto's website at www.peyto.com.

Certain information set forth in this MD&A, including management's assessment of Peyto's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive there from.

All references are to Canadian dollars unless otherwise indicated. Natural gas liquids and oil volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent (mcfe) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl).

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas in Alberta's deep basin. As at December 31, 2016, the Company's total Proved plus Probable reserves were 3.9 trillion cubic feet equivalent (655 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 91% to natural gas and 9% to natural gas liquids and oil.

The Peyto model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects.
- Build an asset base which is made up of high quality natural gas reserves.
- Over time, balance dividends to shareholders paid with earnings, and cash flow, and balance funding for the capital program with cash flow, equity and available bank lines.

Operating results over the last eighteen years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

($000 except per share amounts)	**2017 Q1**	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
Total revenue (net of royalties)	**177,314**	179,862	161,813	136,017	172,366	184,943	163,727	166,327
Funds from operations	**139,305**	144,593	127,915	102,178	139,907	151,123	134,513	135,195
Per share – basic and diluted	**0.85**	0.88	0.78	0.63	0.88	0.95	0.85	0.86
Earnings	**40,255**	38,489	22,814	9,102	41,943	43,406	37,347	12,295
Per share – basic and diluted	**0.24**	0.23	0.14	0.06	0.26	0.27	0.23	0.08
Dividends	**54,387**	54,328	54,328	53,735	52,520	52,456	52,456	52,456
Per share – basic and diluted	**0.33**	0.33	0.33	0.33	0.33	0.33	0.33	0.33

Funds from Operations
"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

RESULTS OF OPERATIONS

Production

	Three Months ended March 31	
	2017	2016
Natural gas (mmcf/d)	**549.0**	567.2
Oil & natural gas liquids (bbl/d)	**9,586**	7,008
Barrels of oil equivalent (boe/d)	**101,093**	101,546
Million cubic feet equivalent (mmcfe/d)	**606.6**	609.3

Natural gas production averaged 549.0 mmcf/d in the first quarter of 2017, 3 percent lower than the 567.2 mmcf/d reported for the same period in 2016. Oil and natural gas liquids production averaged 9,586 bbl/d, an increase of 37 percent from 7,008 bbl/d reported in the prior year. First quarter production decreased from 609.3 mmcfe/d to 606.6 mmcfe/d. Peyto drilled more wells in Q1 2017 than in Q1 2016, however, the pace of completions was reduced to avoid paying a premium for fracturing services as competition intensified. This left Peyto with an unusually high number of drilled but uncompleted (DUC) wells at the end of the quarter. As activity levels moderate, these completions and tie-ins are expected to begin, coinciding with the traditionally lower cost summer months. Oil and natural gas liquids production increased as the operation of the Oldman Deep Cut continued for the quarter.

Oil & Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2017	2016
Condensate (bbl/d)	**3,846**	3,585
Propane (bbl/d)	**1,638**	245
Butane (bbl/d)	**1,929**	1,271
Pentane (bbl/d)	**1,993**	1,706
Other NGL's (bbl/d)	**180**	201
Oil & natural gas liquids (bbl/d)	**9,586**	7,008
Million cubic feet equivalent (mmcfe/d)	**57.5**	42.0

The recovery of propane in liquid form was re-instituted in June, 2016 in response to increased propane prices. Peyto had previously been operating plants in propane rejection mode to achieve superior value by selling propane in the sales gas stream during a period of low propane liquid prices. Liquid values recovered sufficiently to justify recovering liquid propane. The company's ownership and control of its facilities allow it to respond very quickly to market price conditions and achieve optimal value for its produced products.

Commodity Prices

	Three Months ended March 31	
	2017	2016
Oil and natural gas liquids ($/bbl)	**48.14**	33.60
Natural gas ($/mcf)	**3.14**	2.22
Hedging – gas ($/mcf)	**(0.18)**	0.84
Natural gas – after hedging ($/mcf)	**2.96**	3.06
Total Hedging ($/mcfe)	**(0.17)**	0.78
Total Hedging ($/boe)	**(1.00)**	4.67

Peyto's natural gas price, before hedging, averaged $3.14/mcf during the first quarter of 2017, an increase of 42 percent from $2.22/mcf reported for the equivalent period in 2016. Hedging losses reduced the realized price for natural gas to $2.96/mcf for the quarter of 2017. Oil and natural gas liquids prices averaged $48.14/bbl, an increase of 43 percent from $33.60/bbl a year earlier.

Commodity Prices by Component

	Three Months ended March 31	
	2017	2016
Natural gas – after hedging ($/mcf)	**2.96**	3.06
Natural gas – after hedging ($/GJ)	**2.58**	2.66
AECO monthly ($/GJ)	**2.79**	2.00
Oil and natural gas liquids ($/bbl)		
Condensate ($/bbl)	**60.91**	37.86
Propane ($/bbl)	**15.19**	(7.70)
Butane ($/bbl)	**29.12**	16.58
Pentane ($/bbl)	**64.60**	41.30
Total Oil and natural gas liquids ($/bbl)	**48.14**	33.60
Cnd Light Sweet stream ($/bbl)	**62.19**	40.83

liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

Revenue

	Three Months ended March 31	
($000)	**2017**	2016
Natural gas	**155,500**	114,774
Oil and natural gas liquids	**41,536**	21,428
Hedging gain (loss)	**(9,087)**	43,149
Total revenue	**187,949**	179,351

For the three months ended March 31, 2017, revenue increased 5 percent to $187.9 million from $179.4 million for the same period in 2016. The increase in revenue for the period was a result of increased NGL production volumes and prices offset by a decrease in natural gas production volumes and realized price including hedging losses, as detailed in the following table:

	Three Months ended March 31		
	2017	2016	**$million**
Total Revenue, March 31, 2016			**179.4**
Revenue change due to:			
Natural gas			
Volume (mmcf)	49,413	51,618	**(6.7)**
Hedged price ($/mcf)	$2.96	$3.06	**(4.9)**
Oil & NGL			
Volume (mbbl)	863	638	**7.6**
Price ($/bbl)	$48.14	$33.6	**12.5**
Total Revenue, March 31, 2017			**187.9**

Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances.

