PEYTO

Exploration & Development Corp.

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Interim Report
for the three months ended March 31, 2015

HIGHLIGHTS

	3 Months Ended March 31		%
	2015	2014	Change
Operations			
Production			
Natural gas (mcf/d)	**444,794**	389,002	*14%*
Oil & NGLs (bbl/d)	**7,456**	7,375	*1%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**489,528**	433,252	*13%*
Barrels of oil equivalent (boe/d @ 6:1)	**81,588**	72,209	*13%*
Production per million common shares (boe/d)*	**530**	476	*11%*
Product prices			
Natural gas ($/mcf)	**3.97**	4.45	*-11%*
Oil & NGLs ($/bbl)	**37.03**	80.49	*-54%*
Operating expenses ($/mcfe)	**0.32**	0.39	*-18%*
Transportation ($/mcfe)	**0.15**	0.13	*15%*
Field netback ($/mcfe)	**3.52**	4.39	*-20%*
General & administrative expenses ($/mcfe)	**0.04**	0.04	-
Interest expense ($/mcfe)	**0.20**	0.23	*-13%*
Financial ($000, except per share*)			
Revenue	**183,812**	209,318	*-12%*
Royalties	**7,992**	17,861	*-55%*
Funds from operations	**144,643**	160,785	*-10%*
Funds from operations per share	**0.94**	1.05	*-10%*
Total dividends	**50,780**	36,505	*39%*
Total dividends per share	**0.33**	0.24	*38%*
Payout ratio	**35**	23	*52%*
Earnings	**44,513**	62,129	*-28%*
Earnings per diluted share	**0.29**	0.41	*-29%*
Capital expenditures	**138,077**	179,378	*-23%*
Weighted average common shares outstanding	**153,852,570**	151,826,431	*1%*
As at March 31			
End of period shares outstanding (includes shares to be issued	**153,921,273**	153,690,808	-
Net debt	**1,064,491**	838,495	*27%*
Shareholders' equity	**1,528,959**	1,344,704	*14%*
Total assets	**3,163,162**	2,686,661	*18%*

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

	3 Months Ended March 31	
($000 except per share)	**2015**	2014
Cash flows from operating activities	**126,134**	146,452
Change in non-cash working capital	**15,488**	7,964
Change in provision for performance based compensation	**3,021**	9,369
Funds from operations	**144,643**	160,785
Funds from operations per share	**0.94**	1.05

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

Report from the president

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the first quarter of the 2015 fiscal year. Record low cash costs and improvements in capital efficiency combined for a 79% operating margin [(1)] and a 24% profit margin [(2)]. Additional highlights included:

- **Production per share up 13%.** First quarter 2015 production increased 13% from 433 MMcfe/d (72,209 boe/d) in Q1 2014 to 490 MMcfe/d (81,588 boe/d) in Q1 2015. Interruptible service curtailments on TransCanada's NGTL system deferred an average of 2,350 boe/d in the first quarter.

- **Funds from operations per share of $0.94.** Generated $145 million in Funds from Operations ("FFO") in Q1 2015 down 10% (10% per share) from $161 million in Q1 2014 due to a 22% reduction in realized commodity prices, partially offset by a 29% reduction in cash costs and a 13% increase in production volumes.

- **Record cash costs of $0.89/Mcfe ($0.71/mcfe or $4.25/boe excluding royalties).** Total cash costs, including $0.18/mcfe royalties, $0.32/mcfe operating costs, $0.15/mcfe transportation, $0.04/mcfe G&A and $0.20/mcfe interest, were the lowest in Company history. This 29% decrease from $1.25/mcfe in Q1 2014 was primarily due to a decrease in operating costs and decreased royalties. Lower realized commodity prices, combined with these lower cash costs, resulted in a cash netback of $3.28/Mcfe ($19.70/boe) or a 79% operating margin.

- **Capital investment of $138 million**. A total of 31 gross wells (30.75 net) were drilled in the first quarter. In total, new wells brought on production over the last 12 months accounted for 41,140 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $649 million, equates to an annualized capital efficiency of $15,800/boe/d.

- **Earnings of $0.29/share, dividends of $0.33/share.** Earnings of $45 million were generated in the quarter while dividends of $51 million were paid to shareholders, representing a before tax payout ratio of 35% of FFO.

First Quarter 2015 in Review

The first quarter of 2015 was another active quarter for Peyto. Drilling activity started off slowly to allow for service cost reductions to take effect but was quickly ramped up to full capacity with 8 drilling rigs running at the end of the quarter. With significantly lower commodity prices, all focus was on lowering costs. On a per meter basis, drilling and completion costs were down 11% and 18% from the previous year, effectively reducing the cost to add new production in the quarter to less than $14,000/boe/d, resulting in a trailing twelve month capital efficiency of $15,800/boe/d. Record low cash costs were achieved in the quarter which helped offset the reduction in realized commodity prices. In addition to transportation curtailments that prevented 2,350 boe/d from being sold in the quarter, production was further impacted by 500 boe/d as Peyto rejected propane recoveries due to low propane prices. This move, however, which left the liquid propane in the sales gas, increased revenues in the quarter and helps illustrate the importance of operating and controlling processing facilities. Subsequent to the end of the quarter, additional equity and term debt issuances further strengthened Peyto's balance sheet and increased unused borrowing capacity to $520 million which can be used to be opportunistic in this current commodity downturn. Despite the significant drop in commodity prices, the strong financial and operating performance delivered in the quarter resulted in an annualized 12% Return on Equity (ROE) and 9% 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

Peyto's first quarter 2015 activity was concentrated in the Spirit River group of formations including the Notikewin, Falher and Wilrich formations, and within the Greater Sundance area where both cost savings could be realized and transportation restrictions minimized. A total of 31 wells were drilled across the land base, similar to Q1 2014, targeting sweet, liquids rich natural gas resource plays, as shown in the following table:

	Field							
Zone	**Sundance**	**Nosehill**	**Wildhay**	**Ansell**	**Berland**	**Kisku/ Kakwa**	**Brazeau**	**Total Wells Drilled**
Cardium								0
Notikewin		2	6					8
Falher	5			2				7
Wilrich	1		8	1			5	15
Bluesky	1							1
Total	7	2	14	3			5	31

Both the average depth and lateral length of Peyto's horizontal wells continued to increase in Q1 2015, as the Company attempts to develop more resource with each wellbore. At the same time, drilling costs per meter were 11% lower while completion costs per meter were 18% lower as service cost reductions were realized. The following table illustrates the ongoing efficiency gains which should contribute to lower development costs and ultimately greater returns:

	2010	**2011**	**2012**	**2013**	**2014**	**2015 Q1**	
Gross Spuds	52	70	86	99	123	**31**	
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	**4,416**	**4%**
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	**1,531**	**5%**
Drilling ($MM/well)	$2.763	$2.823	$2.789	$2.720	$2.660	**$2.446**	**(8%)**
$ per meter	$734	$723	$694	$651	$626	**$555**	**(11%)**
Completion ($MM/well)	$1.358	$1.676	$1.672	$1.625	$1.702	**$1.440**	**(15%)**
$ per meter	$361	$429	$416	$389	$400	**$330**	**(18%)**

Capital Expenditures

During the first quarter of 2015, Peyto spent $70 million to drill 31 gross (30.75 net) horizontal wells and $42.5 million completing 27 gross (27 net) wells. Wellsite equipment and tie-ins accounted for $7.2 million, while a total of $11.6 million was invested in pipelines and facilities. A 12 km, 10" pipeline was installed in Ansell which twinned an existing trunk line to the Swanson plant and allowed for increased development of the Ansell Falher play. As well, progress continued on the 40 mmcf/d Swanson gas plant expansion which is scheduled to begin in June and projected to startup in Q3. Peyto invested $3 million into three small acquisitions in the Minehead, Pedley and Ansell areas for new undeveloped opportunities as well as $0.8 million for the purchase of 14 new sections of crown rights at an average cost of $90/acre. Approximately 167 km^2 of new 3-D seismic was acquired in the quarter, along with the purchase of 117 km^2 of industry data, in order to evaluate prospects in the Ansell, Brazeau, Minehead and North Kakwa areas. Seismic purchases totaled $3.3 million in Q1 2015.

By the end of the quarter, the 24 gross (24 net) wells that were brought onstream were contributing 17,270 boe/d to the quarter end exit rate of 85,000 boe/d.

Commodity Prices

The winter of 2014/15 was a combination of record breaking cold across the eastern side of North America and record breaking warmth across the western side of North America. The blended result was that approximately 29% less gas was withdrawn from US storage inventories during the heating season than the prior year. That reduced consumption, combined with increased US and Canadian supply, caused natural gas prices to fall. AECO (Alberta) daily natural gas prices, which averaged $4.04/GJ during the summer season (Apr-Oct 2014), fell 36% to $2.59/GJ by March 2015, or the end of the winter season.

The average first quarter 2015 Alberta (AECO) daily natural gas price was $2.60/GJ down over 51% from $5.36/GJ in Q1 2014, while the average AECO monthly price was $2.80/GJ down 38% from $4.51/GJ a year prior. As Peyto had committed 89% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $2.75/GJ or $3.16/mcf, prior to a $0.81/mcf hedging gain.

As a result of the Company's hedging strategy, approximately 65% of Peyto's natural gas production received a fixed price of $3.88/GJ from hedges that were put in place over the previous 24 months, while the balance received the blended daily and monthly price of $2.75/GJ, resulting in an after-hedge price of $3.48/GJ or $3.97/mcf.

Peyto realized an oil and natural gas liquids price of $37.03/bbl in Q1 2015 for its blend of condensate, pentane, butane and propane, which represented 70% of the $52.72/bbl average Canadian Light Sweet posted price, as shown in the following table.

Commodity Prices by Component

	Three Months ended March 31		
	2015	2014	
Natural gas – after hedging ($/mcf)	**3.97**	4.45	(11%)
Natural gas – after hedging ($/GJ)	**3.48**	3.90	(11%)
AECO monthly ($/GJ)	**2.80**	4.51	(38%)
Oil and natural gas liquids ($/bbl)			
Condensate ($/bbl)	**48.64**	100.68	(52%)
Propane ($/bbl)	**3.96**	36.65	(89%)
Butane ($/bbl)	**28.28**	55.98	(49%)
Pentane ($/bbl)	**46.87**	105.37	(56%)
Total Oil and natural gas liquids ($/bbl)	**37.03**	80.49	(54%)
Canadian Light Sweet postings ($/bbl)	**52.72**	99.80	(47%)

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

Financial Results

Combining realized natural gas and liquids prices, Peyto's unhedged revenues totaled $3.43/mcfe ($4.17/mcfe including hedging gains). Royalties of $0.18/mcfe, operating costs of $0.32/mcfe, transportation costs of $0.15/mcfe, G&A of $0.04/mcfe and interest costs of $0.20/mcfe, all combined for total cash costs of $0.89/mcfe ($5.34/boe). These industry leading total cash costs, when deducted from realized revenues, resulted in a cash netback of $3.28/mcfe or a 79% operating margin. Operating costs were 19% lower due to lower chemical and power costs and are expected to remain lower throughout 2015.

Depletion, depreciation and amortization charges of $1.83/mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of $1.01/mcfe, or a 24% profit margin, which funded dividends of $1.15/mcfe.

Subsequent to the end of the quarter, on April 16, 2015, Peyto announced it had closed a bought deal offering of common shares. Pursuant to the offering, the Company issued 5,037,000 common shares (including 657,000 common shares issued pursuant to the exercise in full of the over-allotment option granted to the underwriters) at a price of $34.25 per common share, for total gross proceeds of approximately $172.5 million.

In addition, on May 1, 2015, Peyto announced it had issued CND $100 million of senior unsecured notes pursuant to a note purchase agreement. The notes have a coupon rate of 4.26% and mature on May 1, 2025. As the notes rank equally with Peyto's obligations under its bank facility and existing senior unsecured notes, Peyto's aggregate borrowing capacity increased by $100 million to $1.42 billion.

