

PEYTO

Exploration & Development Corp.

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*Interim Report
for the three months ended March 31, 2016*

HIGHLIGHTS

	3 Months Ended March		% Change
	2016	2015	
Operations			
Production			
Natural gas (mcf/d)	567,230	444,794	28%
Oil & NGLs (bbl/d)	7,008	7,456	-6%
Thousand cubic feet equivalent (mcfe/d @ 1:6)	609,278	489,528	24%
Barrels of oil equivalent (boe/d @ 6:1)	101,546	81,588	24%
Production per million common shares (boe/d)*	638	530	20%
Product prices			
Natural gas (\$/mcf)	3.06	3.97	-23%
Oil & NGLs (\$/bbl)	33.60	37.03	-9%
Operating expenses (\$/mcfe)	0.23	0.32	-28%
Transportation (\$/mcfe)	0.16	0.15	7%
Field netback (\$/mcfe)	2.72	3.52	-23%
General & administrative expenses (\$/mcfe)	0.03	0.04	-25%
Interest expense (\$/mcfe)	0.17	0.20	-15%
Financial (\$000, except per share*)			
Revenue	179,351	183,812	-2%
Royalties	6,985	7,992	-13%
Funds from operations	139,907	144,643	-3%
Funds from operations per share	0.88	0.94	-6%
Total dividends	52,520	50,781	3%
Total dividends per share	0.33	0.33	-
Payout ratio	38	35	9%
Earnings	41,943	44,513	-6%
Earnings per diluted share	0.26	0.29	-10%
Capital expenditures	175,763	138,077	27%
Weighted average common shares outstanding	159,142,526	153,852,570	3%
As at March 31			
End of period shares outstanding (includes shares to be issued)	159,239,543	153,921,273	3%
Net debt	1,181,963	1,064,491	11%
Shareholders' equity	1,655,093	1,528,959	8%
Total assets	3,503,343	3,163,162	11%

*all per share amounts using weighted average common shares outstanding

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 2016 fiscal year. Continued cost reductions and record production combined for a 78% operating margin⁽¹⁾ and a 23% profit margin⁽²⁾. Additional highlights included:

- **Production per share up 20%.** First quarter 2016 production increased 24%, 20% per share, from 490 MMcfe/d (81,588 boe/d) in Q1 2015 to 609 MMcfe/d (101,546 boe/d) in Q1 2016, setting a new Company record.
- **Funds from operations per share of \$0.88.** Generated \$140 million in Funds from Operations ("FFO") in Q1 2016 down 3% (6% per share) from \$145 million in Q1 2015 due to a 23% reduction in realized commodity prices, largely offset by a 20% reduction in cash costs and a 24% increase in production volumes.
- **Record low cash costs of \$0.71/Mcfe (\$0.59/mcfe or \$3.51/boe excluding royalties).** Total cash costs, including \$0.13/mcfe royalties, \$0.23/mcfe operating costs, \$0.16/mcfe transportation, \$0.03/mcfe G&A and \$0.17/mcfe interest, were a new Company record. This 20% decrease from \$0.89/mcfe in Q1 2015 was primarily due to a 28% decrease in operating costs and a 28% decrease in royalties. Lower realized commodity prices, offset by these lower cash costs, resulted in a cash netback of \$2.52/Mcfe (\$15.14/boe) or a 78% operating margin.
- **Capital investment of \$176 million.** A total of 37 gross wells (35.5 net) were drilled in the first quarter. New wells brought on production over the last 12 months accounted for 48,600 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of \$631 million, equates to an annualized capital efficiency of \$13,000/boe/d. In addition, approximately 3,200 boe/d of production was drilled, completed and tied in but was awaiting the \$33 million Brazeau gas plant expansion which was substantially completed in March 2016.
- **Earnings of \$0.26/share, dividends of \$0.33/share.** Earnings of \$42 million were generated in the quarter while dividends of \$53 million were paid to shareholders, representing a before tax payout ratio of 38% of FFO.

First Quarter 2016 in Review

Peyto maintained the same level of activity at the start of the first quarter of 2016 as it had in the fourth quarter of 2015, with 10 drilling rigs actively developing its Deep Basin core areas. Two rigs were released by the end of the quarter as continued improvements in drilling execution meant 8 rigs could do the work of 10. Lower realized commodity prices were countered with lower capital and cash costs allowing Peyto to maintain its expected return on new investments. Average drilling and completion costs per horizontal well were \$2.8 million in the first quarter 2016, down 28% from \$3.9 million in Q1 2015 while total cash costs were down 20% from \$0.89/mcfe to \$0.71/mcfe. Peyto closed two small property acquisitions and one property swap in the quarter, totaling \$28 million, which added more drilling locations to the Company's inventory of profitable Deep Basin opportunities. The Brazeau gas plant was expanded in the quarter, taking processing capacity from 60 MMcf/d to 120 MMcf/d, in order to accommodate expected volume additions this year. Despite the continued drop in commodity prices, the financial and operating performance delivered in the quarter resulted in an annualized 10% Return on Equity (ROE) and 8% 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

First quarter 2016 activity was focused in the Greater Sundance and Brazeau River areas on the Company's traditional, sweet, liquids rich, natural gas resource plays. Despite the deterioration in commodity prices for summer 2016, these locations still met Peyto's strict internal rate of return hurdles primarily due to lower costs and proximity to existing infrastructure. Two of the drilling rigs were active in the Brazeau area delineating a proven Wilrich trend, as well as testing a Notikewin trend characterized by high pressure channel sands with above average liquid yields. As well, Peyto drilled its first vertical well in the past five years into a faulted Cardium target at Brazeau with initial condensate liquid yields in excess of 60 bbls/mmcf. Several follow up locations in the Cardium now exist that may be pursued later in the year.