	Three Months ended March 31	
($000 except per share amounts)	**2017**	2016
Royalties	**10,635**	6,985
% of sales before hedging	**5.4**	5.1
% of sales after hedging	**5.7**	3.9
$/mcfe	**0.19**	0.13
$/boe	**1.17**	0.76

For the first quarter of 2017, royalties averaged $0.19/mcfe or approximately 5.4% of Peyto's total petroleum and natural gas sales excluding hedges.

Substantially all of Peyto’s production is in the Province of Alberta. Under the Alberta Royalty Framework (“ARF”) the Crown royalty rate varies with production rates and commodity prices. The royalty rate expressed as a percentage of sales revenue will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices realized by Peyto and that hedging gains and losses are not subject to royalties.

In addition to the basic underlying royalty structure (the ARF), Alberta has instituted additional features that impact the royalty paid on gas and gas liquids for new wells drilled subsequent to January 1, 2009. These additional features include:

1. A one year flat 5% royalty period (18 months for horizontal wells) for each new well but capped at a cumulative production level of 500 MMcf for each new well, and

2. A Natural Gas Deep Drilling Holiday program that provides a royalty holiday value for new wells based on meterage drilled. This holiday feature further reduces the royalty for new wells to a minimum of 5% for a maximum 5 year period from on-stream date. This benefit sequentially follows the benefit under point (1) above.

Alberta’s Modernized Royalty Framework

On January 9, 2016 the Alberta Government released a report of its Royalty Review and Advisory Panel. The report sets forth a new Modernized Royalty Framework (MRF) that commenced for wells drilled starting January 1, 2017. In general, the MRF looks to reward those companies who continuously innovate, strive to reduce their costs and environmental footprints. Peyto is already an industry leader in this regard. Peyto does not expect that the latest royalty framework will pose any significant additional burden to the Company’s well investment economics over a reasonable commodity price range expected in the foreseeable future.

In its 18 years history, Peyto has invested over $5.3 billion in capital projects, found and developed 5.2 TCFe of gas reserves, and paid over $805 million in royalties.

Operating Costs & Transportation

Peyto’s operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended March 31	
	2017	2016
Operating costs ($000)	**15,684**	12,540
$/mcfe	**0.29**	0.23
$/boe	**1.72**	1.36
Transportation ($000)	**9,467**	8,669
$/mcfe	**0.17**	0.16
$/boe	**1.04**	0.94

For the first quarter, operating expenses increased by 25% compared to the same quarter of 2016 from $12.6 million to $15.7 million. On a unit-of-production basis, operating costs increased 26% averaging $0.29/mcfe in the first quarter of 2017 compared to $0.23/mcfe for the equivalent period in 2016. Total operating costs are up over the first quarter of 2016 due in part to an increase in producing well count and an increase in corporate plant capacity with the expansion of the Brazeau Gas Plant. Other factors contributing to the total operating cost increase included increased methanol and power consumption and increased maintenance and repair expenses. As production in the first quarter of 2017 is unchanged from the first quarter of 2016, operating costs increased on a unit of production basis.

Transportation expenses increased 6% from 0.16/mcfe in the first quarter 2016 to $0.17/mcfe in the first quarter 2017 due to increased TCPL tolls and costs associated with additional firm commitments on NOVA. This additional firm service was added to accommodate future production growth and also to minimize exposure to NOVA curtailments like those experienced in 2016. Effective June 1, 2017, TCPL tolls are expected to decrease 5%.

General and Administrative Expenses

	Three Months ended March 31	
($000)	**2017**	2016
G&A expenses	**4,693**	4,170
Capital and Operating overhead	**(2,380)**	(2,313)
Net G&A expenses	**2,313**	1,857
$/mcfe	**0.04**	0.03
$/boe	**0.25**	0.20

For the first quarter, general and administrative expenses before overhead recoveries increased 12% from $4.2 million to $4.7 million for the same quarter of 2016. This increase was due primarily to increased staffing and office space costs. General and administrative expenses averaged $0.08/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.04/mcfe in the first quarter of 2017.

Performance Based Compensation

The Company awards performance based compensation to employees and key consultants annually. The performance based compensation is comprised of market and reserve value based components.

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense and provision of $Nil million was recorded for the quarter ended March 31, 2017.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are valued and, if applicable, paid out in cash over three years. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

Based on the weighted average trading price of the common shares for the period ended March 31, 2017, compensation costs related to 6.2 million non-vested rights (4.0% of the total number of common shares outstanding), with an average grant price of $29.92, are $3.4 million for the first quarter of 2017. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 7 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative provision totals $14.7 million ($8.8 million current liability and $5.9 million long term liability.

