PEYTO

Exploration & Development Corp.

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Interim Report
for the three and nine months ended September 30, 2013

Highlights

	Three Months ended September 30		%	Nine Months ended September 30		%
	2013	2012	Change	**2013**	2012	Change
Operations						
Production						
Natural gas (mcf/d)	**300,286**	244,794	*23%*	**302,711**	228,982	*32%*
Oil & NGLs (bbl/d)	**6,295**	5,236	*20%*	**6,172**	4,608	*34%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**338,058**	276,200	*22%*	**339,740**	256,630	*32%*
Barrels of oil equivalent (boe/d @ 6:1)	**56,343**	46,033	*22%*	**56,623**	42,772	*32%*
Product prices						
Natural gas ($/mcf)	**3.35**	3.06	*9%*	**3.52**	3.15	*12%*
Oil & NGLs ($/bbl)	**70.91**	68.62	*3%*	**71.40**	74.26	*(4)%*
Operating expenses ($/mcfe)	**0.37**	0.35	*6%*	**0.35**	0.32	*9%*
Transportation ($/mcfe)	**0.12**	0.11	*9%*	**0.12**	0.12	-
Field netback ($/mcfe)	**3.49**	3.29	*6%*	**3.64**	3.39	*7%*
General & administrative expenses	**0.02**	0.03	*(33)%*	**0.03**	0.05	*(40)%*
Interest expense ($/mcfe)	**0.25**	0.25	-	**0.24**	0.23	*4%*
Financial ($000 except per share)						
Revenue	**133,573**	102,042	*31%*	**411,389**	291,090	*41%*
Royalties	**9,722**	6,632	*47%*	**30,162**	21,549	*40%*
Funds from operations	**99,736**	76,918	*31%*	**312,579**	219,295	*43%*
Funds from operations per share	**0.67**	0.54	*25%*	**2.10**	1.57	*34%*
Total dividends	**35,702**	25,576	*40%*	**95,197**	75,415	*26%*
Total dividends per share	**0.24**	0.18	*33%*	**0.64**	0.54	*19%*
Payout ratio	**36**	33	*9%*	**30**	34	*(12)%*
Earnings	**30,461**	23,058	*32%*	**104,638**	68,128	*54%*
Earnings per diluted share	**0.21**	0.16	*31%*	**0.71**	0.49	*45%*
Capital expenditures	**180,801**	317,089	*(43)%*	**423,708**	461,646	*(8)%*
Weighted average shares outstanding	**148,758,923**	142,069,408	*5%*	**148,730,485**	139,631,290	*7%*
As at September 30						
Net debt				**862,864**	683,540	*26%*
Shareholders' equity				**1,218,362**	1,092,079	*12%*
Total assets				**2,429,125**	2,077,890	*17%*

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2013**	2012	**2013**	2012
Cash flows from operating activities	**101,361**	72,004	**290,343**	205,939
Change in non-cash working capital	**(4,404)**	3,790	**13,586**	10,070
Change in provision for performance based compensation	**2,779**	1,124	**8,650**	3,286
Funds from operations	**99,736**	76,918	**312,579**	219,295
Funds from operations per share	**0.67**	0.54	**2.10**	1.57

(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 International Financial Reporting Standards ("IFRS") and does not have a standardized meaning prescribed by IFRS. 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 IFRS. Funds from operations cannot be assured and future dividends may vary.

Report from the president

Peyto Exploration & Development Corp. ("Peyto") is pleased to present its operating and financial results for the third quarter of the 2013 fiscal year. This quarter culminates 15 successful years of delivering superior returns to shareholders through the profitable development of long life, high value, natural gas assets in one of the premium resource basins in North America. With an industry leading cost structure, Peyto delivered third quarter operating margins of 75%(1) and profit margins of 23%(2), while growing production per share 18% year over year. Third quarter 2013 highlights included:

- **Production per share up 18%.** Production increased 22% (18% per share) from 276 MMcfe/d (46,033 boe/d) in Q3 2012 to 338 MMcfe/d (56,343 boe/d) in Q3 2013. Year to date average production of 340 MMcfe/d (56,623 boe/d) is 32% higher than 2012 production of 257 MMcfe/d (42,772 boe/d). Current production is approximately 420 MMcfe/d (70,000 boe/d), exceeding the previous year-end 2013 guidance.

- **Funds from operations per share up 25%.** Funds from Operations (“FFO”) grew 30% (25% per share) from $77 million in Q3 2012 to $100 million in Q3 2013 due to increases in both production and natural gas price.

- **Industry leading cash costs of $1.07/mcfe.** Total cash costs including royalties, operating costs, transportation, G&A and interest were $1.07/mcfe ($6.42/boe), up slightly from $1.00/mcfe ($6.02/boe) in Q3 2012 primarily due to higher royalties from higher natural gas prices, resulting in cash netbacks of $3.22/mcfe ($19.32/boe) or a 75% operating margin.

- **Record organic capital investment of $181 million**. A total of 34 horizontal wells were drilled in Q3 2013, a new quarterly record for Peyto.

- **Earnings of $0.21/share, dividends of $0.24/share.** Earnings of $30 million ($105 million year-to-date) were generated in the quarter, while dividends of $36 million ($95 million year-to-date) were paid to shareholders, representing a before tax payout ratio of 36% of FFO (30% year-to-date). The $0.08/share monthly dividend ($0.24/share for the quarter) was up 33% from Q3 2012.

Third Quarter 2013 in Review

The third quarter of 2013 was a challenging period for Peyto as wet ground conditions at the start of the quarter and weak AECO natural gas prices at the end of the quarter hindered Peyto from maximizing production and Funds from Operations as otherwise planned. Despite those challenges, a 10 rig drilling program was successfully executed throughout the quarter and a record 34 horizontal wells were drilled and brought on production. The new producing wells helped increase production from a post breakup low of 53,500 boe/d to 60,000 boe/d, however, production above that level was purposefully restricted to prevent exposing unhedged flush volumes to the temporary and artificially low Alberta natural gas prices that were prevalent in August and September. The low Alberta (AECO) natural gas prices were due to a short term increase in interruptible tolls on the TransCanada Mainline and a temporary widening of the NYMEX to AECO basis differential. Peyto elected to conduct facility and pipeline maintenance during those low price periods in advance of the return to normal prices in October. On average for the quarter, approximately 2,000 boe/d was offline due to maintenance and restrictions. Subsequent to the quarter, improved natural gas prices along with the completion of three new facility projects have allowed for the activation of all behind pipe production, with current production exceeding 70,000 boe/d. Notwithstanding the volatility in natural gas prices in the quarter, strong financial and operating performance was delivered resulting in an annualized 12% Return on Equity (ROE) and 10% Return on Capital Employed (ROCE).

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

Third quarter drilling activity focused on the Greater Sundance core area and the many liquids rich, sweet gas resource plays currently under development. A total of 34 wells were drilled across this land base, targeting the prospective zones shown in the following table:

Q3 2013	Field							Total
Zone	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	New Area	Wells Drilled
Cardium	1	1	-	1	-	-	-	3
Notikewin	3	1	2	3	-	-	-	9
Falher	5	1	2	-	-	-	-	8
Wilrich	3	2	2	5	-	-	-	12
Bluesky	2	-	-	-	-	-	-	2
Total	14	5	6	9	-	-	-	34

Over the last year, the Bluesky and Falher formations have contributed the largest proportional increases in production with increases of 190% and 80%, respectively. Currently, the Bluesky is contributing 4,800 boe/d while the Falher is contributing 10,300 boe/d to Peyto's total production. Proven future drilling inventory in these two formations continues to expand and Peyto anticipates a larger percentage of future drilling activity will target these formations.