In total, 37 gross wells were drilled across the land base, similar to Q1 2015, as shown in the following table:

Zone	Field						Total Wells Drilled
	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	
Cardium							1
Notikewin		2	1	3			1
Falher	9			2			11
Wilrich	7	2	1	3		5	18
Bluesky							
Total	16	4	2	8		7	37

Drilling costs per meter were 10% lower while completion costs per meter were 23% lower than average 2015 costs as continued service cost reductions and efficiency gains were realized. The following table illustrates the ongoing efficiency gains which should contribute to lower overall development costs and ultimately greater returns:

	2010	2011	2012	2013	2014	2015	2016 Q1
Gross Hz Spuds	52	70	86	99	123	140	36
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,309	4,231
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,460
Drilling (\$MM/well)	\$2.763	\$2.823	\$2.789	\$2.720	\$2.660	\$2.159	\$1.916
\$ per meter	\$734	\$723	\$694	\$651	\$626	\$501	\$453
Completion (\$MM/well)	\$1.358	\$1.676	\$1.672	\$1.625	\$1.702	\$1.212	\$0.910
\$ per meter	\$361	\$429	\$416	\$389	\$400	\$281	\$215

Capital Expenditures

Capital investments in the first quarter of 2016 totalled \$175.7 million, comprised of \$95.8 million for drilling and completion, \$11.6 million for wellsite equipment and well connections, \$37 million for major pipelines and facilities, \$27.9 million for acquisitions and land, and \$3.4 million for new seismic data.

In total, 37 gross wells (35.5 net) were spud in the quarter and 36 gross wells (34.7 net) were completed and with 36 gross (34.3 net) wells placed on production.

The Brazeau plant was expanded from 60 MMcf/d capacity to 120 MMcf/d with the installation of a third refrigeration process train and 4 new compressors, taking the total compressor count at the plant to 10 machines. This expansion occurred over March and was commissioned in early April. In addition, the TCPL meter station fed by Peyto's Brazeau plant was expanded up to 120 MMcf/d of capacity to match the new facility limits. The estimated total cost for the plant expansion is \$33 million with \$25 million of the expenditure occurring in the first quarter.

Two small acquisitions and one property swap were closed in the first quarter totalling \$27.9 million which included approximately 1,500 boe/d of production and 13 net sections of land on which Peyto has identified a significant number of new drilling locations. One of the acquisitions also included 20% working interest in Peyto's Galloway gas plant, increasing total ownership in that plant from 69% to 89%. All of the acquired lands are situated proximal to Peyto's existing infrastructure.

By the end of the quarter, the 36 gross (34.3 net) wells that were brought onstream were contributing 15,000 boe/d to the quarter end exit rate of 102,000 boe/d.

Commodity Prices

A strong El Nino weather influence that occurs every three to five years resulted in above-normal winter temperatures and reduced natural gas heating demand in North America in the first quarter of 2016. This was combined with record natural gas production and resulted in less gas being withdrawn from storage inventories during the heating season than in prior years. The reduced consumption, combined with increased supply, caused natural gas prices to fall. In Alberta, where local storage inventories remained high, AECO daily natural gas prices, which averaged \$2.34/GJ during the fourth quarter of 2015, fell over 45% to \$1.27/GJ by March 2016, or the end of the winter season.

The average first quarter 2016 Alberta (AECO) daily natural gas price was \$1.75/GJ down 33% from \$2.60/GJ in Q1 2015, while the average AECO monthly price was \$2.00/GJ down 28% from \$2.80/GJ a year prior. As Peyto had committed 84% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of \$1.93/GJ or \$2.22/mcf, after the TCPL fuel charge and prior to a \$0.84/mcf hedging gain.

As a result of the Company's hedging strategy, approximately 60% of Peyto's natural gas production received a fixed price of \$3.21/GJ from hedges that were put in place over the previous 24 months, while the balance received the blended daily and monthly price of \$1.93/GJ, resulting in an after-hedge price of \$2.66/GJ or \$3.06/mcf.

Peyto realized an oil and natural gas liquids price of \$33.60/bbl in Q1 2016 for its blend of condensate, pentane, butane and propane, which represented 82% of the \$40.83/bbl average Canadian Light Sweet posted price, as shown in the following table.

Commodity Prices by Component

	Three Months ended March 31	
	2016	2015
Natural gas – after hedging (\$/mcf)	3.06	3.97
Natural gas – after hedging (\$/GJ)	2.66	3.48
AECO monthly (\$/GJ)	2.00	2.80
Oil and natural gas liquids (\$/bbl)		
Condensate (\$/bbl)	37.86	48.64
Propane (\$/bbl)	(7.70)	3.96
Butane (\$/bbl)	16.58	28.28
Pentane (\$/bbl)	41.30	46.87
Total Oil and natural gas liquids (\$/bbl)	33.60	37.03
Canadian Light Sweet postings (\$/bbl)	40.83	52.72

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

Financial Results

Peyto's realized natural gas price combined with realized liquids prices, resulted in unhedged revenues totaling \$2.46/mcfe (\$3.24/mcfe including hedging gains). Royalties of \$0.13/mcfe, operating costs of \$0.23/mcfe, transportation costs of \$0.16/mcfe, G&A of \$0.03/mcfe and interest costs of \$0.17/mcfe, all combined for total cash costs of \$0.71/mcfe (\$4.28/boe). This is the lowest total cash cost ever achieved in the Company's history and represents the eighth consecutive quarter where costs were reduced. Most significant of these reductions has been a 42% reduction in operating costs from \$0.39/mcfe (\$2.34/boe) in Q1 of 2014 to \$0.23/mcfe (\$1.36/boe) in Q1 2016. Lower royalties has also been a significant contributor to cost reductions. These total cash costs, when deducted from realized revenues, resulted in a cash netback of \$2.52/mcfe or a 78% operating margin.

Depletion, depreciation and amortization charges of \$1.62/mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of \$0.76/mcfe, or a 23% profit margin. Dividends of \$0.95/mcfe were paid to shareholders.

Subsequent to the end of the quarter, on April 28, 2016, Peyto entered into a bought deal for 4,687,500 common shares at a price of \$32.00 per common share for net proceeds of \$144 million. The Company has granted the underwriters an option, exercisable at any time until 30 days following the closing of the offering, to purchase up to an additional 15% (703,125 common shares) to cover over-allotments, if any. The offering is expected to close on May 18, 2016.

Natural Gas Marketing

Peyto's practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in natural gas prices, continued throughout the quarter. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of May 10, 2016.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	\$/GJ	\$/Mcf
2016 Q2 (May 10 – Jun 30)	20,880,000	18,156,522	2.71	3.12
2016 Q3	40,475,000	35,195,652	2.67	3.06
2016 Q4	41,550,000	36,130,435	2.64	3.04
2017	108,790,000	94,600,000	2.56	2.94
2018	37,260,000	32,400,000	2.44	2.81
Total	248,955,000	216,482,609	2.59	2.97

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

Activity Update

As of the end of April, the Company had two rigs drilling in the Greater Sundance area and 6 rigs racked at various wellsite locations ready to resume drilling at the conclusion of breakup in early June. Drilling over the breakup period is being limited to multi-well pads with the expectation of lower cost outcomes.