Rights Outstanding Under Market Based Compensation Plan

	Valued but Not Vested			To be Valued December 31, 2017	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2017	1,261,833	13,915,712	*	1,269,500	33.80
December 31, 2018	1,261,833	13,915,712	*	1,269,500	33.80
December 31, 2019	-	-		1,269,500	33.80

*Valued on December 31, 2016 at $33.80

Interest Expense

	Three Months ended March 31	
	2017	2016
Interest expense ($000)	**10,544**	9,393
$/mcfe	**0.20**	0.17
$/boe	**1.16**	1.02
Average interest rate	**3.8%**	3.4%

First quarter 2017 interest expense was $10.5 million or $0.20/mcfe compared to $9.4 million or $0.17/mcfe for the first quarter 2016. The average interest rate increased from 3.4% in the first quarter of 2016 to 3.8% in Q1 2017 due to an increase in the stamping fee applied to the revolving debt.

Netbacks

	Three Months ended March 31	
($/mcfe)	**2017**	2016
Gross Sale Price of Gas, Oil and NGL	**3.61**	2.46
Hedging gain (loss)	**(0.17)**	0.78
Net Sale Price	**3.44**	3.24
Less: Royalties	**0.19**	0.13
Operating costs	**0.29**	0.23
Transportation	**0.17**	0.16
Field netback	**2.79**	2.72
General and administrative	**0.04**	0.03
Interest on long-term debt	**0.20**	0.17
Cash netback ($/mcfe)	**2.55**	2.52
Cash netback ($/boe)	**15.28**	15.14

Netbacks are a non-IFRS measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.

Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2017 first quarter provision for depletion, depreciation and amortization totaled $80.0 million as compared to $89.9 million in 2016. On a unit-of-production basis, depletion and depreciation costs averaged $1.47/mcfe as compared to $1.62/mcfe in 2016. As finding and development costs decrease, depletion and depreciation costs also decrease.

Income Taxes
The current provision for deferred income tax expense is $14.9 million compared to $15.5 million in 2016. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	March 31, 2017	December 31, 2016	Annual deductibility
Canadian Oil and Gas Property Expense	221.4	217.9	10% declining balance
Canadian Development Expense	853.9	818.9	30% declining balance
Canadian Exploration Expense	92.9	121.4	100%
Undepreciated Capital Cost	401.4	388.3	Primarily 25% declining balance
Other	31.9	33.4	Various, 7% declining balance to 20%
Total Federal Tax Pools	**1,601.5**	**1,579.9**	
Additional Alberta Tax Pools	44.9	44.9	Primarily 100%

MARKETING

Commodity Price Risk Management
The Company is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the first quarter of 2017, a realized hedging loss of $9.1 million was recorded as compared to a $43.1 million gain for the equivalent period in 2016. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
January 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5400/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.4200/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5000/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5025/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5125/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5900/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.6050/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.6150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.6600/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.6725/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.7100/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.7500/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.1000/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.1750/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.2000/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.4500/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.5400/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.5900/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.6000/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.1100/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.1500/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.2200/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.3050/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.2000/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.3000/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.3000/GJ

May 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.3500/GJ
July 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.3750/GJ
July 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.3775/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.2800/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.3850/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.4225/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.4500/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.2200/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.2500/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.2950/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000	$2.3000/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.3175/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.3700/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.4500/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.4500/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000	$2.5525/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000	$2.5100/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.2300/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.2500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.2850/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.4000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.4000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.4025/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.4500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5200/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5300/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5775/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6050/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6400/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6650/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6700/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6725/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.6725/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.7000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.7000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.7400/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.8000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.8375/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.8450/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.8600/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.3200/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.4500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000	$2.5075/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.6050/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.6500/GJ

April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.7000/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.7000/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.7150/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.7200/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.7500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8000/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8225/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8250/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8250/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8350/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8700/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8750/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9200/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9450/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9550/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.0250/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.0300/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.1075/GJ
April 1, 2017 to October 31, 2018	Fixed Price	5,000	$2.5850/GJ
April 1, 2017 to October 31, 2018	Fixed Price	5,000	$2.7450/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9100/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9850/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.0000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.0425/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.1000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.1650/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.2700/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.1000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.2300/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.2150/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.2200/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.0525GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$3.0500/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.7350/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9300/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.8700/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000	$2.9225/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000	$2.9200/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.3900/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4000/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4300/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4600/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4650/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.5350/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.5650/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000	$2.4300/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.5550/GJ

April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.5700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.6150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.6150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.6250/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.5350/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.4700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.4700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.5000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.3700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.5400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.4600/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.5100/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.4200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.3425/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000	$2.3625/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000	$2.5000/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000	$2.4450/GJ

As at March 31, 2017, Peyto had committed to the future sale of 234,375,000 gigajoules (GJ) of natural gas at an average price of $2.57 per GJ or $2.95 per mcf. Had these contracts been closed on March 31, 2017, Peyto would have realized a loss in the amount of $9.7 million.

Subsequent to March 31, 2017 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
May 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7150/GJ
May 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7500/GJ
June 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7250/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0600/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1500/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0800/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4100GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4775/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4800/GJ

Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of a commodity hedging strategy that is conducted in a Canadian dollar currency. Over the long term, the Canadian dollar tends to rise as commodity prices rise. There is a similar correlation between oil and gas prices. Currently Peyto has not entered into any agreements to further manage its currency risks.