Marketing

Peyto's practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in gas prices, continued throughout the quarter. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of May 6, 2015.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2015	77,505,000	67,436,949	3.38	3.89
2016	54,060,000	47,037,500	3.17	3.65
2017	7,200,000	6,264,706	2.92	3.35
Total	138,765,000	120,739,154	3.28	3.77

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

Activity Update

Daily production currently ranges from 86,000 to 87,000 boe/d with ongoing TCPL curtailments still restricting approximately 1,000 boe/d of capability. Along the Alberta Deep Basin corridor, TCPL is holding producers to contracted firm transportation levels plus 20% of nominated interruptible levels for the near future. In addition, there are several more scheduled outages in Q2 2015 that will likely restrict production to firm transportation levels only, similar to those experienced in Q1 2015. TCPL has indicated that service is expected to return to normal levels by Q3 2015.

The Company's capital investment program continues to yield impressive operating performance and profitable results. Drilling performance continues to improve while average well costs are approximately 15% lower than like wells drilled and completed a year ago. In aggregate, the new 2015 wells are currently contributing over 21,000 boe/d to total Company production and are meeting return expectations.

Peyto has six rigs currently drilling during this breakup period while the remaining rigs are idle and will resume operations after road bans are lifted in late May. The Company has additional rigs under consideration to add to the fleet to increase it to 10 rigs after breakup. Breakup conditions have thus far been favourable for ongoing activity while still realizing the 10% to 20% service cost reductions that have resulted from the reduced industry activity. To the end of April, an additional 9 gross (8.1 net wells) have been spud and 10 wells (9.25 net) have been completed.

The Swanson Gas Plant expansion is on schedule for a Q3 start-up. Two compressors will be incorporated into the facility this year adding 40 MMcf/d of capacity and taking the facility up to 105 MMcf/d of total capacity. Excess processing capacity will also be in place in order to accommodate two more compressors in the future. Peyto plans to fill this expansion with planned drilling in the Ansell area in combination with the recently installed pipeline loop.

The Brazeau Plant will be expanded by 10 MMcf/d to 50 MMcf/d immediately after breakup with the installation of a fifth compressor that is ready to move to the site. An additional expansion is envisioned for the end of the year or early 2016 as post-breakup drilling follows up on several highly successful pre-breakup Wilrich wells. Compression installations are also ready for Wildhay and Oldman North for the latter part of 2015 in response to successful pre-breakup drilling in those areas.

Peyto is keeping with its historic strategy of investing in owned and operated facility infrastructure which allows the Company to maintain its industry leading low costs, ensures production growth is realized in a timely fashion, gives Peyto the ability to modify operational parameters to maximize revenue, and creates significant barriers to entry for competitors.

2015 Budget

Peyto's original 2015 budget of $700 to $750 million, announced November 12, 2014, has been revised to reflect the dramatic changes in industry service costs. The revised budget, which involves exactly the same amount of activity as the original budget, is expected to range between $575 to $625 million. The capital program involves drilling between 120 and 130 gross wells (at approximately 95% average working interest) utilizing 9 to 10 drilling rigs, with 6 to 7 rigs active throughout the entire second quarter.

As before, the 2015 drilling locations will be selected from Peyto's internal inventory of over 1,900 Deep Basin locations and are expected to add between 41,000 and 45,000 boe/d of new production for a cost of approximately $14,000/boe/d. A portion of this new production will offset Peyto's forecast 35% decline, while a portion will grow overall production to an expected 2015 exit level between 96,000 boe/d and 100,000 boe/d.

As always, maximizing the return on the invested capital and minimizing the risks will be the Company's primary objective with the 2015 capital program. Achieving growth, regardless of how spectacular, without profit or return has no appeal to Peyto.

Outlook

Peyto remains committed to its counter cyclical investment strategy which takes advantage of lower costs and reduced industry activity to deliver superior returns and uniquely profitable growth to shareholders. The Company's industry leading low costs are a key component to this strategy, along with a large inventory of low risk, repeatable drilling prospects. While, the current commodity price environment is challenging the economics of even the most profitable companies in the best resource plays in North America, Peyto is ensuring its opportunities remain profitable by focusing on cost control and execution efficiency.

Annual General Meeting

Peyto's Annual General Meeting of Shareholders is scheduled for 3:00 p.m. on Tuesday, May 12, 2015 at Livingston Place Conference Centre, +15 level, 222-3rd Avenue SW, Calgary, Alberta.

Shareholders are encouraged to visit the Peyto website at www.peyto.com where there is a wealth of information designed to inform and educate investors. A monthly President's Report can also be found on the website which follows the progress of the capital program and the ensuing production growth, along with video and audio commentary from Peyto's senior management.

(signed) *"Darren Gee"*

Darren Gee
President and CEO
May 6, 2015

Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Peyto Exploration & Development Corp. ("Peyto" or the "Company") for the years ended December 31, 2014 and 2013. The financial statements have been prepared in accordance with the International Accounting Standards Board ("IASB") most current International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standards ("IAS").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 5, 2015. 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, 2014, the Company's total Proved plus Probable reserves were 3.2 trillion cubic feet equivalent (531 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 90% to natural gas and 10% to natural gas liquids and oil.