Capital Expenditures

Peyto invested $86 million to drill, and $54 million to complete, 34 gross (31.6 net) horizontal wells in the quarter. In addition, $14 million was invested to install wellsite equipment and pipelines to bring 34 gross (32.6 net) wells on production, while $24 million was invested in the ongoing fabrication and preparation of three new facility projects at Oldman North, Swanson and Brazeau. The balance of the capital investments, or $3 million, was invested in the acquisition and evaluation of new undeveloped lands. In total, $181 million of capital was invested, representing the largest quarterly capital program in Peyto's history.

Financial Results

Alberta (AECO) daily natural gas prices averaged $2.31/GJ in Q3 2013, while AECO monthly prices averaged $2.66/GJ. As Peyto commits most of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $2.62/GJ in Q3 2013, or $2.99/mcf, prior to a hedging gain of $0.36/mcf. This unhedged realized price was up 26% from Q3 2012 but down 22% from the previous quarter. Peyto realized a blended oil and natural gas liquids price of $71.79/bbl in Q3 2013, prior to a $0.88/bbl hedging loss, for its blend of condensate, pentane, butane and propane, which represented 68% of the $105.13/bbl average Edmonton light oil price. The current offset to light oil price has increased due to a greater percentage of propane and butane in Peyto's natural gas liquids blend resulting from the Oldman deep cut facilities. Combined, Peyto's unhedged revenues totaled $3.99/mcfe ($4.29/mcfe including hedging gains), or 152% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of $0.31/mcfe, operating costs of $0.37/mcfe, transportation costs of $0.12/mcfe, G&A of $0.02/mcfe and interest costs of $0.25/mcfe, combined for total cash costs of $1.07/mcfe ($6.42/boe). These industry leading total cash costs resulted in a cash netback of $3.22/mcfe ($19.32/boe) or a 75% operating margin.

Depletion, depreciation and amortization charges of $1.75/mcfe, along with a provision for future tax and market based bonus payments reduced the cash netback to earnings of $1.00/mcfe, or a 23% profit margin.

Net debt at the end of Q3 2013 was $862 million or 2.2 times annualized FFO, however, financial flexibility remained strong with over $280 million of available borrowing capacity out of a total $1.15 billion. Subsequent to the quarter, Peyto announced that it had priced an issuance of CND $120 million of senior unsecured notes, to be issued by way of private placement pursuant to a note purchase agreement. The notes have a coupon rate of 4.5% and mature in December 2020. This issuance is expected to close in early December 2013 and will increase Peyto's total borrowing capacity to $1.27 billion.

Marketing

Alberta (AECO) daily natural gas price dropped from a high of $3.81/GJ in the second quarter 2013 to a low of $1.57/GJ in the third quarter 2013 as the basis differential to NYMEX increased dramatically. This volatile differential was due to an increase in short term interruptible tolls on the TransCanada mainline system. By the end of the quarter, the basis had begun to return to normal levels as longer term contracts were put in place allowing AECO prices to stabilize at approximately the $3.00/GJ level. Currently, both the AECO and NYMEX futures prices for natural gas are forecast to rise at very modest levels as future supplies are expected to meet growing demands.

Approximately 63% of Peyto's (after royalty) natural gas production had been pre-sold for Q3 2013, at an average fixed price of $3.20/GJ. This was the result of an active hedging program which layers in future sales in the form of fixed price swaps in order to smooth out the volatility in natural gas price.

Going forward, Peyto has committed to the future sale of 81,992,500 GJ of natural gas at an average price of $3.37/GJ. As at November 13, 2013, the remaining hedged volumes and prices for the upcoming years are summarized in the following table.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2013	13,117,500	11,498,056	3.30	3.79
2014	61,225,000	53,666,358	3.37	3.84
2015	7,650,000	6,705,556	3.50	3.99
Total	81,992,500	71,869,970	3.37	3.85

As illustrated in the following table, Peyto's hedged realized natural gas liquids prices were up 4% year over year and 3% from the previous quarter.

	Three Months ended September 30		Q2
	2013	2012	2013
Condensate ($/bbl)	**95.96**	85.70	92.44
Propane ($/bbl) – incl. hedging	**24.70**	18.70	23.70
Butane ($/bbl) – incl. hedging	**49.72**	55.52	48.12
Pentane ($/bbl)	**99.44**	88.87	100.37
Total Oil and NGLs ($/bbl)	**70.91**	68.62	68.08

Peyto's hedging practice with respect to propane also continued in the quarter and as of November 13, 2013, Peyto had committed to the future sale of 248,424 bbls of propane at an average price of $38.14USD/bbl. As at November 13, 2013, the remaining hedged volumes and prices for the upcoming years are summarized in the following table.

	Propane	
	Future Sales (bbls)	Average Price ($USD/bbl)
2013	56,364	$36.24
2014	192,060	$38.70
Total	248,424	$38.14

Prices for propane contracts listed above are in USD at Conway. The price Peyto realizes is less: i) a market-basis differential from Conway to Edmonton, ii) currency exchange, and iii) a pipeline and fractionation fee to get to Peyto's plant gate price.

Activity Update

Peyto has been very busy of late with the recent commissioning of three new facility projects and the activation of 25 new wells in the last eight weeks which has contributed to the production growth from 60,000 boe/d to 70,000 boe/d.

At Brazeau River, Peyto constructed and activated the first 10 mmcf/d of process capacity to accommodate the initial three wells that were waiting to be brought on production. The second 10 mmcf/d of capacity will be commissioned over the next two weeks for an additional three wells that will be drilled in the fourth quarter. Peyto anticipates this facility will be further expanded in 2014 to 40 mmcf/d.

At Peyto's Swanson gas plant in the Ansell area, an additional 30 mmcf/d of process capacity was added, bringing total capacity to 50 mmcf/d. This plant was processing just under 5 mmcf/d a year ago and is now processing over 45 mmcf/d. This new capacity is now able to process incremental volumes from the southern end of Peyto's Ansell lands that were connected with a 50 km, 10" gathering line earlier this year. Peyto plans to further expand the Swanson plant in mid-2014 with 15 mmcf/d of additional compression.

Finally, on November 10th, Peyto commissioned a new gas plant at Oldman North which has initial compression capacity of 30 mmcf/d but with process capacity of 50 mmcf/d. Peyto expects this initial capacity to be full by year end and further compression can be added in 2014 to match total capacity. This plant will play a vital role in Peyto's ongoing development of the Upper Falher and Bluesky plays in Greater Sundance.

Since the end of the quarter, Peyto has drilled 9 gross (8.3 net) wells and brought on production 14 gross (12.6 net) wells. There are 12 additional wells planned from now until the end of the year to round out this year's drilling program at 99 gross (93.5 net) wells. Peyto anticipates that it will now exit 2013 with 71,000 boe/d of production on total capital expenditures of $565 million.

Drilling and completion activity during the past few months has provided encouraging cost and well performance results. By combining even faster drilling times, longer horizontal laterals, most recently as long as 2160m, as well as higher frac density, Peyto has been able to achieve even better performance for minimal additional cost. Production performance over the next several quarters will help determine the success of these changes in achieving greater overall returns.

2014 Budget

The Board of Directors has approved a preliminary 2014 budget which includes a capital program that is expected to range between $575 and $625 million. This would be the largest capital program in the company's history and involves drilling between 110 and 125 wells (100 to 115 net to Peyto's working interest). It is anticipated that this record level of activity would utilize 9 to 10 drilling rigs to develop the many stacked formations in Peyto's Deep Basin core areas. Peyto plans to have a higher level of rig activity in summer months than in winter to reduce costs associated with heating and to take advantage of reduced service rates in summer. As in past years, it is projected that over 80% of the total capital investment would be directed to the well-related activity of drilling, completions, wellsite equipment, and pipelines.