Interest Rate Risk Management

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At March 31 2017, the increase or decrease in earnings for each 100 bps (1%) change in interest rate paid on the outstanding revolving demand loan amounts to approximately $1.5 million per quarter. Average debt outstanding for the quarter was $1,125 million (including $520 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations is reconciled to cash flows from operating activities below:

($000)	Three Months ended March 31 **2017**	2016
Cash flows from operating activities	**121,137**	138,118
Change in non-cash working capital	**16,160**	(1,112)
Change in provision for current performance based compensation	**2,008**	2,901
Funds from operations	**139,305**	139,907
Funds from operations per share	**0.85**	0.88

For the first quarter ended March 31, 2017, funds from operations totaled $139.3 million or $0.85 per share, as compared to $139.9 million or $0.88 per share during the same quarter in 2016 due to decreases in natural gas production volumes and hedging losses offset in part by increases in NGL production volumes and prices.

Peyto's policy is to balance dividends to shareholders with earnings and cash flow over time, and balance funding for the capital program with cash flow, equity and available bank lines. Earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

Long-Term Debt

($000)	**March 31, 2017**	December 31, 2016
Bank credit facility	**615,000**	550,000
Senior unsecured notes	**520,000**	520,000
Balance, end of the period	**1,135,000**	1,070,000

The Company has a syndicated $1.0 billion extendible unsecured revolving credit facility with a stated term date of December 4, 2019. An accordion provision has been added that allows for the pre-approved increase of the facility up to $1.3 billion, at the Company's request, subject to additional commitments by existing facility lenders or by adding new financial institutions to the syndicate. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve month net income before non-cash items, interest and income taxes;

  as at March 31, 2017 – 2.29:1.0

- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;

  as at March 31, 2017 – 2.29:1.0

- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;

  as at March 31, 2017 – 12.9 times

- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of shareholders' equity and long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items.

  as at March 31, 2017 – 42 per cent

Peyto is in compliance with all financial covenants and has no subordinated debt as at March 31, 2017.

On October 24, 2016 Peyto closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of private placement pursuant to the amended and restated note purchase and private shelf agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.7% and mature on October 24, 2023. Interest will be paid semi-annually in arrears.

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$100 million	January 3, 2012	4.39%	January 3, 2019
$50 million	September 6, 2012	4.88%	September 6, 2022
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	October 24, 2016	3.70%	October 24, 2023

Peyto's total borrowing capacity after the issuance of the senior, unsecured notes on October 24, 2016 is $1.52 billion of which the credit facility is $1.0 billion.

Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of $550 to $600 million for 2017. The total amount of capital invested in 2017 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance based compensation. It is used by management to analyze the financial position and leverage of the Company. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

($000)	**As at March 31, 2017**	As at December 31, 2016	As at March 31, 2016
Bank credit facility	**615,000**	550,000	720,000
Senior secured notes	**520,000**	520,000	420,000
Current assets	**(100,703)**	(115,230)	(210,742)
Current liabilities	**198,395**	302,416	140,005
Financial derivative instruments	**(19,842)**	(119,280)	117,599
Provision for future performance based compensation	**(8,862)**	(6,854)	(4,899)
Net debt	**1,203,988**	1,131,052	1,181,963

Capital
Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount ($000)
Balance, December 31, 2016	**164,630,168**	**1,641,982**
Common shares issued by private placement	244,007	7,574
Common share issuance costs, (net of tax)	-	(19)
Balance, March 31, 2017	**164,874,175**	**1,649,537**

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

Capital Expenditures
Net capital expenditures for the first quarter of 2017 totaled $153.9 million. Exploration and development related activity represented $103.2 million (67% of total), while expenditures on facilities, gathering systems and equipment totaled $38.0 million (25% of total) and land, seismic and acquisitions totaled $12.7 million (8% of total). The following table summarizes the capital expenditures for the period:

	Three Months ended March 31	
($000)	**2017**	2016
Land	**5,623**	-
Seismic	**3,592**	3,534
Drilling	**67,061**	62,863
Completions	**36,111**	32,913
Equipping & Tie-ins	**12,924**	11,635
Facilities & Pipelines	**25,089**	36,855
Acquisitions	**3,474**	27,873
Total Capital Expenditures	**153,874**	175,673

Dividends

	Three Months ended March 31	
	2017	2016
Funds from operations ($000)	**139,305**	139,907
Total dividends ($000)	**54,387**	52,520
Total dividends per common share ($)	**0.33**	0.33
Payout ratio (%)	**39**	38

Peyto's policy is to balance dividends to shareholders with earnings and cash flow over time; and funding for the capital program with cash flow, equity and available bank lines. The Board of Directors is prepared to adjust the payout ratio levels (dividends declared divided by funds from operations) to achieve the desired dividends while maintaining an appropriate capital structure.