The recent decline of near term 2016 Alberta natural gas prices has prompted Peyto to adopt a summer producing strategy that effectively defers the production from newly drilled, high flush rate wells from the current low summer prices until the fall. This same strategy was successfully utilized in 2012 and 2013 in similar environments. The current future strip has AECO prices averaging \$1.48/GJ over the six month period from May to October but improving over 70% to \$2.53 for the 5 month winter period from November 2016 to March 2017. The economic return generated by new wells significantly improves by delaying their onstream date for those six months. Therefore, Peyto has elected to hold approximately 10,000 boe/d of new 2016 production additions offline from April to October to capture this improved return. In addition, the Company has received Board of Director approval to increase the pace of its near term hedging program, up to 85% of forecast volumes,

in order to secure these winter prices for the 2016 new production additions. Should gas prices recover over the course of the summer, Peyto has the facility capacity and flexibility to respond quickly and bring the shut in volumes on stream.

While Peyto's operating cost are low enough to make positive operating income from these new wells, even at these low summer prices, the total return on the capital invested in these new wells is enhanced considerably through this proven deferral strategy. Peyto's strong infrastructure position and operating flexibility allows the Company to take this very adaptable approach to volatile natural gas prices.

Modernized Royalty Framework

On January 29, 2016 the Alberta Government released a report of its Royalty Review and Advisory Panel. The report sets forth a new Modernized Royalty Framework (MRF) that is scheduled to commence for wells drilled starting January 1, 2017. In general, the MRF looks to reward those companies who continuously innovate, strive to reduce their costs and their environmental footprints. Peyto is already an industry leader in this regard.

Most of the details on the quantitative aspects of the MRF were released on April 21, 2016. Additional details are scheduled to be released by the Department of Energy in the coming weeks. From the information available so far, Peyto concludes this latest MRF will not pose any significant additional burden to the Company's well investment economics over a reasonable commodity price range as expected in the foreseeable future.

Outlook

Peyto's primary goal is to maximize the return on invested capital. The Company accomplishes this goal in two ways. Firstly, the Company selectively and efficiently invests capital at periods in the commodity cycle when capital costs are at their lowest, using industry activity as a guide as to when these periods occur. Historically, there is a strong correlation between the commodity cycle and industry activity levels so that Peyto doesn't need to speculate on the future of commodity prices. Minimizing the risk in operational execution at these times is critical to ensure profits are not lost in failed operations. Secondly, the Company strives to achieve sustainably low cash costs to ensure investments generate a positive return for shareholders regardless of the commodity price outcome. Included in this is a systematic hedging strategy that smooths out the potential volatility in future commodity prices.

Historically, Peyto has been successful in accomplishing these two objectives and therefore maximizing the returns on invested capital for its shareholders. The goal today remains the same and the strategy to achieving that goal is well understood across the organization. Management remains confident future outcomes will mirror the same historical success.

(signed) "*Darren Gee*"

Darren Gee
President and CEO
May 10, 2016

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, 2015 and 2014. 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 9, 2016. 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 (mcf) 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, 2015, the Company's total Proved plus Probable reserves were 3.5 trillion cubic feet equivalent (590 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 93% to natural gas and 7% 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 seventeen years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2016		2015		2014			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue (net of royalties)	172,366	184,943	163,727	166,327	175,820	205,125	196,062	189,830
Funds from operations	139,907	151,123	134,513	135,195	144,643	173,437	166,988	161,577
Per share – basic and diluted	0.88	0.95	0.85	0.86	0.94	1.13	1.09	1.05
Earnings	41,943	43,406	37,347	12,295	44,513	68,597	68,893	62,159
Per share – basic and diluted	0.26	0.27	0.23	0.08	0.29	0.45	0.45	0.41
Dividends	52,520	52,456	52,456	52,456	50,781	49,181	46,107	43,033
Per share – basic and diluted	0.33	0.33	0.33	0.33	0.33	0.32	0.30	0.28

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	
	2016	2015
Natural gas (mmcf/d)	567.2	444.8
Oil & natural gas liquids (bbl/d)	7,008	7,456
Barrels of oil equivalent (boe/d)	101,546	81,588
Million cubic feet equivalent (mmcf/d)	609.3	489.5

Natural gas production averaged 567.2 mmcf/d in the first quarter of 2016, 28 percent higher than the 444.8 mmcf/d reported for the same period in 2015. Oil and natural gas liquids production averaged 7,008 bbl/d, a decrease of 6 percent from 7,456 bbl/d reported in the prior year primarily due to propane rejection. First quarter production increased 24 percent from 489.5 mmcf/d to 609.3 mmcf/d. The production increases are attributable to Peyto’s capital program and resulting production additions.

Summer Production Strategy

The recent decline of near term 2016 Alberta natural gas prices has prompted Peyto to adopt a summer producing strategy that effectively defers the production from newly drilled, high flush rate production from the current low summer prices until the fall. This same strategy was successfully utilized in 2012 and 2013 in similar environments. The current future strip has AECO prices averaging \$1.48/GJ over the six month period from May to October but improving over 70% to \$2.53 for the 5 month winter period from November 2016 to March 2017. The economic return generated by new wells significantly improves by delaying their onstream date for those six months. Therefore, Peyto has elected to hold approximately 10,000 boe/d of new 2016 production additions offline from April to October to capture this improved return. In addition, the company has received Board of Director approval to increase the pace of its near term hedging program, up to 85% of forecast volumes, in order to secure these winter prices for the 2016 new production additions. Should gas prices recover over the course of the summer, Peyto has the facility capacity and flexibility to respond quickly and bring on stream the shut in volumes.

While Peyto’s operating cost are low enough to make positive operating income from these new wells, even at these low summer prices, the total return on the capital invested in these new wells is enhanced considerably through this proven hold-back strategy. Peyto’s strong infrastructure position and operating flexibility allows the company to take this very adaptable approach to volatile natural gas prices.