The 110 to 125 wells will be selected from Peyto's inventory of over 1,300 locations, and are expected to add between 32,000 to 35,000 boe/d of new working interest production, for a cost of less than $18,000/boe/d. This capital efficiency is consistent with that achieved over the last four years and is not dependent on improvements to historical efficiency that may come as a result of additional innovation in drilling and completion technology. A portion of this new production will offset an internally forecast 34% base decline, while a portion will grow overall 2014 production to a forecast exit level between 78,500 and 81,500 boe/d.

Facility expansions at the Oldman North, Swanson and Brazeau gas plants, in order to accommodate the production growth, are expected to account for 10% of the budget, while acquisition of new drilling opportunities will make up the balance. Today, total company gas processing capacity is 510 mmcf/d of natural gas and associated liquids. With the 2014 planned expansion projects, Peyto expects to exit 2014 with close to 600 mmcf/d of owned and operated processing capacity. Peyto does not anticipate installing any additional liquids extraction facilities in 2014. Considering the limitations in NGL fractionation capacity and under forecast propane and butane prices, higher returns are currently being generated drilling new wells than through facility modification projects.

Natural gas prices in Alberta are currently forecast to average approximately $3.30/GJ, which, adjusted for an historic NGL and heat content premium of 150% and combined with Peyto's current hedge position and industry leading cash costs of $1/Mcfe ($6/boe), would yield cash netbacks of $23-$24/boe and give Peyto the ability to fund the dividend and majority of the 2014 capital program. The balance of the capital program can be funded from available bank lines and working capital, while still maintaining Peyto's balance sheet strength and a conservative level of debt.

Outlook

The demand for natural gas is expected to continue to increase in North America, as both Canada and the US pursue increased coal to gas switching for power generation, increased industrial consumption (including oil sands), eventual LNG exports, and the adoption of natural gas as a transportation fuel. At the same time, the industry is expected to meet this demand with growing supplies from unconventional tight gas and shale gas sources. This is causing the current and futures price for natural gas, both in Canada (AECO) and the US (NYMEX), to trade at a constrained level, disconnected from the energy equivalence of crude oil.

In reality, there are only a select few operators in a few basins in North America that have demonstrated true profitability at current market prices and an ability to consistently increase supply. The Deep Basin in Alberta is one of those few basins with Peyto being one of the most active and profitable operators. Insulated by an industry leading, low cost advantage, and with an abundant and growing inventory of profitable drilling ideas, Peyto remains well positioned to continue generating superior returns for shareholders into 2014 and beyond.

Darren Gee
President and CEO
November 13, 2013

Management’s discussion and analysis

This Management's Discussion and Analysis (“MD&A”) should be read in conjunction with the unaudited condensed financial statements for the period ended September 30, 2013 and the audited consolidated financial statements of Peyto Exploration & Development Corp. (“Peyto” or the “Company”) for the year ended December 31, 2012. The financial statements have been prepared in accordance with the International Accounting Standards Board (“IASB”) most current International Financial Reporting Standards (“IFRS”) 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 November 12, 2013. 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, 2012, Peyto’s total Proved plus Probable reserves were 2,353 billion cubic feet equivalent (392.2 million barrels of oil equivalent) as evaluated by the independent petroleum engineers. Production is weighted approximately 89% to natural gas and 11% to natural gas liquids and oil.

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

- 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 long life natural gas reserves.
- Balance dividends to shareholders and funding for the capital program with cash flow, equity and available bank lines.

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

QUARTERLY FINANCIAL INFORMATION

	2013			2012				2011
($000 except per share amounts)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue (net of royalties)	**123,851**	134,765	122,612	111,105	95,409	80,471	93,661	104,394
Funds from operations	**99,736**	109,987	102,856	90,078	76,918	64,732	77,645	80,410
Per share – basic and diluted	**0.67**	0.74	0.69	0.62	0.54	0.47	0.56	0.60
Earnings	**30,461**	37,773	36,405	25,823	23,058	18,201	26,868	26,036
Per share – basic and diluted	**0.21**	0.25	0.25	0.18	0.16	0.13	0.19	0.19
Dividends	**35,702**	32,727	26,766	26,178	25,576	24,927	24,912	24,245
Per share – basic and diluted	**0.24**	0.22	0.18	0.18	0.18	0.18	0.18	0.18

Funds from Operations

“Funds from operations” is a non-IFRS 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 Peyto’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 IFRS measure is cash flows from operating activities.

RESULTS OF OPERATIONS

Production

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Natural gas (mmcf/d)	**300.3**	244.8	**302.7**	229.0
Oil & natural gas liquids (bbl/d)	**6,295**	5,236	**6,172**	4,608
Barrels of oil equivalent (boe/d)	**56,343**	46,033	**56,623**	42,772
Million cubic feet equivalent (mmcfe/d)	**338.1**	276.2	**339.7**	256.6

Natural gas production averaged 300.3 mmcf/d in the third quarter of 2013, 23 percent higher than the 244.8 mmcf/d reported for the same period in 2012. Oil and natural gas liquids production averaged 6,295 bbl/d, an increase of 20 percent from 5,236 bbl/d reported in the prior year. Third quarter production increased 22 percent from 276.2 mmcfe/d to 338.1 mmcfe/d. The production increases are attributable to Peyto’s successful capital program.

Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Condensate (bbl/d)	**2,132**	1,777	**2,181**	1,645
Propane (bbl/d)	**1,477**	869	**1,332**	799
Butane (bbl/d)	**1,198**	1,004	**1,174**	856
Pentane (bbl/d)	**1,266**	1,320	**1,275**	1,139
Other NGL’s (bbl/d)	**222**	266	**210**	169
Oil & natural gas liquids (bbl/d)	**6,295**	5,236	**6,172**	4,608
Million cubic feet equivalent (mmcfe/d)	**37.8**	31.4	**37.0**	27.6

Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Oil and natural gas liquids ($/bbl)	**71.79**	68.65	71.74	74.27
Hedging – ngls ($/bbl)	**(0.88)**	(0.03)	**(0.34)**	(0.01)
Oil and natural gas liquids – after hedging ($/bbl)	**70.91**	68.62	**71.40**	74.26

Natural gas ($/mcf)	**2.99**	2.38	**3.39**	2.35
Hedging – gas ($/mcf)	**0.36**	0.68	**0.13**	0.80
Natural gas – after hedging ($/mcf)	**3.35**	3.06	**3.52**	3.15
Total Hedging ($/mcfe)	**0.30**	0.60	**0.11**	0.71
Total Hedging ($/boe)	**1.80**	3.59	**0.33**	4.28

Peyto's natural gas price, before hedging, averaged $2.99/mcf during the third quarter of 2013, an increase of 26 percent from $2.38/mcf reported for the equivalent period in 2012. Oil and natural gas liquids prices before hedging averaged $71.79/bbl, an increase of 5 percent from $68.65/bbl a year earlier. Hedging activity increased Peyto's achieved price/mcfe by 7% from $3.99 to $4.29 per mcfe for the quarter.