Contractual Obligations
In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at March 31, 2017:

($000)	2017	2018	2019	2020	2021	Thereafter
Interest payments[1]	17,723	22,085	19,890	17,695	12,295	26,645
Transportation commitments	31,602	48,078	41,775	26,872	22,122	80,938
Operating leases	1,743	2197	2,197	2,197	2,197	11,360
Methanol	608	-	-	-	-	-
Total	51,676	72,360	63,862	46,764	36,614	118,943

(1) Fixed interest payments on senior unsecured notes

LITIGATION

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Corporation, as a successor to new Open Range Energy Corp. ("New Open Range"). The proposed action contains various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not New Open Range), which claims are also alleged in class action lawsuits filed in Alberta, Ontario, and Quebec earlier in 2013 against Poseidon and certain of its current and former directors and officers, and underwriters involved in the public offering of common shares of Poseidon completed in February 2012. The proposed class action seeks various declarations and damages including compensatory damages which the Plaintiffs estimate at $651 million and punitive damages which the Plaintiffs estimate at $10 million, which damage amounts appear to be duplicative of damage amounts claimed in the class actions against Poseidon, certain of its current and former directors and officers, and underwriters.

New Open Range was incorporated on September 14, 2011 solely for purposes of participating in a plan of arrangement with Poseidon (formerly named Open Range Energy Corp. ("Old Open Range")), which was completed on November 1, 2011. Pursuant to such arrangement, Poseidon completed a corporate reorganization resulting in two separate publicly-traded companies: Poseidon, which continued to carry on the energy service and supply business; and New Open Range, which carried on Poseidon's former oil and gas exploration and production business. Peyto acquired all of the issued and outstanding common shares of New Open Range on August 14, 2012. On April 9, 2013, Poseidon obtained creditor protection under the Companies' Creditor Protection Act.

On October 31, 2013, Poseidon filed a lawsuit with the Court naming the Company as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of Old Open Range and the former directors and officers of New Open Range. Poseidon claims, among other things, that the Company is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range.

On July 3, 2014, the Plaintiffs filed a lawsuit with the Court against KPMG LLP, Poseidon's and Old Open Range's former auditors, making allegations substantially similar to those in the other claims. On July 29, 2014, KPMG LLP filed a statement of defense and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP.

The allegations against New Open Range contained in the claims described above are based on factual matters that pre-existed the Company's acquisition of New Open Range. The Company has not yet been required to defend either of the actions. If it is required to defend the actions, the Company intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions.

RELATED PARTY TRANSACTIONS

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in commercial transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. The dollar value of the transactions between Peyto and each of the related reporting entities is summarized below:

Expense		Accounts Payable	
Three Months ended March 31		As at March 31	
2017	2016	**2017**	2016
82.4	362.3	**78.4**	288.4

RISK MANAGEMENT

Investors who purchase shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is primarily dependent on current Alberta market prices. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

The value of Peyto's shares is based on among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost efficient counterparties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. Peyto operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations, and looks to both Alberta provincial authorities and Canada's federal authorities for direction and regulation regarding environmental and climate change legislation.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, Peyto must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2016 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

Depletion and Depreciation Estimate

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis

Impairment of Long-Lived Assets
Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

Decommissioning Provision
The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Future Market Performance Based Compensation
The provision for future market based compensation is estimated based on current market conditions, distribution history and on the assumption that all outstanding rights will be paid out according to the vesting schedule. The conditions at the time of vesting could vary significantly from the current conditions and may have a material effect on the calculation.

Reserve Value Performance Based Compensation
The reserve value based compensation is calculated using the year end independent reserves evaluation which was completed in February 2017. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes
The determination of the Company’s income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Accounting Changes
Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB issued the following standards and amendments which are not yet effective for Peyto and discussed in further detail in Note 2 to the Financial Statements for the fiscal period ended March 31, 2017.

> In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018. The impact of the standard has been evaluated and is expected to have no material impact on the Company’s financial statements.

> In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have

no material impact on the Company's financial statements. Additional disclosure may be required upon implementation of IFRS 15 in order to sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

ADDITIONAL INFORMATION

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR at www.sedar.com and www.peyto.com.

Quarterly information

	2017	2016			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (mcf/d)	549,037	556,975	534,710	489,337	567,230
Oil & NGLs (bbl/d)	9,586	8,938	7,247	6,621	7,008
Barrels of oil equivalent (boe/d @ 6:1)	101,093	101,767	96,365	88,177	101,546
Thousand cubic feet equivalent (mcfe/d @ 6:1)	606,556	610,602	578,189	529,064	609,278
Average product prices					
Natural gas ($/mcf)	2.96	2.98	2.88	2.60	3.06
Oil & natural gas liquids ($/bbl)	48.14	45.09	39.76	41.46	33.60
$/MCFE					
Average sale price ($/mcfe)	3.44	3.38	3.16	2.92	3.24
Average royalties paid ($/mcfe)	0.19	0.18	0.12	0.10	0.13
Average operating expenses ($/mcfe)	0.29	0.26	0.25	0.26	0.23
Average transportation costs ($/mcfe)	0.17	0.16	0.16	0.17	0.16
Field netback ($/mcfe)	2.79	2.78	2.63	2.39	2.72
General & administrative expense ($/mcfe)	0.04	0.03	0.04	0.06	0.03
Interest expense ($/mcfe)	0.20	0.18	0.19	0.21	0.17
Cash netback ($/mcfe)	2.55	2.57	2.40	2.12	2.52
Financial ($000 except per share)					
Revenue	187,949	189,951	168,195	140,891	179,351
Royalties	10,635	10,089	6,382	4,874	6,985
Funds from operations	139,305	144,593	127,915	102,178	139,907
Funds from operations per share	0.85	0.88	0.78	0.63	0.88
Total dividends	54,387	54,328	54,328	53,735	52,520
Total dividends per share	0.33	0.33	0.33	0.33	0.33
Payout ratio	39%	38%	42%	53%	38%
Earnings	40,255	38,489	22,814	9,102	41,943
Earnings per diluted share	0.24	0.23	0.14	0.06	0.26
Capital expenditures	153,874	129,407	113,571	50,634	175,763
Weighted average shares outstanding	164,800,637	164,630,168	164,630,168	161,845,999	159,142,526