Oil & Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2016	2015
Condensate (bbl/d)	3,585	3,069
Propane (bbl/d)	245	1,262
Butane (bbl/d)	1,271	1,453
Pentane (bbl/d)	1,706	1,493
Other NGL's (bbl/d)	201	179
Oil & natural gas liquids (bbl/d)	7,008	7,456
Million cubic feet equivalent (mmcf/d)	42.0	44.7

The liquid production to sales gas ratio declined from 17 bbl/mmcf in Q1 2015 to 12 bbl/mmcf in Q1 2016 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. Peyto is continuing to optimize its plant processes to leave as much propane in the gas stream as possible in order to realize a higher blended price for its NGLs, as evidenced in the drop in propane production from 1,262 boe/d in Q1 2015 to 245 boe/d in Q1 2016. Peyto's long-term strategy of owning and controlling production from the wellhead to the sales delivery point continues to allow the Company to respond quickly to changing conditions and thereby maximize profitability.

Commodity Prices

	Three Months ended March 31	
	2016	2015
Oil and natural gas liquids (\$/bbl)	33.60	37.03
Natural gas (\$/mcf)	2.22	3.16
Hedging – gas (\$/mcf)	0.84	0.81
Natural gas – after hedging (\$/mcf)	3.06	3.97
Total Hedging (\$/mcf)	0.78	0.74
Total Hedging (\$/boe)	4.67	4.44

Peyto's natural gas price, before hedging, averaged \$2.22/mcf during the first quarter of 2016, a decrease of 30 percent from \$3.16/mcf reported for the equivalent period in 2015. Oil and natural gas liquids prices averaged \$33.60/bbl, a decrease of 9 percent from \$37.03/bbl a year earlier.

Commodity Prices by Component

	Three Months ended March 31	
	2016	2015
Natural gas – after hedging (\$/mcf)	3.06	3.97
Natural gas – after hedging (\$/GJ)	2.66	3.48
AECO monthly (\$/GJ)	2.00	2.80
Oil and natural gas liquids (\$/bbl)		
Condensate (\$/bbl)	37.86	48.64
Propane (\$/bbl)	(7.70)	3.96
Butane (\$/bbl)	16.58	28.28
Pentane (\$/bbl)	41.30	46.87
Total Oil and natural gas liquids (\$/bbl)	33.60	37.03
Canadian Light Sweet postings (\$/bbl)	40.83	52.72

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

Revenue

(\$000)	Three Months ended March 31	
	2016	2015
Natural gas	114,774	126,376
Oil and natural gas liquids	21,428	24,850
Hedging gain	43,149	32,586
Total revenue	179,351	183,812

For the three months ended March 31, 2016, revenue decreased 2 percent to \$179.4 million from \$183.8 million for the same period in 2015. The decrease in revenue for the period was a result of increased natural gas production volumes offset by a decrease in realized commodity prices and NGL production volumes as detailed in the following table:

	Three Months ended March 31		
	2016	2015	\$million
Total Revenue, March 31, 2015			183.8
Revenue change due to:			
Natural gas			
Volume (mmcf)	51,618	40,031	46.0
Price (\$/mcf)	\$3.06	\$3.97	(47.0)
Oil & NGL			
Volume (mdbl)	638	671	(1.2)
Price (\$/bbl)	\$33.6	\$37.03	(2.2)
Total Revenue, March 31, 2016			179.4

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.

(\$000 except per share amounts)	Three Months ended March 31	
	2016	2015
Royalties	6,985	7,992
% of sales before hedging	5.1	5.3
% of sales after hedging	3.9	4.3
\$/mcf	0.13	0.18
\$/boe	0.76	1.09

For the first quarter of 2016, royalties averaged \$0.13/mcfe or approximately 5.1% of Peyto's total petroleum and natural gas sales excluding hedges.

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

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

1. A one year flat 5% royalty period (18 months for horizontal wells) for each new well but capped at a cumulative production level of 500 MMcf for each new well, and
2. A Natural Gas Deep Drilling Holiday program that provides a royalty holiday value for new wells based on meterage drilled. This holiday feature further reduces the royalty for new wells to a minimum of 5% for a maximum 5 year period from on-stream date. This benefit sequentially follows the benefit under point (1) above.

Alberta's Modernized Royalty Framework

On January 9, 2016 the Alberta Government released a report of its Royalty Review and Advisory Panel. The report sets forth a new Modernized Royalty Framework (MRF) that is scheduled to commence for wells drilled starting January 1, 2017. In general, the MRF looks to reward those companies who continuously innovate, strive to reduce their costs and environmental footprints. Peyto is already an industry leader in this regard.

Most of the details on the quantitative aspects of the MRF were released on April 21, 2016. Additional details are scheduled to be released by the Department of Energy in the coming weeks. From the information available so far, Peyto concludes this latest royalty framework will not pose any significant additional burden to the Company's well investment economics over a reasonable commodity price range expected in the foreseeable future.

In its 17 years history, Peyto has invested over \$4.9 billion in capital projects, found and developed 4.6 TCFe of gas reserves, and paid over \$768 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	
	2016	2015
Operating costs (\$000)	12,540	13,890
\$/mcf	0.23	0.32
\$/boe	1.36	1.89
Transportation (\$000)	8,669	6,578
\$/mcf	0.16	0.15
\$/boe	0.94	0.90

For the first quarter, operating expenses decreased 10% compared to the same quarter of 2015. On a unit-of-production basis, operating costs decreased 28% averaging \$0.23/mcf in the first quarter of 2016 compared to \$0.32/mcf for the equivalent period in 2015. Labour and equipment maintenance costs continue to see a decrease as a result of the ongoing focus on efficiency and refinements of field processes and practices. The low energy prices and mild weather that occurred over the quarter resulted in lower power and methanol input costs and a reduction in lease road and wellsite snow clearing frequency and cost.

Transportation expenses increased 7% from 0.15/mcf in the first quarter 2015 to \$0.16/mcf in the first quarter 2016 due to increased TCPL tolls.

General and Administrative Expenses

(\$000)	Three Months ended March 31	
	2016	2015
G&A expenses	4,170	4,250
Overhead recoveries	(2,313)	(2,416)
Net G&A expenses	1,857	1,834
\$/mcf	0.03	0.04
\$/boe	0.20	0.25

For the first quarter, general and administrative expenses before overhead recoveries remained essentially unchanged from the same quarter of 2015. General and administrative expenses averaged \$0.07/mcf before overhead recoveries of \$0.03/mcf for net general and administrative expenses of \$0.03/mcf in the first quarter of 2016.