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

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

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

QUARTERLY FINANCIAL INFORMATION

	2015	2014				2013		
($000 except per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue (net of royalties)	175,820	205,125	196,062	189,830	191,457	154,167	123,851	134,765
Funds from operations	144,643	173,437	166,988	161,577	160,785	125,164	99,736	109,987
Per share – basic and diluted	0.94	1.13	1.09	1.05	1.05	0.84	0.67	0.74
Earnings	44,513	68,597	68,893	62,159	62,129	37,989	30,461	37,773
Per share – basic and diluted	0.29	0.45	0.45	0.41	0.41	0.26	0.21	0.25
Dividends	50,781	49,292	46,107	43,033	36,505	35,702	35,702	32,727
Per share – basic and diluted	0.33	0.32	0.30	0.28	0.24	0.24	0.24	0.22

*includes realized hedging gains/losses

Funds from Operations

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

RESULTS OF OPERATIONS

Production

	Three Months ended March 31	
	2015	2014
Natural gas (mmcf/d)	**444.8**	389.0
Oil & natural gas liquids (bbl/d)	**7,456**	7,375
Barrels of oil equivalent (boe/d)	**81,588**	72,209
Thousand cubic feet equivalent (mmcfe/d)	**489.5**	433.3

Natural gas production averaged 444.8 mmcf/d in the first quarter of 2015, 14 percent higher than the 389.0 mmcf/d reported for the same period in 2014. Oil and natural gas liquids production averaged 7,456 bbl/d, an increase of 1 percent from 7,375 bbl/d reported in the prior year. First quarter production increased 13 percent from 433.3 mmcfe/d to 489.5 mmcfe/d. The production increases are attributable to Peyto's capital program and resulting production additions.

Oil & Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2015	2014
Condensate (bbl/d)	**3,069**	2,971
Propane (bbl/d)	**1,262**	1,604
Butane (bbl/d)	**1,453**	1,358
Pentane (bbl/d)	**1,493**	1,242
Other NGL's (bbl/d)	**179**	200
Oil & natural gas liquids (bbl/d)	**7,456**	7,375
Million cubic feet equivalent (mmcfe/d)	**44.7**	44.2

The liquid production to sales gas ratio declined from 19 bbl/mmcf in Q1 2014 to 17 bbl/mmcf in Q1 2015 primarily as a result of intentional changes to gas plant operating parameters. Liquid propane prices declined to the point where propane had more value as part of the sales gas stream. Liquid propane recoveries were lowered at Peyto gas plants to an optimal point which coincides with maximizing the recovery of butanes and pentanes.

Commodity Prices

	Three Months ended March 31	
	2015	2014
Oil and natural gas liquids ($/bbl)	**37.03**	84.64
Hedging – ngls ($/bbl)	**-**	(4.15)
Oil and natural gas liquids – after hedging ($/mcf)	**37.03**	80.49
Natural gas ($/mcf)	**3.16**	5.23
Hedging – gas ($/mcf)	**0.81**	(0.78)
Natural gas – after hedging ($/mcf)	**3.97**	4.45
Total Hedging ($/mcfe)	**0.74**	(0.77)
Total Hedging ($/boe)	**4.44**	(4.62)

Peyto's natural gas price, before hedging, averaged $3.16/mcf during the first quarter of 2015, a decrease of 40 percent from $5.23/mcf reported for the equivalent period in 2014. Oil and natural gas liquids prices before hedging averaged $37.03/bbl, a decrease of 56 percent from $84.64/bbl a year earlier.

Commodity Prices by Component

	Three Months ended March 31	
	2015	2014
Natural gas – after hedging ($/mcf)	**3.97**	4.45
Natural gas – after hedging ($/GJ)	**3.48**	3.90
AECO monthly ($/GJ)	**2.80**	4.51
Oil and natural gas liquids ($/bbl)		
Condensate ($/bbl)	**48.64**	100.68
Propane ($/bbl)	**3.96**	36.65
Butane ($/bbl)	**28.28**	55.98
Pentane ($/bbl)	**46.87**	105.37
Total Oil and natural gas liquids ($/bbl)	**37.03**	80.49
Canadian Light Sweet postings ($/bbl)	**52.72**	99.80

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

Revenue

	Three Months ended March 31	
($000)	**2015**	2014
Natural gas	**126,376**	183,247
Oil and natural gas liquids	**24,850**	56,174
Hedging gain (loss)	**32,586**	(30,103)
Total revenue	**183,812**	209,318

For the three months ended March 31, 2015, revenue decreased 12 percent to $183.8 million from $209.3 million for the same period in 2014. The decrease in revenue for the period was a result of increased production volumes offset by a decrease in realized commodity prices as detailed in the following table:

	Three Months ended March 31		
	2015	2014	**$million**
Total Revenue, March 31, 2014			**209.3**
Revenue change due to:			
Natural gas			
Volume (mmcf)	40,031	35,010	**22.3**
Price ($/mcf)	$3.97	$4.45	**(19.2)**
Oil & NGL			
Volume (mbbl)	671	664	**0.6**
Price ($/bbl)	$37.03	$80.49	**(29.2)**
Total Revenue, March 31, 2015			**183.8**

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

	Three Months ended March 31	
($000 except per share amounts)	**2015**	2014
Royalties	**7,992**	17,861
% of sales before hedging	**5.3**	7.5
% of sales after hedging	**4.3**	8.5
$/mcfe	**0.18**	0.46
$/boe	**1.09**	2.75

For the first quarter of 2015, royalties averaged $0.18/mcfe or approximately 5.3% of Peyto's total petroleum and natural gas sales excluding hedges.

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

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

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

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

In its 16 years history, Peyto has invested $4.3 billion in capital projects, found and developed 4.0 TCFe of gas reserves, and paid over $744 million in royalties.

Operating Costs & Transportation
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended March 31	
	2015	2014
Operating costs ($000)	**13,890**	15,230
$/mcfe	**0.32**	0.39
$/boe	**1.89**	2.34
Transportation ($000)	**6,578**	5,145
$/mcfe	**0.15**	0.13
$/boe	**0.90**	0.79

Operating costs decreased to $13.9 million in the first quarter of 2015 from $15.2 million for the equivalent period in 2014 due primarily to a reduction in both the price and consumption of chemicals, and lower power prices. On a unit-of-production basis, operating costs decreased 18% averaging $0.32/mcfe in the first quarter of 2015 compared to $0.39/mcfe for the equivalent period in 2014 due to costs decrease and to volume increases as a result of our successful capital program .

Transportation expenses increased 15% from 0.13/mcfe in the first quarter 2014 to $0.15/mcfe in the first quarter 2015 due to increased TCPL tolls and the inclusion of a pipeline abandonment surcharge which started in January 2015.