Oil & Natural Gas Liquids Prices by Component

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Condensate ($/bbl)	**95.96**	85.70	**91.98**	91.67
Propane ($/bbl) (includes hedging)	**24.70**	18.70	**24.19**	22.54
Butane ($/bbl) (includes hedging)	**49.72**	55.52	**51.10**	61.32
Pentane ($/bbl)	**99.44**	88.87	**99.31**	95.84

Revenue

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2013**	2012	**2013**	2012
Natural gas	**83,686**	53,761	**281,588**	147,149
Oil and natural gas liquids	**40,562**	33,067	**119,549**	93,778
Hedging gain on gas	**9,835**	15,226	**10,829**	50,175
Hedging loss on oil and natural gas liquids	**(510)**	(12)	**(577)**	(12)
Total revenue	**133,573**	102,042	**411,389**	291,090

For the three months ended September 30, 2013, revenue increased 31 percent to $133.6 million from $102.0 million for the same period in 2012. The increase in revenue for the period was a result of increased production volumes and prices as detailed in the following table:

	Three Months ended September 30			Nine Months ended September 30		
	2013	2012	**$million**	2013	2012	**$million**
Total Revenue, September 30, 2012			**102.0**			**291.1**
Revenue change due to:						
Natural gas						
Volume (mmcf)	27,626	22,520	**15.6**	82,640	62,741	**63.3**
Price ($/mcf)	$3.35	$3.06	**8.0**	$3.52	$3.15	**30.5**
Oil & NGL						
Volume (mbbl)	579	482	**6.7**	1,685	1,263	**31.3**
Price ($/bbl)	$70.91	$68.62	**1.3**	$71.40	$74.26	**(4.8)**
Total Revenue, September 30, 2013			**133.6**			**411.4**

Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta 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 September 30		Nine Months ended September 30	
($000 except per share amounts)	**2013**	2012	**2013**	2012
Royalties	**9,722**	6,632	**30,162**	21,549
% of sales before hedging	**7.8**	7.6	**7.5**	8.9
% of sales after hedging	**7.3**	6.5	**7.3**	7.4
$/mcfe	**0.31**	0.26	**0.33**	0.31
$/boe	**1.86**	1.57	**1.98**	1.84

For the third quarter of 2013, royalties averaged $0.31/mcfe or approximately 7.3% of Peyto's total petroleum and natural gas sales.

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.

From the combination of these royalty programs, Peyto has experienced a decrease in overall corporate royalty rates. This, in part, can be attributed to a decline in commodity prices and the dependence of royalty rates on commodity prices. In its 15 years history, Peyto has invested $3.3 billion in capital projects, found and developed 1.9 TCFe of gas reserves, and paid over $631 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 September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Operating costs ($000)	**11,656**	8,843	**32,204**	22,747
$/mcfe	**0.37**	0.35	**0.35**	0.32
$/boe	**2.22**	2.09	**2.1**	1.94
Transportation ($000)	**3,879**	2,900	**11,334**	8,151
$/mcfe	**0.12**	0.11	**0.12**	0.12
$/boe	**0.72**	0.68	**0.72**	0.70

Operating costs increased to $11.7 million in the third quarter of 2013 from $8.8 million for the equivalent period in 2012 due to increased production volumes and well count. On a unit-of-production basis, operating costs increased 6% averaging $0.37/mcfe in the third quarter of 2013 compared to $0.35/mcfe for the equivalent period in 2012. Transportation expense increased 9% on a per mcfe basis.

General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
G&A expenses ($000)	**3,801**	3,336	**10,816**	9,080
Overhead recoveries	**(3,100)**	(2,577)	**(7,917)**	(5,711)
Net G&A expenses	**701**	759	**2,899**	3,369
$/mcfe	**0.02**	0.03	**0.03**	0.05
$/boe	**0.12**	0.18	**0.18**	0.29

For the third quarter, general and administrative expenses before overhead recoveries were relatively flat compared to the same quarter of 2012. Capital overhead recoveries increased 20 percent for the third quarter from $2.6 million to $3.1 million due to increased capital spending (excluding the Open Range acquisition)**.** General and administrative expenses averaged $0.02/mcfe in the third quarter of 2013 compared to $0.03/mcfe for the equivalent period in 2012.

Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Interest expense ($000)	**7,880**	6,352	**22,212**	16,486
$/mcfe	**0.25**	0.25	**0.24**	0.23
$/boe	**1.50**	1.50	**1.44**	1.41
Average interest rate	**4.1%**	4.4%	**4.2%**	4.6%

Third quarter 2013 interest expense was $7.9 million or $0.25/mcfe compared to $6.4 million or $0.25/mcfe for the third quarter 2012.

Netbacks

	Three Months ended September 30		Nine Months ended September 30	
($/mcfe)	**2013**	2012	**2013**	2012
Gross Sale Price	**3.99**	3.41	**4.33**	3.43
Hedging gain (loss)	**0.30**	0.60	**0.11**	0.71
Net Sale Price	**4.29**	4.01	**4.44**	4.14
Less: Royalties	**0.31**	0.26	**0.33**	0.31
Operating costs	**0.37**	0.35	**0.35**	0.32
Transportation	**0.12**	0.11	**0.12**	0.12
Field netback	**3.49**	3.29	**3.64**	3.39
General and administrative	**0.02**	0.03	**0.03**	0.05
Interest on long-term debt	**0.25**	0.25	**0.24**	0.23
Cash netback ($/mcfe)	**3.22**	3.01	**3.37**	3.11
Cash netback ($/boe)	**19.32**	18.08	**20.22**	18.67

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 2013 third quarter provision for depletion, depreciation and amortization totaled $54.3 million as compared to $43.8 million in 2012 due to higher levels of production and a larger asset base. On a unit-of-production basis, depletion and depreciation costs averaged $1.75/mcfe as compared to $1.72/mcfe in 2012.

Income Taxes

The current provision for deferred income tax expense is $10.2 million (2012 - $7.9 million). Peyto paid no tax installments for the three months and nine months ended September 30, 2013 or for the comparative period in 2012. Resource pools are generated from the capital program, which are available to offset income tax liabilities.

Income Tax Pool type ($ millions)	**September 30, 2013**	December 31, 2012	**Annual deductibility**
Canadian Oil and Gas Property Expense	**250.9**	263.4	10% declining balance
Canadian Development Expense	**678.0**	575.6	30% declining balance
Canadian Exploration Expense	**182.2**	181.0	100%
Undepreciated Capital Cost	**290.2**	228.4	25% declining balance
Non-capital loss carry forward	**5.2**	42.1	100%
Other	**34.4**	39.5	7% declining balance to 20%
Total Federal Tax Pools	**1,440.9**	1,330.0	
Additional Alberta Tax Pools	**44.9**	41.3	100% and 30% declining balance

MARKETING

Commodity Price Risk Management

Peyto is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. Peyto 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 that are members of Peyto's banking syndicate. During the third quarter of 2013, a realized hedging gain of $9.3 million was recorded as compared to a gain of $15.2 million for the equivalent period in 2012. Prices for propane contracts are listed in USD at Conway. The price Peyto realizes is less: i) a market-basis differential from Conway to Edmonton, ii) currency exchange, and iii) a pipeline and fractionation fee to get to Peyto's plant gate price. A summary of contracts outstanding in respect of the hedging activities are as follows:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (USD)**
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$30.66/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$32.34/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$34.885/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$35.39/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$34.44/bbl
October 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$39.774/bbl
October 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$46.20/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$37.80/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$36.54/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$39.354/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$41.37/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$44.94/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$35.70/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$37.485/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.52/GJ
April 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
May 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.30/GJ
August 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
August 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$3.005/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$3.00/GJ

November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$2.81/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.05/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.02/GJ
November 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.0575/GJ
January 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.42/GJ
January 1, 2013 to December 31, 2013	Fixed Price	5,000 GJ	$3.105/GJ
January 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
January 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.02/GJ
April 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.205/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.105/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.08/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.17GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.33/GJ
April 1, 2013 to October 31, 2014	Fixed Price	7,500 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.22/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.1925/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
July 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.34/GJ
August 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.55/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.71/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.76/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.86/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$4.00/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.52/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.1025/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.245/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.45/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.3075/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	$3.6025/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.505/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.555/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.48/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.82/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.44/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.4725/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.60/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.27/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.5575/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.465/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.81/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.90/GJ

As at September 30, 2013, Peyto had committed to the future sale of 240,000 barrels of propane at an average price of $37.32 US per barrel and 75,645,000 gigajoules (GJ) of natural gas at an average price of $3.36 per GJ or $3.86 per mcf. Had these contracts been closed on September 30, 2013, Peyto would have realized a gain in the amount of $3.2 million.