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	March 31 2017	December 31 2016
Assets		
Current assets		
Cash	-	2,102
Accounts receivable	79,552	94,813
Due from private placement *(Note 6)*	-	4,930
Prepaid expenses	21,151	13,385
	100,703	115,230
Long-term derivative financial instruments *(Note 8)*	10,144	-
Property, plant and equipment, net *(Note 3)*	3,432,709	3,347,859
	3,442,853	3,347,859
	3,543,556	3,463,089
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	151,555	158,173
Dividends payable *(Note 6)*	18,136	18,109
Provision for future performance based compensation *(Note 7)*	8,862	6,854
Derivative financial instruments *(Note 8)*	19,842	119,280
	198,395	302,416
Long-term debt *(Note 4)*	1,135,000	1,070,000
Long-term derivative financial instruments *(Note 8)*	-	31,465
Provision for future performance based compensation *(Note 7)*	5,860	4,499
Decommissioning provision *(Note 5)*	132,934	127,763
Deferred income taxes	438,977	386,012
	1,712,771	1,619,739
Equity		
Share capital *(Note 6)*	1,649,537	1,641,982
Shares to be issued *(Note 6)*	-	4,930
Retained earnings (deficit)	(13,357)	776
Accumulated other comprehensive loss *(Note 6)*	(3,790)	(106,754)
	1,632,390	1,540,934
	3,543,556	3,463,089

See accompanying notes to the financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2017	**2016**
Revenue		
Oil and gas sales	197,036	136,202
Realized gain on hedges *(Note 8)*	(9,087)	43,149
Royalties	(10,635)	(6,985)
Petroleum and natural gas sales, net	**177,314**	172,366
Expenses		
Operating	15,684	12,540
Transportation	9,467	8,669
General and administrative	2,313	1,857
Future performance based compensation *(Note 7)*	3,370	4,555
Interest	10,544	9,393
Accretion of decommissioning provision *(Note 5)*	750	604
Depletion and depreciation *(Note 3)*	80,043	89,960
Gain on disposition of assets *(Note 3)*	-	(12,668)
	122,171	114,910
Earnings before taxes	**55,143**	57,456
Income tax		
Deferred income tax expense	14,888	15,513
Earnings for the period	**40,255**	41,943
Earnings per share *(Note 6)*		
Basic and diluted	**$0.24**	$0.26
Weighted average number of common shares outstanding *(Note 6)*		
Basic and diluted	**164,800,637**	159,142,526

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2017	**2016**
Earnings for the period	**40,255**	41,943
Other comprehensive income		
Change in unrealized gain on cash flow hedges	131,960	95,555
Deferred income tax (expense) recovery	(38,083)	(14,150)
Realized (gain) loss on cash flow hedges	9,087	(43,149)
Comprehensive income	**143,219**	80,199

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2017	**2016**
Share capital, beginning of period	**1,641,982**	1,467,264
Common shares issued by private placement	7,574	7,644
Common shares issuance costs (net of tax)	(19)	(18)
Share capital, end of period	**1,649,537**	1,474,890

Common shares to be issued, beginning of period	**4,930**	3,769
Common shares issued	(4,930)	(3,769)
Common shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**776**	103,339
Earnings for the period	40,255	41,943
Dividends *(Note 6)*	(54,388)	(52,520)
Retained earnings (deficit), end of period	**(13,357)**	92,762

Accumulated other comprehensive (loss) income, beginning of period	**(106,754)**	49,185
Other comprehensive loss (gain)	102,964	38,256
Accumulated other comprehensive (loss) income, end of period	**(3,790)**	87,441

Total equity	**1,632,390**	1,655,093

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2017	**2016**
Cash provided by (used in)		
operating activities		
Earnings	40,255	41,943
Items not requiring cash:		
Deferred income tax	14,888	15,513
Depletion and depreciation	80,043	89,960
Accretion of decommissioning provision	750	604
Gain on disposition of assets	-	(12,668)
Long term portion of future performance based compensation	1,361	1,654
Change in non-cash working capital related to operating activities	(16,160)	1,112
	121,137	138,118
Financing activities		
Issuance of common shares	7,574	7,637
Issuance costs	(26)	(18)
Cash dividends paid	(54,361)	(52,490)
Increase (decrease) in bank debt	65,000	95,000
	18,187	50,129
Investing activities		
Additions to property, plant and equipment	(153,874)	(175,763)
Change in prepaid capital	(6,598)	7,500
Change in non-cash working capital relating to investing activities	19,046	(16,242)
	(141,426)	(184,505)
Net increase (decrease) in cash	**(2,102)**	3,742
Cash, Beginning of Period	**2,102**	-
Cash, End of Period	**-**	3,742

The following amounts are included in cash flows from operating activities:

Cash interest paid	**9,432**	5,643
Cash taxes paid	**-**	-

1. Nature of operations

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 8, 2017.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2016 and 2015.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed financial statements.

All accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2016 and 2015.

(b) Recent Accounting Pronouncements

Standards issued but not yet effective

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosure may be required upon implementation of IFRS 15 in order to sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

In January 2016, the IASB issued IFRS 16 “Leases”, which replaces IAS 17 “Leases”. For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company’s financial statements.