General and Administrative Expenses

	Three Months ended March 31	
	2015	2014
G&A expenses ($000)	**4,250**	4,344
Overhead recoveries	**(2,416)**	(2,788)
Net G&A expenses	**1,834**	1,556
$/mcfe	**0.04**	0.04
$/boe	**0.25**	0.24

For the first quarter, general and administrative expenses before overhead recoveries remained essentially unchanged from the same quarter of 2014. General and administrative expenses averaged $0.10/mcfe before overhead recoveries of $0.05/mcfe for net general and administrative expenses of $0.04/mcfe in the first quarters of 2015 and 2014.

Interest Expense

	Three Months ended March 31	
	2015	2014
Interest expense ($000)	**8,876**	8,741
$/mcfe	**0.20**	0.23
$/boe	**1.21**	1.35
Average interest rate	**3.6%**	4.3%

First quarter 2015 interest expense was $8.9 million or $0.20/mcfe compared to $8.7 million or $0.23/mcfe for the first quarter 2014.

Netbacks

	Three Months ended March 31	
($/mcfe)	**2015**	2014
Gross Sale Price	**3.43**	6.14
Hedging gain (loss)	**0.74**	(0.77)
Net Sale Price	**4.17**	5.37
Less: Royalties	**0.18**	0.46
Operating costs	**0.32**	0.39
Transportation	**0.15**	0.13
Field netback	**3.52**	4.39
General and administrative	**0.04**	0.04
Interest on long-term debt	**0.20**	0.23
Cash netback ($/mcfe)	**3.28**	4.12
Cash netback ($/boe)	**19.70**	24.74

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 2015 first quarter provision for depletion, depreciation and amortization totaled $80.7 million as compared to $68.9 million in 2014 due to higher levels of production and a larger asset base. On a unit-of-production basis, depletion and depreciation costs averaged $1.83/mcfe as compared to $1.77/mcfe in 2014.

Income Taxes

The current provision for deferred income tax expense is $14.8 million compared to $20.7 million in 2014. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	March 31, 2015	December 31, 2014	Annual deductibility
Canadian Oil and Gas Property Expense	230.4	232.3	10% declining balance
Canadian Development Expense	850.7	806.6	30% declining balance
Canadian Exploration Expense	43.5	85.7	100%
Undepreciated Capital Cost	380.3	385.3	Primarily 25% declining balance
Non-capital loss carry forward	-	-	100%
Other	27.2	32.1	Various, 7% declining balance to 20%
Total Federal Tax Pools	**1,532.1**	**1,542.0**	
Additional Alberta Tax Pools	44.9	44.9	Primarily 100%

MARKETING

Commodity Price Risk Management

The Company is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the first quarter of 2015, a realized hedging gain of $32.6 million was recorded as compared to a $30.1 million loss for the equivalent period in 2014. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.285/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.47/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.48/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.78/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.79/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.91/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.865/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.75/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.9175/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.93/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$4.05/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.915/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.73/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.56/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.57/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.62/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.71/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.67/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.74/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.72/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.71/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.75/GJ

April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.65/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.58/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.65/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.515/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.305/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.7525/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.76/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.8675/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.925/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.37/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.43/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.24/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.97/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.855/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.98/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.83/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$3.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.90/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.975/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ

As at March 31, 2015, Peyto had committed to the future sale of 136,940,000 gigajoules (GJ) of natural gas at an average price of $3.34 per GJ or $3.84 per mcf. Had these contracts been closed on March 31, 2015 Peyto would have realized a gain in the amount of $80.0 million.

Subsequent to March 31, 2015 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
May 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.50/GJ
May 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.50/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
June 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.825/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.85/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.88/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.86/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.81/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.90/GJ

Commodity Price Sensitivity

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

Currency Risk Management

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

Interest Rate Risk Management

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At March 31 2015, 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 $1.7 million per quarter. Average debt outstanding for the quarter was $999.5 million (including $320 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months ended March 31	
($000)	**2015**	2014
Cash flows from operating activities	**126,134**	146,452
Change in non-cash working capital	**15,488**	7,964
Change in provision for performance based compensation	**3,021**	6,369
Funds from operations	**144,643**	160,785
Funds from operations per share	**0.94**	1.05

For the first quarter ended March 31, 2015, funds from operations totaled $144.6 million or $0.94 per share, as compared to $160.8 million or $1.05 per share during the same quarter in 2014 due to decreases in commodity prices offset in part by increases in production.

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

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

Long-Term Debt

	March 31, 2015	December 31, 2014
Bank credit facility	**695,000**	605,000
Senior unsecured notes	**320,000**	320,000
Balance, end of the period	**1,015,000**	925,000

As at March 31, 2015, the Company had a syndicated $1 billion extendible revolving credit facility with a stated term date of April 25, 2017. 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 three year period. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase 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 3.79% and mature on July 3, 2022. Interest is paid semi-annually in arrears.

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

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

- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of shareholders' equity and long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items.

Peyto is in compliance with all financial covenants and has no subordinated debt as at March 31, 2015.

Peyto's total borrowing capacity is $1.32 billion of which the credit facility is $1.0 billion.

Subsequent to the issuance of CDN $100 million senior unsecured notes on May 1, 2015, Peyto's total borrowing capacity will be $1.42 billion. These notes were issued by way of a private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.26% and mature on May 1, 2025. Interest is paid semi-annually in arrears.

Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of $575 to $625 million for 2015. The total amount of capital invested in 2015 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scaleable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

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

($000)	**As at March 31, 2015**	As at December 31, 2014	As at March 31, 2014
Bank credit facility	**695,000**	605,000	490,000
Senior secured notes	**320,000**	320,000	270,000
Current assets	**(177,576)**	(218,097)	(119,750)
Current liabilities	**161,334**	217,443	273,936
Financial derivative instruments	**76,979**	93,387	(64,221)
Provision for future performance based compensation	**(11,246)**	(8,225)	(11,470)
Net debt	**1,064,491**	1,009,508	838,495

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2014	**153,690,808**	**1,292,398**
Common shares issued by private placement	230,465	7,732
Common share issuance costs, (net of tax)	-	(38)
Balance, March 31, 2015	**153,921,273**	**1,300,092**

On December 31, 2014, Peyto completed a private placement of 168,920 common shares to employees and consultants for net proceeds of $5.6 million ($33.30 per share). These common shares were issued January 7, 2015.