Subsequent to September 30, 2013 Peyto entered into the following contracts:

Propane **Period Hedged**	**Type**	**Monthly Volume**	**Price** **(USD)**
April 1, 2014 to September 30, 2014	Fixed Price	4,000 bbl	$41.79/bbl
October 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$42.84/bbl

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price** **(CAD)**
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
December 1, 2013 to March 31,2014	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.335/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.43/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.54/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.335/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.25/GJ

Commodity Price Sensitivity

Peyto's earnings are affected 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 over which Peyto has no control. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

Peyto 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

Peyto is exposed to interest rate risk in relation to interest expense on its revolving demand facility. Currently there are no agreements to manage this risk. At September 30, 2013, 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 third quarter of 2013 was $703.0 million.

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2013**	2012	**2013**	2012
Cash flows from operating activities	**101,361**	72,004	**290,343**	205,939
Change in non-cash working capital	**(4,404)**	3,790	**13,586**	10,070
Change in provision for performance based compensation	**2,779**	1,124	**8,650**	3,286
Funds from operations	**99,736**	76,918	**312,579**	219,295
Funds from operations per share	**0.67**	0.54	**2.10**	1.57

For the third quarter ended September 30, 2013, funds from operations totaled $99.7 million or $0.67 per share, as compared to $76.9 million, or $0.54 per share during the same quarter in 2012. Peyto's policy is to balance dividends to shareholders and funding for a 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)	**September 30, 2013**	December 31, 2012	September 30, 2012
Bank credit facility	**630,000**	430,000	465,000
Senior unsecured notes	**150,000**	150,000	150,000
Balance, end of the period	**780,000**	580,000	615,000

As at September 30, 2013, the Company had a syndicated unsecured $1.0 billion extendible revolving credit facility with a stated term date of April 26, 2015. 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 for a two year period. Outstanding amounts on this facility will bear interest at rates ranging from prime plus 0.8% to prime plus 2.25% determined by the Company's debt to earnings before interest, taxes, depreciation, depletion and amortization and other non-cash items as defined in the credit facility (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1.

On January 3, 2012, Peyto issued CDN $100 million of senior unsecured notes pursuant to a note purchase and private shelf agreement with Prudential Investment Management, Inc. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.39% and mature on January 3, 2019. Interest is paid semi-annually in arrears.

On September 6, 2012, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase and private shelf agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.88% and mature on September 6, 2022. Interest is paid semi-annually in arrears.

On November 4, 2013, Peyto priced CDN $120 million of senior unsecured notes pursuant to a note purchase agreement. The notes will be issued by way of private placement and rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. The notes have a coupon rate of 4.50% and mature in December, 2020. Interest will be paid semi-annually in arrears. Closing of the private placement is expected to occur in early December, 2013. Subsequent to close, Peyto's borrowing capacity will be $1.27 billion.

Upon the issuance of the senior unsecured notes January 3, 2012, Peyto became subject to the following financial covenants as defined in the credit facility and note purchase and private shelf agreements:

- Senior Debt to EBITDA Ratio will not exceed 3.0 to 1.0.
- Total Debt to EBITDA Ratio will not exceed 4.0 to 1.0.
- Interest Coverage Ratio will not be less than 3.0 to 1.0
- Total Debt to Capitalization Ratio will not exceed 0.55:1.0

Peyto is in compliance with all financial covenants.

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. The total amount of capital invested in 2013 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of Peyto. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scaleable business model has the flexibility to match planned capital expenditures to actual cash flow.

EBIDTA

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2013**	2012	**2013**	2012
Earnings before income taxes	**40,614**	30,980	**138,711**	91,084
Interest	**7,880**	6,352	**22,212**	16,486
Depletion, depreciation & amortization	**54,277**	43,772	**159,189**	122,546
Accretion	**393**	284	**1,130**	773
Future performance based compensation	**4,451**	1,882	**13,548**	4,893
EBITDA	**107,615**	83,270	**334,790**	235,782

Net Debt

"Net debt" is a non-IFRS 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 Peyto. Net debt is reconciled below to long-term debt which is the most directly comparable IFRS measure:

($000)	**As at September 30, 2013**	As at December 31, 2012	As at September 30, 2012
Bank credit facility	**630,000**	430,000	465,000
Senior unsecured notes	**150,000**	150,000	150,000
Working capital deficit	**90,877**	74,884	67,831
Financial derivative instruments	**3,313**	10,254	8,316
Provision for future performance based compensation	**(11,326)**	(2,677)	(7,607)
Net debt	**862,864**	662,461	683,540

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2011	**137,960,301**	**889,115**
Common shares issued	4,628,750	115,024
Common shares issued for acquisition	5,404,007	112,187
Common shares issued by private placement	525,655	11,952
Common share issuance costs (net of tax)	-	(3,896)
Balance, December 31,2012	**148,518,713**	**1,124,382**
Common shares issued by private placement	240,210	5,742
Common share issuance costs, (net of tax)	-	(55)
Balance, September 30, 2013	**148,758,923**	**1,130,069**

On December 31, 2011, Peyto completed a private placement of 397,235 common shares to employees and consultants for net proceeds of $9.7 million ($24.52 per share). These shares were issued on January 13, 2012.

On March 23, 2012, Peyto completed a private placement of 128,420 common shares to employees and consultants for net proceeds of $2.2 million ($17.22 per share).

On August 14, 2012, Peyto issued 5,404,007 common shares which were valued at $112.2 million (net of issuance costs) ($20.76 per share) in relation to the closing of a corporate acquisition.

On December 11, 2012, Peyto closed an offering of 4,628,750 common shares at a price of $24.85 per common share, receiving proceeds of $110.0 million (net of issuance costs).

On December 31, 2012, Peyto completed a private placement of 154,550 common shares to employees and consultants for net proceeds of $3.5 million ($22.38 per share). These common shares were issued January 7, 2013.

On March 19, 2013, Peyto completed a private placement of 85,660 common shares to employees and consultants for net proceeds of $2.2 million ($26.65 per share).

Performance Based Compensation

Peyto 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%. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of $1.6 million was recorded for the period ended September 30, 2013.

Under the market based component, rights vesting over three years 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 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 share for that period.

Based on the weighted average trading price of the common shares for the period ended September 30, 2013, compensation costs related to 3.7 million non-vested rights (2.5% of the total number of common shares outstanding), with an average grant price of $22.05, are $4.6 million for the third quarter of 2013. 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). The cumulative provision totals $14.7 million.

