NEWS RELEASE

MAY 9, 2017 **SYMBOL: PEY – TSX**

PEYTO ANNOUNCES Q1 2017 RESULTS AND EXPANDS BRAZEAU CORE AREA

CALGARY, ALBERTA – 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.

	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)	**164,971,427**	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.

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
Zone	**Sundance**	**Nosehill**	**Wildhay**	**Ansell**	**Berland**	**Kisku/ Kakwa**	**Brazeau**	**Total Wells Drilled**
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

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the Q1 2017 financial results on May 10th, 2017 at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). Please see the press release for conference call details. To participate, please call 1-844-492-6041 (North America) or 1-478-219-0837 (International). Shareholders and interested investors are encouraged to ask questions about Peyto and its most recent results. Questions can be submitted prior to the call at info@peyto.com. The conference call can also be accessed through the internet at http://edge.media-server.com/m/p/23i3rryd. The conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

Management's Discussion and Analysis

A copy of the first quarter report to shareholders, including the MD&A, audited financial statements and related notes, is available at http://www.peyto.com/Files/Financials/2017/Q12017MDandA.pdf and will be filed at SEDAR, www.sedar.com at a later date.

2017 Annual General Meeting

Peyto's Annual General Meeting of shareholders will be held on Thursday, May 11, 2017 at 3:00 pm in the Glen 206 Ballroom of the Telus Convention Center at 120 9 Ave SE, Calgary, AB T2G 0P3. Shareholders and interested investors are invited to attend.

Darren Gee
President and CEO
May 9, 2017

Certain information set forth in this document and Management's Discussion and Analysis, including management's assessment of Peyto's future plans and operations, capital expenditures and capital efficiencies, 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 Peyto will derive there from. In addition, Peyto is providing future oriented financial information set out in this press release for the purposes of providing clarity with respect to Peyto's strategic direction and readers are cautioned that this information may not be appropriate for any other purpose. Other than is required pursuant to applicable securities law, Peyto does not undertake to update forward looking statements at any particular time. To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). Peyto uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

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
Alberta Treasury Branches
Canadian Western Bank

Transfer Agent
Computershare

Head Office
300, 600 – 3 Avenue SW
Calgary, AB
T2P 0G5
Phone: 403.261.6081
Fax: 403.451.4100
Web: www.peyto.com
Stock Listing Symbol: PEY.TO
Toronto Stock Exchange