On March 25, 2015, Peyto completed a private placement of 61,545 common shares to employees and consultants for net proceeds of $2. 1 million ($34.23 per common share).

Subsequent to March 31, 2015, Peyto closed an offering on April 16, 2015 for 5,037,000 common shares at a price of $34.25 per common share, receiving net proceeds of $165.6 million.

Performance Based Compensation

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

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of $0.8 million was recorded for the quarter ended March 31, 2015.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are 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.

Based on the weighted average trading price of the common shares for the period ended March 31, 2015, compensation costs related to 6.4 million non-vested rights (4.1% of the total number of common shares outstanding), with an average grant price of $32.00, are $3.3 million for the first quarter of 2015. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 7 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative provision totals $13.3 million.

Rights Outstanding Under Market Based Compensation Plan

	Valued but Not Vested			To be Valued December 31, 2015	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2015	953,336	9,819,325	*	1,119,067	34.34
	1,037,718	3,209,146	**		
December 31, 2016	1,037,718	3,209,146	**	1,119,067	34.34
December 31, 2017	-	-		1,119,067	34.34

*Valued on December 31, 2013 at $32.27

**Valued on December 31, 2014 at $34.34

Capital Expenditures

Net capital expenditures for the first quarter of 2015 totaled $138.1 million. Exploration and development related activity represented $112.0 million (81% of total), while expenditures on facilities, gathering systems and equipment totaled $18.9 million (14% of total) land, seismic and acquisitions totaled $7.2 million (5% of total). The following table summarizes capital expenditures for the year:

	Three Months ended March 31	
($000)	**2015**	2014
Land	**840**	2,855
Seismic	**3,295**	3,938
Drilling	**69,510**	80,248
Completions	**42,491**	36,087
Equipping & Tie-ins	**7,236**	15,713
Facilities & Pipelines	**11,633**	40,383
Acquisitions	**3,053**	154
Office	**19**	-
Total Capital Expenditures	**138,077**	179,378

Dividends

	Three Months ended March 31	
	2015	2014
Funds from operations ($000)	**144,643**	160,785
Total dividends ($000)	**50,780**	36,505
Total dividends per common share ($)	**0.33**	0.24
Payout ratio (%)	**35**	23

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

Contractual Obligations

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at March 31, 2015:

($000)	2015	2016	2017	2018	2019	Thereafter
Interest payments [1]	9,763	14,125	14,125	14,125	11,930	18,405
Transportation commitments	15,906	22,138	21,239	18,885	13,245	17,874
Operating leases	1,899	1,914	1,654	1,295	1,295	9,062
Other	1,755	-	-	-	-	-
Total	29,323	38,177	37,018	34,305	26,470	45,341

(1) Fixed interest payments on senior unsecured notes

LITIGATION

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

Director	Company (Reporting Entity)	Description	2015 ($000)	2014 ($000)
Don Gray	Petrus Resources Ltd.	Chairman of the Board	4.4	61.8
Mick MacBean	Tucker Oilfield Hauling Ltd. (subsidiary of NCSG Crane and Heavy Haul) [1]	Director, NCSG Crane and Heavy Haul	59.5	-
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	115.0	126.0

[1] was not a related party at March 31, 2014

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended March 31, 2015 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

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

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

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

Peyto's estimated quantities of proved and probable reserves at December 31, 2014 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

Depletion and Depreciation Estimate

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

Impairment of Long-Lived Assets

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

Decommissioning Provision

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

Future Market Performance Based Compensation

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

Reserve Value Performance Based Compensation

The reserve value based compensation is calculated using the year end independent reserves evaluation which was completed in February 2014. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes

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

Accounting Changes

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB issued the following standards and amendments which are not yet effective for Peyto and discussed in further detail in Note 2 to the Financial Statements for the fiscal period ended March 31, 2015.

IFRS 9, as issued, reflects part of the IASB's work on the replacement of IAS 39 "Financial Instruments: Recognition and Measurement” and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39 and hedging transactions. The standard has no effective date. In subsequent phases, the IASB will address impairment of financial assets. The adoption of IFRS 9 may have an effect on the classification and measurement of the company’s financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued with an effective date.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018 and the Company is currently evaluating the impact of the standard on Peyto's financial statements

ADDITIONAL INFORMATION

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

Quarterly information

	2015	2014			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (mcf/d)	444,794	451,044	420,538	388,407	389,002
Oil & NGLs (bbl/d)	7,456	8,077	7,502	7,568	7,375
Barrels of oil equivalent (boe/d @ 6:1)	81,588	83,251	77,592	72,302	72,209
Thousand cubic feet equivalent (mcfe/d @ 6:1)	489,528	499,505	465,550	433,812	433,252
Average product prices					
Natural gas ($/mcf)	3.97	4.22	4.18	4.37	4.45
Oil & natural gas liquids ($/bbl)	37.03	55.47	71.01	77.30	80.49
$/MCFE					
Average sale price ($/mcfe)	4.17	4.71	4.92	5.26	5.37
Average royalties paid ($/mcfe)	0.18	0.24	0.34	0.45	0.46
Average operating expenses	0.32	0.31	0.33	0.36	0.39
Average transportation costs	0.15	0.13	0.13	0.13	0.13
Field netback ($/mcfe)	3.52	4.03	4.12	4.32	4.39
General & administrative expense ($/mcfe)	0.04	0.06	0.02	0.01	0.04
Interest expense ($/mcfe)	0.20	0.19	0.20	0.22	0.23
Cash netback ($/mcfe)	3.28	3.78	3.90	4.09	4.12
Financial ($000 except per share)					
Revenue	183,812	216,321	210,640	207,519	209,318
Royalties	7,992	11,196	14,578	17,689	17,861
Funds from operations	144,643	173,147	166,988	161,577	160,785
Funds from operations per share	0.94	1.13	1.09	1.05	1.05
Total dividends	50,780	49,181	46,107	43,033	36,505
Total dividends per share	0.33	0.32	0.30	0.28	0.24
Payout ratio	35%	29%	28%	27%	23%
Earnings	44,513	68,597	68,893	62,159	62,129
Earnings per diluted share	0.29	0.45	0.45	0.41	0.41
Capital expenditures	138,077	179,697	180,024	151,290	179,378
Weighted average shares outstanding	153,852,570	153,690,808	153,690,808	153,690,808	151,826,431