Performance Based Compensation

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

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate

interim results which vary significantly from the final compensation paid. Compensation expense and provision of \$0.6 million was recorded for the quarter ended March 31, 2016.

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, 2016, compensation costs related to 4.8 million non-vested rights (3.0% of the total number of common shares outstanding), with an average grant price of \$25.83, are \$4.0 million for the first quarter of 2016. 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 \$6.0 million.

Rights Outstanding Under Market Based Compensation Plan

Vesting Date	Valued but Not Vested		To be Valued December 31, 2016	
	Number of Rights	Value (\$)	Number of Rights	Average Grant Price (\$)
December 31, 2016	1,004,718	3,107,496	*	1,266,167
	-	-		24.09
December 31, 2017	-	-		1,266,167
December 31, 2018	-	-		1,266,167
				24.09

*Valued on December 31, 2014 at \$34.34

Interest Expense

	Three Months ended March 31	
	2016	2015
Interest expense (\$000)	9,393	8,876
\$/mcf	0.17	0.20
\$/boe	1.02	1.21
Average interest rate	3.4%	3.6%

First quarter 2016 interest expense was \$9.4 million or \$0.17/mcf compared to \$8.9 million or \$0.20/mcf for the first quarter 2015.

Netbacks

(\$/mcf)	Three Months ended March 31	
	2016	2015
Gross Sale Price of Gas, Oil and NGL	2.46	3.43
Hedging gain (loss)	0.78	0.74
Net Sale Price	3.24	4.17
Less: Royalties	0.13	0.18
Operating costs	0.23	0.32
Transportation	0.16	0.15
Field netback	2.72	3.52
General and administrative	0.03	0.04
Interest on long-term debt	0.17	0.20
Cash netback (\$/mcf)	2.52	3.28
Cash netback (\$/boe)	15.14	19.70

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 2016 first quarter provision for depletion, depreciation and amortization totaled \$89.9 million as compared to \$80.7 million in 2015 due to higher levels of production and a larger asset base. On a unit-of-production basis, depletion and depreciation costs averaged \$1.62/mcfe as compared to \$1.83/mcfe in 2015.

Income Taxes

The current provision for deferred income tax expense is \$15.5 million compared to \$14.8 million in 2015. 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, 2016	December 31, 2015	Annual deductibility
Canadian Oil and Gas Property Expense	233.5	211.2	10% declining balance
Canadian Development Expense	883.9	857.6	30% declining balance
Canadian Exploration Expense	64.8	98.3	100%
Undepreciated Capital Cost	420.7	398.3	Primarily 25% declining balance
Other	31.5	32.8	Various, 7% declining balance to 20%
Total Federal Tax Pools	1,634.4	1,598.2	
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 2016, a realized hedging gain of \$43.1 million was recorded as compared to a \$32.6 million gain for the equivalent period in 2015. 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, 2016	Fixed Price	5,000 GJ	\$2.885/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	\$2.98/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
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.82/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.975/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.92/GJ
November 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, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.88/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.925/GJ
November 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	\$2.84/GJ
December 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.55/GJ
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.54/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, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$2.545/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$2.50/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$2.40/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
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.975/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$3.00/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.8525/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.92/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.94/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$3.01/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.98/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.92/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.88/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.70/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.70/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.6425/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.64/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.58/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.675/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.71/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.615/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5025/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5125/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.59/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.66/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.75/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.605/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.50/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.42/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.59/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.54/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.60/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.45/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.10/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.175/GJ

April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.20/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.74/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.80/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.845/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.50/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.40/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.11/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.945/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.85/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.825/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.825/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.835/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.85/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.87/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.875/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.15/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.22/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.20/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.30/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.30/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.35/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.51/GJ

As at March 31, 2016, Peyto had committed to the future sale of 213,235,000 gigajoules (GJ) of natural gas at an average price of \$2.66 per GJ or \$3.06 per mcf. Had these contracts been closed on March 31, 2016, Peyto would have realized a gain in the amount of \$115.3 million.

Subsequent to March 31, 2016 Peyto entered into the following contracts:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.305/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.22/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.45/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.3175/GJ
June 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$1.52/GJ
June 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$1.56/GJ
June 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$1.5725/GJ
June 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$1.63/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.28/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.385/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4225/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.45/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.50/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.51/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.45/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.51/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.34/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.37/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.43/GJ

November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.435/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.50/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.50/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.53/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.51/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.50/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.55/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.5625/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.23/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.25/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	\$2.40/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 2016, 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 \$1,095 million (including \$420 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

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

(\$000)	Three Months ended March 31	
	2016	2015
Cash flows from operating activities	138,118	126,134
Change in non-cash working capital	(1,112)	15,488
Change in provision for current performance based compensation	2,901	3,021
Funds from operations	139,907	144,643
Funds from operations per share	0.88	0.94

For the first quarter ended March 31, 2016, funds from operations totaled \$139.9 million or \$0.88 per share, as compared to \$144.6 million or \$0.94 per share during the same quarter in 2015 due to decreases in commodity prices offset in part by increases in production and decreases in cash costs.

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

(\$000)	March 31, 2016	December 31, 2015
Bank credit facility	720,000	625,000
Senior unsecured notes	420,000	420,000
Balance, end of the period	1,140,000	1,045,000

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

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

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

as at March 31, 2016 – 2.0:1.0

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

as at March 31, 2016 – 2.0:1.0

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

as at March 31, 2016 – 16.5 times

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

as at March 31, 2016 – 42 per cent

Peyto is in compliance with all financial covenants and has no subordinated debt as at March 31, 2016.

Peyto's total borrowing capacity is \$1.42 billion of which the credit facility is \$1.0 billion.

On April 26, 2016, the amended and restated note purchase and private shelf agreement dated January 3, 2012 and restated as of April 26, 2013 was amended to increase the shelf facility from \$150 million to \$250 million. \$150 million has been drawn under this shelf facility.