Stock Appreciation Rights Outstanding

	Valued but Not Paid			To be Valued December 31, 2013	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2013	601,683	3,787,897	*	975,333	22.72
	71,667	174,000	**		
December 31, 2014	71,667	174,000	**	975,333	22.72
December 31, 2015	-	-		975,333	22.72

*Valued on December 31, 2011 at $24.75
**Valued on December 31, 2012 at $22.58

Capital Expenditures

Net capital expenditures for the third quarter of 2013 totaled $180.8 million. Exploration and development related activity represented $140.0 million (77% of total), while expenditures on facilities, gathering systems and equipment totaled $38.2 million (21% of total) and land, seismic and acquisitions/dispositions totaled $2.6 million (2% of total). The following table summarizes capital expenditures for the period:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2013**	2012	**2013**	2012
Land	**1,315**	2,226	**5,283**	5,564
Seismic	**611**	469	**2,301**	1,129
Drilling	**86,374**	58,764	**194,175**	133,652
Completions	**53,595**	35,055	**104,915**	80,558
Equipping and tie-ins	**14,087**	10,721	**35,915**	24,078
Facilities and pipelines	**24,151**	5,573	**78,636**	12,389
Acquisitions	**668**	17,766	**2,483**	17,766
Dispositions	-	(672)	-	(677)
Capital expenditures	**180,801**	129,902	**423,708**	274,459
Corporate acquisition	-	187,187	-	187,187
Total capital expenditures	**180,801**	317,089	**423,708**	461,646

Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2013	2012	**2013**	2012
Funds from operations ($000)	**99,736**	76,918	**312,579**	219,295
Total dividends ($000)	**35,702**	25,576	**95,196**	75,415
Total dividends per share ($)	**0.24**	0.18	**0.64**	0.54
Payout ratio (%)	**36**	33	**30**	34

Peyto's policy is to balance dividends to shareholders and funding for a 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

Peyto has contractual obligations and commitments as follows:

	2013	2014	2015	2016	2017	Thereafter
Note repayment[(1)]	-	-	-	-	-	150,000
Interest payments[(2)]	-	6,830	6,830	6,830	6,830	18,785
Transportation commitments	4,107	17,290	16,044	11,692	8,027	10,957
Operating leases	592	2,392	1,228	712	360	-
Total	4,699	26,512	24,102	19,234	15,217	179,742

[(1)] Long-term debt repayment on senior unsecured notes

[(2)] Fixed interest payments on senior unsecured notes

Litigation

On September 20, 2013, Peyto announced the threat of a class action lawsuit launched by two shareholders of Poseidon Concepts Corp. ("Poseidon"). The Application seeking leave to pursue the class action has been filed with the Alberta Court of Queen's Bench (the "Court"). Peyto has been invited to participate in a mediation involving all the parties involved in the several class actions lawsuits that have been launched. If Peyto participates in this voluntary mediation, the application for leave will be adjourned until such time as the mediation ends. Peyto, in consultation with counsel, will decide by November 25, 2013 (or such other date as may be agreed to) if it is in its best interests to participate in this voluntary mediation. Peyto intends to aggressively protect its interests and the interests of its shareholders and will seek all available legal remedies in defending the action.

On October 31, 2013, Poseidon filed a lawsuit with the Court naming Peyto as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of the predecessor company to Poseidon ("Old Open Range") and the former directors and officers of Open Range Energy Corp. ("New Open Range") (the new oil and gas exploration company that was formed in September 2011 to participate in a plan of arrangement with Old Open Range completed on November 1, 2011 and which was acquired by Peyto on August 14, 2012).

Poseidon claims, among other things, that Peyto is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range. It seeks a variety of relief against all defendants based on breach of fiduciary duties, breach of contract, oppression and unjust enrichment. Poseidon is specifically seeking damages in the amount of $50,000,000, and equitable relief in the form of an order for restitution, an order that the exploration and production assets and other moneys and debt instruments received by New Open Range from Old Open Range/Poseidon are held in constructive trust for Poseidon, a declaration that any benefits the defendants received from Poseidon are held in trust for Poseidon, an order for disgorgement of all benefits received as a result of the alleged misconduct, indemnity for any amounts paid from Poseidon as a result of the wrongful conduct, punitive damages in the amount of $1 million, interest or such other relief as the Court deems to be just.

The allegations contained in the claim are based on factual matters that pre-existed Peyto's involvement with New Open Range which makes them difficult to assess at this time. However, Peyto intends to aggressively protect its interests and the interests of its shareholders and will seek all available legal remedies in defending the action.

RELATED PARTY TRANSACTIONS

An officer and director of Peyto is a partner of a law firm that provides legal services to Peyto. The fees charged are based on standard rates and time spent on matters pertaining to Peyto.

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

Peyto'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 Peyto is made known to Peyto'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 Peyto 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 Peyto's disclosure controls and procedures at the yearend of Peyto and have concluded that Peyto's disclosure controls and procedures are effective at the financial period end of Peyto for the foregoing purposes.

Internal Control over Financial Reporting

Peyto'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 Peyto's financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Peyto's internal control over financial reporting at the financial period end of Peyto and concluded that Peyto's internal control over financial reporting is effective, at the financial period end of Peyto, 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 September 30, 2013 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 Peyto'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, 2012 were audited 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 estimated gross proven 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, dividend 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 2013. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity, dividends, general and administrative expenses and interest expense. 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 Peyto'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 Peyto has not applied a new primary source of IFRS that has been issued, but is not effective, Peyto will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of IFRS will have on the financial statements in the period of initial application.

CHANGES IN ACCOUNTING POLICIES

Presentation of Financial Statements
Peyto adopted the following standards on January 1, 2013:

IFRS 10 - Consolidated Financial Statements; supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. This standard became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 11 - Joint Arrangements; requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas joint operations will require the venturer to recognize its share of the assets, liabilities, revenue and expenses. This standard became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 12 - Disclosure of Interests in Other Entities; establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance-sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard became effective for Peyto on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 13 - Fair Value Measurement; defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies to accounting standards that require or permit fair value measurements or disclosure about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosure about those measurements), except in specified circumstances. IFRS 13 became applicable on

January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

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 year ended December 31, 2012. The IASB did not issue any standards, interpretations or amendments during the third quarter of 2013.

- Amendments to IAS 32, "Financial Instruments: Presentation," require retrospective application and will be adopted by Peyto on January 1, 2014. The adoption of this standard is not expected to have a material impact on Peyto's financial statements.

- IFRS 9, "Financial Instruments," requires retrospective application and will be adopted by Peyto on January 1, 2015. The impact of the adoption of this standard has not yet been determined.

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

	2013			2012	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	300,286	310,621	297,191	266,808	244,784
Oil & NGLs (bbl/d)	6,295	6,374	5,840	5,286	5,236
Barrels of oil equivalent (boe/d @ 6:1)	56,343	58,145	55,372	49,754	46,033
Thousand cubic feet equivalent (mcfe/d @ 6:1)	338,058	348,868	332,230	298,522	276,200
Average product prices					
Natural gas ($/mcf)	3.35	3.72	3.49	3.45	3.06
Oil & natural gas liquids ($/bbl)	70.91	67.82	75.88	73.01	68.62
$/MCFE					
Average sale price ($/mcfe)	4.29	4.56	4.46	4.38	4.01
Average royalties paid ($/mcfe)	0.31	0.32	0.36	0.34	0.26
Average operating expenses ($/mcfe)	0.37	0.35	0.31	0.31	0.35
Average transportation costs ($/mcfe)	0.12	0.12	0.12	0.11	0.11
Field netback ($/mcfe)	3.49	3.77	3.67	3.62	3.29
General & administrative expense ($/mcfe)	0.02	0.05	0.02	0.02	0.03
Interest expense ($/mcfe)	0.25	0.25	0.21	0.32	0.25
Cash netback ($/mcfe)	3.22	3.47	3.44	3.28	3.01
Financial ($000 except per share)					
Revenue	133,573	144,614	133,203	120,310	102,042
Royalties	9,722	9,849	10,591	9,205	6,632
Funds from operations	99,736	109,987	102,612	90,078	76,918
Funds from operations per share	0.67	0.74	0.69	0.62	0.54
Total dividends	35,702	32,727	26,766	26,178	25,576
Total dividends per share	0.24	0.22	0.18	0.18	0.18
Payout ratio	36%	30%	26%	28%	33%
Earnings	30,461	37,773	36,405	25,823	23,058
Earnings per diluted share	0.21	0.25	0.25	0.18	0.16
Capital expenditures	180,801	73,809	169,099	156,847	316,725
Weighted average shares outstanding	148,758,923	148,758,923	148,672,664	145,449,651	142,069,048