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*
(Amount in $ thousands)

	March 31 2015	December 31 2014
Assets		
Current assets		
Accounts receivable	74,332	98,699
Due from private placement *(Note 6)*	-	5,625
Derivative financial instruments *(Note 8)*	76,979	93,387
Prepaid expenses	26,265	20,386
	177,576	218,097
Long-term derivative financial instruments *(Note 8)*	3,047	11,677
Property, plant and equipment, net *(Note 3)*	2,982,539	2,897,291
	2,985,586	2,908,968
	3,163,162	3,127,065
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	133,157	192,312
Dividends payable *(Note 6)*	16,931	16,906
Provision for future performance based compensation *(Note 7)*	11,246	8,225
	161,334	**217,443**
Long-term debt *(Note 4)*	1,015,000	925,000
Provision for future performance based compensation *(Note 7)*	2,102	1,024
Decommissioning provision *(Note 5)*	116,342	100,815
Deferred income taxes	339,425	330,847
	1,472,869	**1,357,686**
Equity		
Share capital *(Note 6)*	1,300,092	1,292,398
Shares to be issued *(Note 6)*	-	5,625
Retained earnings	167,659	173,927
Accumulated other comprehensive loss *(Note 6)*	61,208	79,986
	1,528,959	1,551,936
	3,163,162	3,127,065

See accompanying notes to the financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31 **2015**	**2014**
Revenue		
Oil and gas sales	151,226	239,421
Realized gain (loss) on hedges *(Note 8)*	32,586	(30,103)
Royalties	(7,992)	(17,861)
Petroleum and natural gas sales, net	**175,820**	191,457
Expenses		
Operating	13,890	15,230
Transportation	6,578	5,145
General and administrative	1,834	1,556
Future performance based compensation *(Note 7)*	4,099	8,596
Interest	8,876	8,741
Accretion of decommissioning provision *(Note 5)*	511	498
Depletion and depreciation *(Note 3)*	80,681	68,851
	116,469	108,617
Earnings before taxes	**59,351**	82,840
Income tax		
Deferred income tax expense	14,838	20,711
Earnings for the period	**44,513**	62,129

Earnings per share *(Note 6)*		
Basic and diluted	**$0.29**	$0.41

Weighted average number of common shares outstanding *(Note 6)*		
Basic and diluted	**153,842,570**	151,826,431

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2015	**2014**
Earnings for the period	**44,513**	62,129
Other comprehensive income		
Change in unrealized loss on cash flow hedges	(25,037)	(80,273)
Deferred tax expense	6,259	12,543
Realized (gain) loss on cash flow hedges	(32,586)	30,103
Comprehensive income	**(6,851)**	24,502

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2015	**2014**
Share capital, beginning of period	**1,292,398**	1,130,069
Common shares issued by private placement	7,732	6,997
Equity offering	-	160,480
Common shares issuance costs (net of tax)	(38)	(5,162)
Share capital, end of period	**1,300,092**	1,292,384

Common shares to be issued, beginning of period	**5,625**	6,245
Common shares issued	(5,625)	(6,245)
Common shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**173,927**	86,975
Earnings for the period	44,513	62,129
Dividends *(Note 6)*	(50,781)	(36,505)
Retained earnings, end of period	**167,659**	112,599

Accumulated other comprehensive (loss) income, beginning of period	**79,986**	(22,651)
Other comprehensive loss	(18,778)	(37,628)
Accumulated other comprehensive loss, end of period	**61,208**	(60,279)

Total equity	**1,528,959**	1,344,704

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*
(Amount in $ thousands)

	Three months ended March 31	
	2015	**2014**
Cash provided by (used in) operating activities		
Earnings	44,513	62,129
Items not requiring cash:		
Deferred income tax	14,838	20,711
Depletion and depreciation	80,681	68,851
Accretion of decommissioning provision	511	498
Long term portion of future performance based compensation	1,079	2,227
Change in non-cash working capital related to operating activities	(15,488)	(7,964)
	126,134	146,452
Financing activities		
Issuance of common shares	7,732	167,477
Issuance costs	(38)	(6,883)
Cash dividends paid	(50,755)	(36,110)
Increase (decrease) in bank debt	90,000	(115,000)
	46,939	9,484
Investing activities		
Additions to property, plant and equipment	(138,077)	(179,378)
Change in prepaid capital	(12,624)	8,795
Change in non-cash working capital relating to investing activities	(22,372)	14,647
	(173,073)	(155,936)
Net increase (decrease) in cash	**-**	-
Cash, Beginning of Period	**-**	-
Cash, End of Period	**-**	-

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

Cash interest paid	**9,459**	8,330
Cash taxes paid	**-**	-

1. Nature of operations

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 1500, 250 – 2nd Street SW, Calgary, Alberta, Canada, T2P 0C1.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 5, 2015.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2014 and 2013.

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 financial statements as at and for the years ended December 31, 2014 and 2013.

(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, 2014 or later periods. The affected standards are consistent with those disclosed in Peyto's financial statements as at and for the years ended December 31, 2014 and 2013.

Standards issued but not yet effective

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018 and the Company is currently evaluating the impact of the standard on Peyto's financial statements.