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 \$500 to \$550 million for 2016. The total amount of capital invested in 2016 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance based compensation. It is used by management to

analyze the financial position and leverage of the Company. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

(\$000)	As at March 31, 2016	As at December 31, 2015	As at March 31, 2015
Bank credit facility	720,000	625,000	695,000
Senior secured notes	420,000	420,000	320,000
Current assets	(210,742)	(167,455)	(177,576)
Current liabilities	140,005	163,886	161,334
Financial derivative instruments	117,599	65,169	76,979
Provision for future performance based compensation	(4,899)	(1,998)	(11,246)
Net debt	1,181,963	1,104,602	1,064,491

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount (\$000)
Balance, December 31, 2015	158,958,273	1,467,264
Common shares issued by private placement	281,270	7,644
Common share issuance costs, (net of tax)	-	(18)
Balance, March 31, 2016	159,239,543	1,474,890

On December 31, 2015, Peyto completed a private placement of 149,030 common shares to employees and consultants for net proceeds of \$3.8 million (\$25.29 per share). These common shares were issued January 6, 2016.

On March 15, 2016, Peyto completed a private placement of 132,240 common shares to employees and consultants for net proceeds of \$3.9 million (\$29.30 per common share).

On April 28, 2016, Peyto entered into a bought deal for 4,687,500 common shares at a price of \$32.00 per common share for net proceeds of \$144 million. The Company has granted the underwriters an option, exercisable at any time until 30 days following the closing of the offering, to purchase up to an additional 15% (703,125 common shares) to cover over-allotments, if any. The offering is expected to close on May 18, 2016.

Capital Expenditures

Net capital expenditures for the first quarter of 2016 totaled \$175.7 million. Exploration and development related activity represented \$95.8 million (54% of total), while expenditures on facilities, gathering systems and equipment totaled \$48.5 million (28% of total) land, seismic and acquisitions totaled \$31.4 million (18% of total). Two acquisitions were made in the quarter of producing wells and undeveloped lands totaling \$27.9 million and including approximately 1,500 boed of production situated near Peyto's existing infrastructure. The following table summarizes capital expenditures for the year:

(\$000)	Three Months ended March 31	
	2016	2015
Land	-	840
Seismic	3,534	3,295
Drilling	62,863	69,510
Completions	32,913	42,491
Equipping & Tie-ins	11,635	7,236
Facilities & Pipelines	36,855	11,633
Acquisitions	27,873	3,053
Office	-	19
Total Capital Expenditures	175,673	138,077

Dividends

	Three Months ended March 31	
	2016	2015
Funds from operations (\$000)	139,907	144,643
Total dividends (\$000)	52,520	50,781
Total dividends per common share (\$)	0.33	0.33
Payout ratio (%)	38	35

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, 2016:

(\$000)	2016	2017	2018	2019	2020	Thereafter
Interest payments ⁽¹⁾	14,023	18,385	18,385	16,190	13,995	27,840
Transportation commitments	22,305	29,573	38,186	32,659	47,673	79,703
Operating leases	1,699	2,353	1,994	1,994	1,295	11,963
Other	1,332	-	-	-	-	-
Total	39,359	50,311	58,565	50,843	62,963	119,506

⁽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:

(\$000)		March 31,				
		2016		2015		
Director	Company	Description	Expense	Payable	Expense	Payable
Don Gray	Petrus Resources Ltd.	Chairman of the Board	(1.6)	(1.7)	(4.4)	(4.5)
Michael MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul)	Director, NCSG Crane and Heavy Haul	213.8	140.1	59.5	59.5
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	150.0	150.0	115.0	115.0

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, 2016 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, 2015 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 2016. 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, 2016.

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 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.

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

ADDITIONAL INFORMATION

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

Quarterly information

	2016		2015		
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (mcf/d)	567,230	540,512	455,137	455,443	444,794
Oil & NGLs (bbl/d)	7,008	6,943	5,352	6,843	7,456
Barrels of oil equivalent (boe/d @ 6:1)	101,546	97,028	81,208	82,750	81,588
Thousand cubic feet equivalent (mcf/d @ 6:1)	609,278	582,167	487,250	496,498	489,528
Average product prices					
Natural gas (\$/mcf)	3.06	3.34	3.57	3.50	3.97
Oil & natural gas liquids (\$/bbl)	33.60	39.88	41.69	43.54	37.03
\$/MCFE					
Average sale price (\$/mcf)	3.24	3.58	3.80	3.81	4.17
Average royalties paid (\$/mcf)	0.13	0.13	0.15	0.13	0.18
Average operating expenses	0.23	0.25	0.28	0.31	0.32
Average transportation costs	0.16	0.16	0.16	0.15	0.15
Field netback (\$/mcf)	2.72	3.04	3.21	3.22	3.52
General & administrative expense (\$/mcf)	0.03	0.05	0.02	0.04	0.04
Interest expense (\$/mcf)	0.17	0.16	0.19	0.19	0.20
Cash netback (\$/mcf)	2.52	2.82	3.00	2.99	3.28
Financial (\$000 except per share)					
Revenue	179,351	191,606	170,216	172,202	183,812
Royalties	6,985	6,663	6,489	5,875	7,992
Funds from operations	139,907	151,123	134,513	135,195	144,643
Funds from operations per share	0.88	0.95	0.85	0.86	0.94
Total dividends	52,520	52,456	52,456	52,456	50,781
Total dividends per share	0.33	0.33	0.33	0.33	0.33
Payout ratio	38%	35%	39%	39%	35%
Earnings	41,943	43,406	37,347	12,295	44,513
Earnings per diluted share	0.26	0.27	0.23	0.08	0.29
Capital expenditures	175,763	162,442	176,618	116,643	138,077
Weighted average shares outstanding	159,142,526	158,958,273	158,958,273	158,117,853	153,852,570

Peyto Exploration & Development Corp.