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	September 30 2013	December 31 2012
Assets		
Current assets		
Cash	191	-
Accounts receivable	60,067	85,677
Due from private placement *(Note 6)*	-	3,459
Financial derivative instruments *(Note 8)*	3,313	10,254
Prepaid expenses	11,815	4,150
	75,386	**103,540**
Prepaid capital	-	3,714
Property, plant and equipment, net *(Note 3)*	2,353,829	2,096,270
	2,353,829	**2,099,984**
	2,429,215	**2,203,524**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	143,036	164,946
Income taxes payable	-	1,890
Dividends payable *(Note 6)*	11,901	8,911
Provision for future performance based compensation *(Note 7)*	11,326	2,677
	166,263	**178,424**
Long-term debt *(Note 4)*	780,000	580,000
Long-term derivative financial instruments *(Note 8)*	91	2,532
Provision for future performance based compensation *(Note 7)*	4,958	59
Decommissioning provision *(Note 5)*	52,370	58,201
Deferred income taxes	207,171	174,241
	1,044,590	**815,033**
Equity		
Share capital *(Note 6)*	1,130,069	1,124,382
Shares to be issued *(Note 6)*	-	3,459
Retained earnings	84,688	75,247
Accumulated other comprehensive income *(Note 6)*	3,605	6,979
	1,218,362	**1,210,067**
	2,429,215	**2,203,524**

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	**2013**	2012
Revenue				
Oil and gas sales	124,248	86,827	401,137	240,927
Realized gain on hedges *(Note 8)*	9,325	15,214	10,252	50,163
Royalties	(9,722)	(6,632)	(30,162)	(21,549)
Petroleum and natural gas sales, net	**123,851**	95,409	**381,227**	269,541
Expenses				
Operating	11,656	8,843	32,204	22,747
Transportation	3,879	2,900	11,334	8,151
General and administrative	701	759	2,899	3,369
Future performance based compensation *(Note 7)*	4,451	1,882	13,548	4,893
Interest	7,880	6,352	22,212	16,486
Accretion of decommissioning provision *(Note 5)*	393	284	1,130	773
Depletion and depreciation *(Note 3)*	54,277	43,772	159,189	122,546
Gain on disposition of assets	-	(363)	-	(508)
	83,237	64,429	**242,516**	178,457
Earnings before taxes	**40,614**	30,980	**138,711**	91,084
Income tax				
Deferred income tax expense	10,153	7,922	34,073	22,956
Earnings for the period	**30,461**	23,058	**104,638**	68,128
Earnings per share *(Note 6)*				
Basic and diluted	**$0.21**	$ 0.16	**$ 0.71**	$ 0.49
Weighted average number of common shares outstanding *(Note 6)*				
Basic and diluted	**148,758,923**	142,069,048	**148,730,485**	139,631,290

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Earnings for the period	**30,461**	23,058	**104,638**	68,128
Other comprehensive income				
Change in unrealized gain on cash flow hedges	**3,676**	(6,812)	**5,752**	9,381
Deferred tax recovery	**1,412**	5,507	**1,125**	10,195
Realized (gain) on cash flow hedges	**(9,325)**	(15,214)	**(10,252)**	(50,163)
Comprehensive income	**26,224**	6,539	**101,263**	37,541

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30 2013	Nine months ended September 30 2012
Share capital, beginning of period	**1,124,382**	889,115
Common shares issued	-	112,187
Common shares issued by private placement	5,742	11,952
Common shares issuance costs (net of tax)	(55)	(154)
Share capital, end of period	**1,130,069**	1,013,100

Common shares to be issued, beginning of period	**3,459**	9,740
Common shares issued	(3,459)	(9,740)
Common shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**75,247**	82,889
Earnings for the period	104,638	68,128
Dividends *(Note 6)*	(95,197)	(75,415)
Retained earnings, end of period	**84,688**	75,602

Accumulated other comprehensive income, beginning of period	**6,979**	33,964
Other comprehensive loss	(3,374)	(30,587)
Accumulated other comprehensive income, end of period	**3,605**	3,377

Total equity	**1,218,362**	1,092,079

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2013	**2012**	**2013**	**2012**
Cash provided by (used in) operating activities				
Earnings	**30,461**	23,058	**104,638**	68,128
Items not requiring cash:				
Deferred income tax	**10,153**	7,922	**34,073**	22,956
Depletion and depreciation	**54,277**	43,772	**159,189**	122,546
Accretion of decommissioning provision	**393**	284	**1,130**	773
Long term portion of future performance based compensation	**1,673**	758	**4,899**	1,606
Change in non-cash working capital related to operating activities	**4,404**	(3,790)	**(13,586)**	(10,070)
	101,361	72,004	**290,343**	205,939
Financing activities				
Issuance of common shares	**-**	-	**5,742**	11,952
Issuance costs	**-**	(170)	**(73)**	(205)
Cash dividends paid	**(35,702)**	(25,251)	**(92,206)**	(75,060)
Increase (decrease) in bank debt	**30,000**	70,000	**200,000**	(5,000)
Repayment of Open Range bank debt	**-**	(72,000)	**-**	(72,000)
Issuance of long term notes	**-**	50,000	**-**	150,000
	(5,702)	22,579	**113,463**	9,687
Investing activities				
Additions to property, plant and equipment	**(180,801)**	(129,902)	**(423,708)**	(274,459)
Change in prepaid capital	**-**	4,581	**3,714**	(17,259)
Gain on disposition of assets	**-**	(363)	**-**	(508)
Change in non-cash working capital related to investing activities	**69,822**	31,101	**16,379**	19,376
	(110,979)	(94,583)	**(403,615)**	(272,850)
Net increase (decrease) in cash	**(15,320)**	-	**191**	(57,224)
Cash, beginning of period	**15,511**	-	**-**	57,224
Cash, end of period	**191**	-	**191**	-

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

Cash interest paid	**9,407**	7,544	**23,920**	15,979
Cash taxes paid	**-**	-	**1,890**	-

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 1500, 250 – 2nd Street SW, Calgary, Alberta, Canada, T2P 0C1.

Effective December 31, 2012, Peyto completed an amalgamation with its wholly-owned subsidiary Open Range Energy Corp. pursuant to section 184(1) of the *Business Corporations Act* (Alberta). Following the amalgamation, Peyto does not have any subsidiaries.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 12, 2013.

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 consolidated financial statements as at and for the years ended December 31, 2012 and 2011.

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.

Except as disclosed below, 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 consolidated financial statements as at and for the years ended December 31, 2012 and 2011.

(b) Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning January 1, 2013 or later periods. The affected standards are consistent with those disclosed in Peyto's consolidated financial statements as at and for the years ended December 31, 2012 and 2011.

Peyto adopted the following standards on January 1, 2013:

IFRS 10 - Consolidated Financial Statements; supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. This standard became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 11 - Joint Arrangements; requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas joint operations will require the venturer to recognize its share of the assets, liabilities, revenue and expenses. This standard became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 12 - Disclosure of Interests in Other Entities; establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance-sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard became effective for Peyto on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 13 - Fair Value Measurement; defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies to accounting standards that require or permit fair value measurements or disclosure about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosure about those measurements), except in specified circumstances. IFRS 13 became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

3. Property, plant and equipment, net

Cost	
At December 31, 2012	2,483,008
Additions	416,747
At September 30, 2013	2,899,755
Accumulated depreciation	
At December 31, 2012	(386,737)
Depletion and depreciation	(159,189)
At September 30, 2013	(545,926)
Carrying amount at December 31, 2012	**2,096,270**
Carrying amount at September 30, 2013	**2,353,829**

During the three and nine month periods ended September 30, 2013, Peyto capitalized $2.8 million and $6.9 million (2012 - $2.3 million and $4.8 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	September 30, 2013	December 31, 2012
Bank credit facility	630,000	430,000
Senior unsecured notes	150,000	150,000
Balance, end of the period	**780,000**	580,000

As at September 30, 2013, the Company had a syndicated unsecured $1.0 billion extendible revolving credit facility with a stated term date of April 26, 2015. 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 for a two year period. Outstanding amounts on this facility will bear interest at rates ranging from prime plus 0.8% to prime plus 2.25% determined by the Company's debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1.