3. Property, plant and equipment, net

Cost	
At December 31, 2014	3,800,736
Additions	153,305
Prepaid capital	12,624
At March 31, 2015	3,966,665
Accumulated depletion and depreciation	
At December 31, 2014	(903,445)
Depletion and depreciation	(80,681)
At March 31, 2015	(984,126)
Carrying amount at December 31, 2014	2,897,291
Carrying amount at March 31, 2015	**2,982,539**

During the period ended March 31, 2015, Peyto capitalized $2.0 million (2014 - $2.8 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	March 31, 2015	**December 31, 2014**
Bank credit facility	695,000	605,000
Senior secured notes	320,000	320,000
Balance, end of the year	**1,015,000**	925,000

As at March 31, 2015, The Company has a syndicated $1.0 billion extendible unsecured revolving credit facility with a stated term date of April 26, 2017. 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 three year period. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

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

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of the book value of shareholders' equity and long-term debt and subordinated debt.

Peyto is in compliance with all financial covenants at March 31, 2015.

Total interest expense for the period ended March 31, 2015 was $8.9 million (2014 - $8.7 million) and the average borrowing rate for the period was 3.6% (2014 – 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, 2014	**100,815**
New or increased provisions	3,935
Accretion of decommissioning provision	511
Change in discount rate and estimates	11,081
Balance, March 31, 2015	**116,342**
Current	-
Non-current	116,342

Peyto has estimated the net present value of its total decommissioning provision to be $116.3 million as at March 31, 2015 ($100.8 million at December 31, 2014) based on a total future undiscounted liability of $221.6 million ($178.5 million at December 31, 2014). At March 31, 2015 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2040 to 2064. The Bank of Canada's long term bond rate of 1.99 per cent (2.33 per cent at December 31, 2014) and an inflation rate of two per cent (2.0 per cent at December 31, 2014) 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, 2014	**153,690,808**	**1,292,398**
Common shares issued by private placement	230,465	7,732
Common share issuance costs, (net of tax)	-	(38)
Balance, March 31, 2015	**153,921,273**	**1,300,092**

On December 31, 2014, Peyto completed a private placement of 168,920 common shares to employees and consultants for net proceeds of $5.6 million ($33.30 per share). These common shares were issued January 7, 2015.

On March 25, 2015, Peyto completed a private placement of 61,545 common shares to employees and consultants for net proceeds of $2.1 million ($34.25 per common share).

Per share amounts

Earnings per share or unit have been calculated based upon the weighted average number of common shares outstanding for the period ended March 31, 2015 of 153,852,570 (2014 – 151,826,431). There are no dilutive instruments outstanding.

Dividends
During the period ended March 31, 2015, Peyto declared and paid dividends of $0.33 per common share or $0.11 per common share per month, totaling $50.8 million (2014 - $0.24 or $0.08 per common share per month, $36.5 million).

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

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

7. Future performance based compensation

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

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

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

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

	March 31, 2015	March 31, 2014
Share price	$32.27 - $34.34	$22.58 - $37.72
Exercise price	$21.70 - $34.01	$19.91 - $32.03
Expected volatility	31.5%	24%
Option life	0.75 year	0.75 year
Dividend yield	0%	0%
Risk-free interest rate	0.5%	1.07%

8. Financial instruments and capital management

Financial instrument classification and measurement
Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at March 31, 2015.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2014.

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

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

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

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At March 31, 2015 cash and financial derivative instruments are carried at fair value. Accounts receivable, due from private placement, current liabilities and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

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

Following is a summary of all risk management contracts in place as at March 31, 2015:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
April 1, 2015 to October 31, 2015	Fixed Price	110,000 GJ	$2.75/GJ to$3.91/GJ
April 1, 2015 to March 31, 2016	Fixed Price	200,000 GJ	$2.7525/GJ to $3.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	50,000 GJ	$2.83/GJ to $2.98/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.975/GJ
April 1, 2016 to October 31, 2016	Fixed Price	20,000 GJ	$3.05/GJ to 4.123/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$3.75/GJ

As at March 31, 2015, Peyto had committed to the future sale of 136,940,000 gigajoules (GJ) of natural gas at an average price of $3.34 per GJ or $3.84 per mcf. Had these contracts been closed on March 31, 2015, Peyto would have realized a gain in the amount of $80.0 million. If the AECO gas price on March 31, 2015 were to increase by $1/GJ, the unrealized loss would increase by approximately $136.9 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2015 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
May 1, 2015 to October 31, 2015	Fixed Price	10,000 GJ	$2.50/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
June 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2015 to March 31, 2016	Fixed Price	15,000 GJ	$2.825/GJ to $2.88/GJ
April 1, 2016 to March 31, 2017	Fixed Price	15,000 GJ	$2.81/GJ to $2.90/GJ

9. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. Peyto is considered to be related to the following companies because of the foregoing:

Director	Company	Description	2015 ($000)	2014 ($000)
Don Gray	Petrus Resources Ltd.	Chairman of the Board	4.4	61.8
Mick MacBean	Tucker Oilfield Hauling Ltd. (subsidiary of NCSG Crane and Heavy Haul) [1]	Director, NCSG Crane and Heavy Haul	59.5	-
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	115.0	126.0

(1) was not a related party at March 31, 2014

10. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2015.

	2015	2016	2017	2018	2019	Thereafter
Interest payments[1]	9,763	14,125	14,125	14,125	11,930	18,405
Transportation commitments	15,906	22,138	21,239	18,885	13,245	17,874
Operating leases	1,899	1,914	1,654	1,295	1,295	9,062
Other	1,755	-	-	-	-	-
Total	29,323	38,177	37,018	34,305	26,470	45,341

(1) Fixed interest payments on senior secured notes

11. Contingencies

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

12. Subsequent Events

On April 16, 2015, Peyto closed an offering for 5,037,000 common shares at a price of $34.25 per common share, receiving net proceeds of $165.6 million.

On May 1, 2015, Peyto closed an issuance of CDN $100 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 4.26% and mature in May 2025. Interest will be paid semi-annually in arrears.

Officers

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Todd Burdick
Vice President, Production

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

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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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