3. Property, plant and equipment, net

Cost	
At December 31, 2016	**4,901,523**
Additions	153,874
Decommissioning provision additions	4,421
Prepaid capital	6,598
At March 31, 2017	**5,066,416**
Accumulated depletion and depreciation	
At December 31, 2016	(1,553,664)
Depletion and depreciation	(80,043)
At March 31, 2017	**(1,633,707)**
Carrying amount at December 31, 2016	3,347,859
Carrying amount at March 31, 2017	**3,432,709**

During the period ended March 31, 2017, Peyto capitalized $2.1 million (2016 - $2.2 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	March 31, 2017	December 31, 2016
Bank credit facility	615,000	550,000
Senior secured notes	520,000	520,000
Balance, end of the period	**1,135,000**	1,070,000

The Company has a syndicated $1.0 billion extendible unsecured revolving credit facility with a stated term date of December 4, 2019. An accordion provision has been added that allows for the pre-approved increase of the facility up to $1.3 billion, at the Company’s request, subject to additional commitments by existing facility lenders or by adding new financial institutions to the syndicate. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto’s option, Canadian dollar bankers’ acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers’ acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;

- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of the book value of shareholders' equity and long-term debt and subordinated debt.

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$100 million	January 3, 2012	4.39%	January 3, 2019
$50 million	September 6, 2012	4.88%	September 6, 2022
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	October 24, 2016	3.70%	October 24, 2023

Peyto is in compliance with all financial covenants at March 31, 2017.

Total interest expense for the period ended March 31, 2017 was $10.5 million (2016 - $9.4 million) and the average borrowing rate for the period was 3.8% (2016 – 3.4%).

5. Decommissioning provision

Peyto makes provision for the future cost of decommissioning wells and facilities on a discounted basis based on the commissioning of these assets.

The decommissioning provision represents the present value of the decommissioning costs related to the above infrastructure, which are expected to be incurred over the economic life of the assets. The provisions have been based on the Company's internal estimates on the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain.

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2016	**127,763**
New or increased provisions	5,171
Accretion of decommissioning provision	750
Change in discount rate and estimates	(750)
Balance, March 31, 2017	**132,934**
Current	-
Non-current	132,934

Peyto has estimated the net present value of its total decommissioning provision to be $132.9 million as at March 31, 2017 ($127.8 million at December 31, 2016) based on a total future undiscounted liability of $268.7 million ($258.2 million at December 31, 2016). At March 31, 2017 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2047 to 2065. The Bank of Canada's long term bond rate of 2.31 per cent (2.31 per cent at December 31, 2016) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2016) were used to calculate the present value of the decommissioning provision.

6. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2016	**164,630,168**	**1,641,982**
Common shares issued by private placement	244,007	7,574
Common share issuance costs, (net of tax)	-	(19)
Balance, March 31, 2017	**164,874,175**	**1,649,537**

Earnings per common share has been determined based on the following:

	Three Months ended March 31,	
	2017	2016
Weighted average common shares basic and diluted	**164,800,637**	159,142,526

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

Dividends
During the period ended March 31, 2017, Peyto declared and paid dividends of $0.33 per common share or $0.11 per common share per month, totaling $54.4 million (2016 - $0.33 or $0.11 per common share per month, $52.5 million).

Comprehensive income
Comprehensive income consists of earnings and other comprehensive income (“OCI”). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge. “Accumulated other comprehensive income” is an equity category comprised of the cumulative amounts of OCI.

Accumulated hedging gains and losses
Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement with gains and losses being recognized as a component of net revenue. Further information on these contracts is set out in Note 8.

7. Future performance based compensation

Peyto awards performance based compensation to employees annually. The performance based compensation is comprised of reserve and market value based components.

Reserve based component
The reserves value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%.

Market based component
Under the market based component, rights with a three year vesting period are allocated to employees. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

The fair values were calculated using a Black-Scholes valuation model. The principal inputs to the option valuation model were:

	March 31, 2017	March 31, 2016
Share price	$27.35 - $33.80	$24.09 - $34.34
Exercise price (net of dividends)	$22.77 - $33.47	$23.76 - $33.02
Expected volatility	27.39%	37.03%
Option life	0.75 year	0.75 year
Risk-free interest rate	0.8%	0.5%

8. Financial instruments and Capital management

Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at March 31, 2017.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2016.

The fair value of the Company's cash and financial derivative instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's cash and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At March 31, 2017 cash and financial derivative instruments are carried at fair value. Accounts receivable, due from private placement, current liabilities and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

Peyto uses derivative instruments to reduce its exposure to fluctuations in commodity prices. Peyto considers all of these transactions to be effective economic hedges for accounting purposes.