On January 3, 2012, Peyto issued CDN $100 million of senior unsecured notes pursuant to a note purchase and private shelf agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.39% and mature on January 3, 2019. Interest is paid semi-annually in arrears.

On September 6, 2012, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase and private shelf agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.88% and mature on September 6, 2022. Interest is paid semi-annually in arrears.

Upon the issuance of the senior unsecured notes January 3, 2012, Peyto became subject to the following financial covenants as defined in the credit facility and note purchase and private shelf agreements:

- Senior Debt to EBITDA Ratio will not exceed 3.0 to 1.0
- Total Debt to EBITDA Ratio will not exceed 4.0 to 1.0
- Interest Coverage Ratio will not be less than 3.0 to 1.0
- Total Debt to Capitalization Ratio will not exceed 0.55:1.0

Peyto is in compliance with all financial covenants at September 30, 2013.

Total interest expense for the three and nine month periods ended September 30, 2013 was $7.9 million and $22.2 million (2012 - $6.4 million and $16.5 million) and the average borrowing rate for the period was 4.1% and 4.2% (2012 – 4.6% and 4.4%).

5. Decommissioning provision

Peyto makes provision for the future cost of decommissioning wells, pipelines 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 Peyto's internal estimates of 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, 2012	**58,201**
New or increased provisions	6,853
Accretion of decommissioning provision	1,130
Change in discount rate and estimates	(13,814)
Balance, September 30, 2013	**52,370**
Current	-
Non-current	52,370

Peyto has estimated the net present value of its total decommissioning provision to be $52.4 million as at September 30, 2013 ($58.2 million at December 31, 2012) based on a total future undiscounted liability of $145.4 million ($127.9 million at December 31, 2012). At September 30, 2013 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2041 to 2062. The Bank of Canada's long term bond rate of 3.07 per cent (2.36 per cent at December 31, 2012) and an inflation rate of two per cent (two per cent at December 31, 2012) 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, 2011	137,960,301	889,115
Common shares issued	4,628,750	115,024
Common shares issued for acquisition	5,404,007	112,187
Common shares issued by private placement	525,655	11,952
Common share issuance costs (net of tax)	-	(3,896)
Balance, December 31,2012	148,518,713	1,124,382
Common shares issued by private placement	240,210	5,742
Common share issuance costs (net of tax)	-	(55)
Balance, September 30, 2013	**148,758,923**	**1,130,069**

On December 31, 2011 Peyto completed a private placement of 397,235 common shares to employees and consultants for net proceeds of $9.7 million ($24.52 per share). These common shares were issued on January 13, 2012.

On March 23, 2012, Peyto completed a private placement of 128,420 common shares to employees and consultants for net proceeds of $2.2 million ($17.22 per share).

On August 14, 2012, Peyto issued 5,404,007 common shares which were valued at $112.2 million (net of issuance costs) ($20.76 per share) in relation to the closing of a corporate acquisition.

On December 11, 2012, Peyto closed an offering of 4,628,750 common shares at a price of $24.85 per common share, receiving proceeds of $110.0 million (net of issuance costs).

On December 31, 2012, Peyto completed a private placement of 154,550 common shares to employees and consultants for net proceeds of $3.5 million ($22.38 per share). These common shares were issued January 7, 2013.

On March 19, 2013, Peyto completed a private placement of 85,660 common shares to employees and consultants for net proceeds of $2.2 million ($26.65 per share).

Per share amounts

Earnings per share or unit have been calculated based upon the weighted average number of common shares outstanding for the three and nine month periods ended September 30, 2013 of 148,758,923 and 148,730,485 (2012 – 142,069,048 and 139,631,290). There are no dilutive instruments outstanding.

Dividends

During the three and nine month periods ended September 30, 2013, Peyto declared and paid dividends of $0.24 per common share and $0.64 per common share, totaling $35.7 million and $95.2 million (2012 - $0.18 and $0.54, $25.6 million and $75.4 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

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:

	September 30, 2013	September 30, 2012
Share price	\$22.58 - \$30.44	\$18.83 - \$24.75
Exercise price	\$18.41 - \$22.08	\$12.06 - \$24.37
Expected volatility	0% - 23%	0% - 32%
Option life	0.25 years	0.25 years
Dividend yield	0%	0%
Risk-free interest rate	1.19%	1.08%

8. Financial instruments

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 September 30, 2013.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2012.

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 value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or 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 September 30, 2013, 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 September 30, 2013:

Propane Period Hedged	Type	Monthly Volume	Price (USD)
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$30.66/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$32.34/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$34.885/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$35.39/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$34.44/bbl
October 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$39.774/bbl
October 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$46.20/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$37.80/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$36.54/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$39.354/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$41.37/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$44.94/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$35.70/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$37.485/bbl

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.52/GJ
April 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
May 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.30/GJ
August 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
August 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$3.005/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$2.81/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.05/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.02/GJ
November 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.0575/GJ
January 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.42/GJ
January 1, 2013 to December 31, 2013	Fixed Price	5,000 GJ	$3.105/GJ
January 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
January 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.02/GJ
April 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.205/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.105/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.08/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.17GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.33/GJ
April 1, 2013 to October 31, 2014	Fixed Price	7,500 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.22/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.20/GJ

April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.1925/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
July 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.34/GJ
August 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.55/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.71/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.76/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.86/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$4.00/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.52/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.1025/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.245/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.45/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.3075/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	$3.6025/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.505/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.555/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.48/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.82/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.44/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.4725/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.60/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.27/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.5575/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.465/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.81/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.90/GJ

As at September 30, 2013, Peyto had committed to the future sale of 240,000 barrels of propane at an average price of $37.32 US per barrel and 75,645,000 gigajoules (GJ) of natural gas at an average price of $3.36 per GJ. Had these contracts been closed on September 30, 2013, Peyto would have realized a gain in the amount of $3.2 million.

Subsequent to September 30, 2013 Peyto entered into the following contracts:

Propane **Period Hedged**	**Type**	**Monthly Volume**	**Price (USD)**
April 1, 2014 to September 30, 2014	Fixed Price	4,000 bbl	$41.79/bbl
October 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$42.84/bbl

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price (CAD)**
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
December 1, 2013 to March 31,2014	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.335/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.43/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.54/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.335/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.25/GJ

9. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at September 30, 2013.

	2013	2014	2015	2016	2017	Thereafter
Note repayment[1]	-	-	-	-	-	150,000
Interest payments[2]	-	6,830	6,830	6,830	6,830	18,785
Transportation commitments	4,107	17,290	16,044	11,692	8,027	10,957
Operating leases	592	2,392	1,228	712	360	-
Total	4,699	26,512	24,102	19,234	15,217	179,742

(1) Long-term debt repayment on senior unsecured notes

(2) Fixed interest payments on senior unsecured notes

10. Subsequent events

1. On November 4, 2013, Peyto announced that it had priced an issuance of CDN $120 million of senior unsecured notes. The notes will be issued by way of private placement pursuant to a note purchase agreement and will rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. The notes have a coupon rate of 4.5% and mature in December 2020. Interest will be paid semi-annually in arrears. Closing of the private placement is expected to occur in early December, 2013.

2. On October 31, 2013, Peyto was named as a party to a statement of claim received with respect to transactions between Poseidon Concepts Corp. and Open Range Energy Corp. Management is currently assessing the nature of this claim, in conjunction with their legal advisors.

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

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

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
Union Bank, Canada Branch
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank of Nova Scotia
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