Condensed Balance Sheet (unaudited)

(Amount in \$ thousands)

	March 31 2016	December 31 2015
Assets		
Current assets		
Cash	3,742	-
Accounts receivable	79,371	85,525
Due from private placement (Note 6)	-	3,769
Derivative financial instruments (Note 8)	117,599	65,169
Prepaid expenses	10,030	12,992
	210,742	167,455
Property, plant and equipment, net (Note 3)	3,292,601	3,190,059
	3,292,601	3,190,059
	3,503,343	3,357,514
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	117,590	144,402
Dividends payable (Note 6)	17,516	17,486
Provision for future performance based compensation (Note 7)	4,899	1,998
	140,005	163,886
Long-term debt (Note 4)	1,140,000	1,045,000
Long-term derivative financial instruments (Note 8)	2,323	2,299
Provision for future performance based compensation (Note 7)	1,654	-
Decommissioning provision (Note 5)	130,721	118,882
Deferred income taxes	433,547	403,890
	1,708,245	1,570,071
Equity		
Share capital (Note 6)	1,474,890	1,467,264
Shares to be issued (Note 6)	-	3,769
Retained earnings	92,762	103,339
Accumulated other comprehensive income (Note 6)	87,441	49,185
	1,655,093	1,623,557
	3,503,343	3,357,514

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	
	2016	2015
Revenue		
Oil and gas sales	136,202	151,226
Realized gain on hedges <i>(Note 8)</i>	43,149	32,586
Royalties	(6,985)	(7,992)
Petroleum and natural gas sales, net	172,366	175,820
Expenses		
Operating	12,540	13,890
Transportation	8,669	6,578
General and administrative	1,857	1,834
Future performance based compensation <i>(Note 7)</i>	4,555	4,099
Interest	9,393	8,876
Accretion of decommissioning provision <i>(Note 5)</i>	604	511
Depletion and depreciation <i>(Note 3)</i>	89,960	80,681
Gain on disposition of assets <i>(Note 3)</i>	(12,668)	-
Earnings before taxes	57,456	59,351
Income tax		
Deferred income tax expense	15,513	14,838
Earnings for the period	41,943	44,513
Earnings per share <i>(Note 6)</i>		
Basic and diluted	\$0.26	\$0.29
Weighted average number of common shares outstanding <i>(Note 6)</i>		
Basic and diluted	159,142,526	153,852,570

Peyto Exploration & Development Corp.
Condensed Statement of Comprehensive Income (Loss) (unaudited)

(Amount in \$ thousands)

	Three months ended	
	March 31	
	2016	2015
Earnings for the period	41,943	44,513
Other comprehensive income		
Change in unrealized gain (loss) on cash flow hedges	95,555	(25,037)
Deferred tax (expense) recovery	(14,150)	6,259
Realized (gain) on cash flow hedges	(43,149)	(32,586)
Comprehensive income (loss)	80,199	(6,851)

Peyto Exploration & Development Corp.
Condensed Statement of Changes in Equity (unaudited)

(Amount in \$ thousands)

	Three months ended	
	2016	March 31 2015
Share capital, beginning of period	1,467,264	1,292,398
Common shares issued by private placement	7,644	7,732
Common shares issuance costs (net of tax)	(18)	(38)
Share capital, end of period	1,474,890	1,300,092
Common shares to be issued, beginning of period	3,769	5,625
Common shares issued	(3,769)	(5,625)
Common shares to be issued, end of period	-	-
Retained earnings, beginning of period	103,339	173,927
Earnings for the period	41,943	44,513
Dividends (<i>Note 6</i>)	(52,520)	(50,781)
Retained earnings, end of period	92,762	167,659
Accumulated other comprehensive income, beginning of period	49,185	79,986
Other comprehensive loss (gain)	38,256	(18,778)
Accumulated other comprehensive income, end of period	87,441	61,208
Total equity	1,655,093	1,528,959

Peyto Exploration & Development Corp.
Condensed Statement of Cash Flows *(unaudited)*

(Amount in \$ thousands)

	Three months ended	
	March 31	
	2016	2015
Cash provided by (used in)		
operating activities		
Earnings	41,943	44,513
Items not requiring cash:		
Deferred income tax	15,513	14,838
Depletion and depreciation	89,960	80,681
Accretion of decommissioning provision	604	511
Gain on disposition of assets	(12,668)	-
Long term portion of future performance based compensation	1,654	1,079
Change in non-cash working capital related to operating activities	1,112	(15,488)
	138,118	126,134
Financing activities		
Issuance of common shares	7,637	7,732
Issuance costs	(18)	(38)
Cash dividends paid	(52,490)	(50,755)
Increase (decrease) in bank debt	95,000	90,000
	50,129	46,939
Investing activities		
Additions to property, plant and equipment	(175,763)	(138,077)
Change in prepaid capital	7,500	(12,624)
Change in non-cash working capital relating to investing activities	(16,242)	(22,372)
	(184,505)	(173,073)
Net increase (decrease) in cash	3,742	-
Cash, Beginning of Period	-	-
Cash, End of Period	3,742	-

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

Cash interest paid	5,643	9,459
Cash taxes paid	-	-

Peyto Exploration & Development Corp.
Notes to Condensed Financial Statements (*unaudited*)
As at March 31, 2016 and 2015

(Amount in \$ thousands, except as otherwise noted)

1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 9, 2016.

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, 2015 and 2014.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

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

All accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2015 and 2014.

(b) Recent Accounting Pronouncements

Standards issued but not yet effective

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

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16,

a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

3. Property, plant and equipment, net

Cost

At December 31, 2015	4,416,643
Additions	187,588
Decommissioning provision additions	11,235
Prepaid capital	(7,500)
At March 31, 2016	4,607,966
Accumulated depletion and depreciation	
At December 31, 2015	(1,226,584)
Depletion and depreciation	(88,781)
At March 31, 2016	(1,315,365)
Carrying amount at December 31, 2015	3,190,059
Carrying amount at March 31, 2016	3,292,601

During the three month ended March 31, 2016, the Company closed an asset swap arrangement. For purposes of determining a gain on disposition, the estimated fair value was based on the fair value of the assets received. The Company recorded a gain of \$12.7 million for the three months ended March 31, 2016.

During the period ended March 31, 2016, Peyto capitalized \$2.2 million (2015 - \$2.0 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	March 31, 2016	December 31, 2015
Bank credit facility	720,000	625,000
Senior secured notes	420,000	420,000
Balance, end of the year	1,140,000	1,045,000

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

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

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

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

Peyto is in compliance with all financial covenants at March 31, 2016.

Total interest expense for the period ended March 31, 2016 was \$9.4 million (2015 - \$8.9 million) and the average borrowing rate for the period was 3.4% (2015 – 3.6%).