Following is a summary of all risk management contracts in place as at March 31, 2017:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.54/GJ
April 1, 2016 to March 31, 2018	Fixed Price	60,000 GJ	$2.42/GJ to $2.75/GJ
April 1, 2016 to October 31, 2018	Fixed Price	35,000 GJ	$2.10/GJ to $2.60/GJ
May 1, 2016 to October 31, 2017	Fixed Price	20,000 GJ	$2.11/GJ to $2.305/GJ
May 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.20/GJ to $2.35/GJ
July 1, 2016 to October 31, 2017	Fixed Price	10,000 GJ	$2.375/GJ to $2.3775/GJ
July 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.28/GJ to $2.45/GJ

August 1, 2016 to October 31, 2017	Fixed Price	20,000 GJ	$2.22/GJ to $2.30/GJ
August 1, 2016 to October 31, 2018	Fixed Price	25,000 GJ	$2.3175/GJ to$2.5525/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.51/GJ
April 1, 2017 to October 31, 2017	Fixed Price	160,000 GJ	$2.23/GJ to $2.86/GJ
April 1, 2017 to March 31, 2018	Fixed Price	110,000 GJ	$2.605/GJ to $3.1075GJ
April 1, 2017 to October 31, 2018	Fixed Price	10,000 GJ	$2.585/GJ to $2.745/GJ
November 1, 2017 to March 31, 2018	Fixed Price	85,000 GJ	$2.735/GJ to $3.27/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.92/GJ
April 1, 2018 to October 31, 2018	Fixed Price	50,000 GJ	$2.39/GJ to $2.565/GJ
April 1, 2018 to March 31, 2019	Fixed Price	80,000 GJ	$2.3425/GJ to $2.6250/GJ
April 1, 2019 to March 31, 2020	Fixed Price	10,000 GJ	$2.4450/GJ to $2.50/GJ

As at March 31, 2017, Peyto had committed to the future sale of 234,375,000, gigajoules (GJ) of natural gas at an average price of $2.57 per GJ or $2.95 per mcf. Had these contracts been closed on March 31, 2017, Peyto would have realized a loss in the amount of $9.7 million. If the AECO gas price on March 31, 2017 were to increase by $0.10/GJ, the unrealized loss would increase by approximately $23.4 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2017 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
May 1, 2017 to October 31, 2017	Fixed Price	10,000 GJ	$2.715/ to $2.75/GJ
June 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7250/GJ
November 1, 2017 to March 31, 2018	Fixed Price	15,000 GJ	$3.06/GJ to $3.15/GJ
April 1, 2018 to March 31, 2019	Fixed Price	15,000 GJ	$2.41/GJ to $2.48/GJ

9. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in commercial transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. The dollar value of the transactions between Peyto and each of the related reporting entities is summarized below:

Expense		Accounts Payable	
Three Months ended March 31		As at March 31	
2017	2016	**2017**	2016
82.4	362.3	**78.4**	288.4

10. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2017.

	2017	2018	2019	2020	2021	Thereafter
Interest payments[(1)]	17,723	22,085	19,890	17,695	12,295	26,645
Transportation commitments	31,602	48,078	41,775	26,872	22,122	80,938
Operating leases	1,743	2197	2,197	2,197	2,197	11,360
Methanol	608	-	-	-	-	-
Total	51,676	72,360	63,862	46,764	36,614	118,943

(1) Fixed interest payments on senior unsecured notes

11. Contingencies

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Company, as a successor to new Open Range Energy Corp. ("New Open Range") (the “Poseidon Shareholder Application”). The proposed action contains various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not New Open Range), which claims are also alleged in class action lawsuits filed in Alberta, Ontario, and Quebec earlier in 2013 against Poseidon and certain of its current and former directors and officers, and underwriters involved in the public offering of common shares of Poseidon completed in February 2012. The proposed class action seeks various declarations and damages including compensatory damages which the Plaintiffs estimate at $651 million and punitive damages which the Plaintiffs estimate at $10 million, which damage amounts appear to be duplicative of damage amounts claimed in the class actions against Poseidon, certain of its current and former directors and officers, and underwriters.

New Open Range was incorporated on September 14, 2011 solely for purposes of participating in a plan of arrangement with Poseidon (formerly named Open Range Energy Corp. ("Old Open Range")), which was completed on November 1, 2011. Pursuant to such arrangement, Poseidon completed a corporate reorganization resulting in two separate publicly-traded companies: Poseidon, which continued to carry on the energy service and supply business; and New Open Range, which carried on Poseidon's former oil and gas exploration and production business. Peyto acquired all of the issued and outstanding common shares of New Open Range on August 14, 2012. On April 9, 2013, Poseidon obtained creditor protection under the Companies' Creditor Protection Act.

On October 31, 2013, Poseidon filed a lawsuit with the Court naming the Company as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of Old Open Range and the former directors and officers of New Open Range (the “Poseidon Action”). Poseidon claims, among other things, that the Company is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range.

On September 24, 2014 Poseidon amended its claim in the Poseidon Action to add Poseidon’s auditor, KPMG LLP (“KPMG”), as a defendant.

On May 4, 2016, KPMG issued a third party claim in the Poseidon Action against Poseidon’s former officers and directors and Peyto for any liability KPMG is determined to have to Poseidon. Peyto is not required to deliver a defence to this claim at this time.

On July 3, 2014, the Plaintiffs filed a lawsuit with the Court against KPMG LLP, Poseidon's and Old Open Range's former auditors, making allegations substantially similar to those in the other claims (the “KPMG Poseidon Shareholder KPMG Action”). On July 29, 2014, KPMG LLP filed a statement of defence and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP.

The allegations against New Open Range contained in the claims described above are based on factual matters that pre-existed the Company’s acquisition of New Open Range. The Company has not yet been required to defend either of the actions. If it is required to defend the actions, the Company intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions.

Officers

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Stephen Chetner
Corporate Secretary

Directors

Don Gray, Chairman
Stephen Chetner
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Scott Robinson

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank of Nova Scotia
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