5. Decommissioning provision

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

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

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2015	118,882
New or increased provisions	6,361
Accretion of decommissioning provision	604
Change in discount rate and estimates	4,874
Balance, March 31, 2016	130,721
Current	-
Non-current	130,721

Peyto has estimated the net present value of its total decommissioning provision to be \$130.7 million as at March 31, 2016 (\$118.9 million at December 31, 2015) based on a total future undiscounted liability of \$268.1 million (\$239.0 million at December 31, 2015). At March 31, 2016 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 2.00 per cent (2.15 per cent at December 31, 2015) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2015) 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, 2015	158,958,273	1,467,264
Common shares issued by private placement	281,270	7,644
Common share issuance costs, (net of tax)	-	(18)
Balance, March 31, 2016	159,239,543	1,474,890

On December 31, 2015, Peyto completed a private placement of 149,030 common shares to employees and consultants for net proceeds of \$3.8 million (\$25.29 per share). These common shares were issued January 6, 2016.

On March 15, 2016, Peyto completed a private placement of 132,240 common shares to employees and consultants for net proceeds of \$3.9 million (\$29.30 per common share).

Per share amounts

Earnings per share have been calculated based upon the weighted average number of common shares outstanding for the period ended March 31, 2016 of 159,142,526 (2015 – 153,852,570). There are no dilutive instruments outstanding.

Dividends

During the period ended March 31, 2016, Peyto declared and paid dividends of \$0.33 per common share or \$0.11 per common share per month, totaling \$52.5 million (2015 - \$0.33 or \$0.11 per common share per month, \$50.8 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, 2016	March 31, 2015
Share price	\$24.09 - \$34.34	\$32.27 - \$34.34
Exercise price	\$23.76 - \$33.02	\$21.70 - \$34.01
Expected volatility	37.03%	31.5%
Option life	0.75 year	0.75 year
Dividend yield	0%	0%
Risk-free interest rate	0.5%	0.5%

8. Financial instruments and Capital management

Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at March 31, 2016.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2015.

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, 2016 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, 2016:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2015 to October 31, 2016	Fixed Price	5,000 GJ	\$2.885/GJ
April 1, 2015 to March 31, 2017	Fixed Price	50,000 GJ	\$2.83/GJ to \$3.05/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.82/GJ
November 1, 2015 to March 31, 2017	Fixed Price	40,000 GJ	\$2.84/GJ to \$2.975/GJ
December 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.55/GJ
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.54/GJ
April 1, 2016 to October 31, 2016	Fixed Price	50,000 GJ	\$2.40/GJ to \$3.43/GJ
April 1, 2016 to March 31, 2017	Fixed Price	95,000 GJ	\$2.58/GJ to \$3.01/GJ
April 1, 2016 to March 31, 2018	Fixed Price	60,000 GJ	\$2.42/GJ to \$2.75/GJ

April 1, 2016 to October 31, 2018	Fixed Price	35,000 GJ	\$2.10/GJ to \$2.60/GJ
May 1, 2016 to October 31, 2017	Fixed Price	15,000 GJ	\$2.11/GJ to \$2.22/GJ
May 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	\$2.20/GJ to \$2.35/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.51/GJ
April 1, 2017 to October 31, 2017	Fixed Price	25,000 GJ	\$2.40/GJ to \$2.845/GJ
April 1, 2017 to March 31, 2018	Fixed Price	40,000 GJ	\$2.825/GJ to \$2.945/GJ

As at March 31, 2016, Peyto had committed to the future sale of 213,235,000, gigajoules (GJ) of natural gas at an average price of \$2.66 per GJ or \$3.06 per mcf. Had these contracts been closed on March 31, 2016, Peyto would have realized a gain in the amount of \$115.3 million. If the AECO gas price on March 31, 2016 were to decrease by \$1/GJ, the unrealized gain would increase by approximately \$213.2 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2016 Peyto entered into the following contracts:

Natural Gas			
Period Hedged	Type	Daily Volume	Price (CAD)
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.305/GJ
June 1, 2016 to October 31, 2016	Fixed Price	20,000 GJ	\$1.52/GJ to \$1.63/GJ
July 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	\$2.28/GJ to \$2.45/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.22/GJ
August 1, 2016 to October 31, 2018	Fixed Price	10,000 GJ	\$2.3175/GJ to \$2.45/GJ
November 1, 2016 to March 31, 2017	Fixed Price	75,000 GJ	\$2.34/GJ to \$2.5625/GJ
April 1, 2017 to October 31, 2017	Fixed Price	15,000 GJ	\$2.23/GJ to \$2.40/GJ

9. Related party transactions

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

			March 31,			
			2016		2015	
Director	Company	Description	Expense	Payable	Expense	Payable
Don Gray	Petrus Resources Ltd.	Chairman of the Board	(1.6)	(1.7)	(4.4)	(4.5)
Michael MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul) ⁽¹⁾	Director, NCSG Crane and Heavy Haul	213.8	140.1	59.5	59.5
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	150.0	150.0	115.0	115.0

10. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2016.

	2016	2017	2018	2019	2020	Thereafter
Interest payments ⁽¹⁾	14,023	18,385	18,385	16,190	13,995	27,840
Transportation commitments	22,305	29,573	38,186	32,659	47,673	79,703
Operating leases	1,699	2,353	1,994	1,994	1,295	11,963
Other	1,332	-	-	-	-	-
Total	39,359	50,311	58,565	50,843	62,963	119,506

⁽¹⁾ Fixed interest payments on senior unsecured notes

11. Contingencies

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Company, as a successor to new Open Range Energy Corp. ("New Open Range"). The 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. The Company 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. Although the outcome of this matter is not determinable at this time, the Company believes that this claim will not have a material adverse effect on the Company's financial position or results of operations as the Company believes the claims against it are unprecedented and are without merit.

12. Subsequent Events

On April 26, 2016, the amended and restated note purchase and private shelf agreement dated January 3, 2012 and restated as of April 26, 2013 was amended to increase the shelf facility from \$150 million to \$250 million. \$150 million has been drawn under this shelf facility.

On April 28, 2016, Peyto entered into an offering for 4,687,500 common shares at a price of \$32.00 per common share for net proceeds of \$144 million. The Company has granted the underwriters an option, exercisable at any time until 30 days following the closing of the offering, to purchase up to an additional 15% (703,125 common shares) of the offering to cover over-allotments, if any. The offering is expected to close on May 18, 2016.

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

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