PEYTO

Exploration & Development Corp.

3

Interim Report
for the three and nine months ended September 30, 2014

	3 Months Ended September 30		%	9 Months Ended September 30		%
	2014	2013	Change	**2014**	2013	Change
Operations						
Production						
Natural gas (mcf/d)	**420,538**	300,286	*40%*	**399,431**	302,711	*32%*
Oil & NGLs (bbl/d)	**7,502**	6,295	*19%*	**7,482**	6,172	*21%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**465,550**	338,058	*38%*	**444,323**	339,740	*31%*
Barrels of oil equivalent (boe/d @ 6:1)	**77,592**	56,343	*38%*	**74,054**	56,623	*31%*
Production per million common shares (boe/d)*	**505**	379	*33%*	**484**	381	*27%*
Product prices						
Natural gas ($/mcf)	**4.18**	3.35	*25%*	**4.33**	3.52	*23%*
Oil & NGLs ($/bbl)	**71.01**	70.91	-	**76.21**	71.40	*7%*
Operating expenses ($/mcfe)	**0.33**	0.37	*(11)%*	**0.36**	0.35	*3%*
Transportation ($/mcfe)	**0.13**	0.12	*8%*	**0.13**	0.12	*8%*
Field netback ($/mcfe)	**4.12**	3.49	*18%*	**4.27**	3.64	*17%*
General & administrative expenses ($/mcfe)	**0.02**	0.02	-	**0.03**	0.03	-
Interest expense ($/mcfe)	**0.20**	0.25	*(20)%*	**0.21**	0.24	*(13)%*
Financial ($000, except per share*)						
Revenue	**210,640**	133,573	*58%*	**627,476**	411,389	*53%*
Royalties	**14,578**	9,722	*50%*	**50,128**	30,162	*66%*
Funds from operations	**166,988**	99,736	*67%*	**489,351**	312,579	*57%*
Funds from operations per share	**1.09**	0.67	*63%*	**3.20**	2.10	*52%*
Total dividends	**46,107**	35,702	*29%*	**125,645**	95,197	*32%*
Total dividends per share	**0.30**	0.24	*25%*	**0.82**	0.64	*28%*
Payout ratio	**28**	36	*(22)%*	**26**	30	*(13)%*
Earnings	**68,893**	30,461	*126%*	**193,181**	104,638	*85%*
Earnings per diluted share	**0.45**	0.21	*114%*	**1.26**	0.71	*77%*
Capital expenditures	**180,024**	180,801	-	**510,692**	423,708	*21%*
Weighted average common shares outstanding	**153,690,808**	148,758,923	*3%*	**152,763,770**	148,730,485	*3%*
As at September 30						
End of period shares outstanding				**153,690,808**	148,758,923	*3%*
Net debt				**937,611**	862,864	*9%*
Shareholders' equity				**1,434,754**	1,218,362	*18%*
Total assets				**2,913,345**	2,429,125	*20%*

**all per share amounts using weighted average*

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2014**	2013	**2014**	2013
Cash flows from operating activities	**150,763**	101,361	**449,386**	290,343
Change in non-cash working capital	**12,330**	(4,404)	**22,853**	13,586
Change in provision for future compensation	**3,895**	2,779	**17,112**	8,650
Funds from operations	**166,988**	99,736	**489,351**	312,579
Funds from operations per share*	**1.09**	0.67	**3.20**	2.10

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

Report from the president

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the third quarter of the 2014 fiscal year. Record production and funds from operations were achieved in the quarter along with operating[(1)] and profit margins[(2)] of 79% and 33%, respectively. Additional highlights include:

- **Production per share up 33%.** Third quarter 2014 production increased 38% (33% per share) to 466 MMcfe/d (77,592 boe/d) from 338 MMcfe/d (56,343 boe/d) in Q3 2013.

- **Funds from operations per share up 63%.** Generated a record $167 million in funds from operations ("FFO") in Q3 2014 ($1.09/share), up 67% (63% per share) from $100 million in Q3 2013 ($0.67/share).

- **Cash costs of $1.02/Mcfe.** Total cash costs, including royalties, operating costs, transportation, G&A and interest, were $1.02/Mcfe ($6.11/boe) down 5% from $1.07/Mcfe in Q3 2013, despite higher year over year royalties. Excluding royalties, cash costs were 12% lower at $0.68/Mcfe ($4.07/boe). Higher revenues, combined with the reduction in total cash costs, resulted in a Q3 2014 cash netback of $3.90/Mcfe ($23.39/boe) and a record operating margin of 79%.

- **Capital investment of $180 million**. A total of 32 gross wells (29.3 net) were drilled in the third quarter. In total, new wells brought on production over the last 12 months accounted for 40,680 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $664 million, equates to an annualized capital efficiency of $16,330/boe/d.

- **Earnings of $0.45/share, dividends of $0.30/share.** Earnings of $69 million were generated in Q3 2014 while dividends of $46 million were paid to shareholders. Monthly dividends per share of $0.10 were up 25% from the $0.08/share in Q3 2013, while the payout ratio dropped from 36% to 28% of FFO.

- **Borrowing capacity increased to $1.32 billion.** On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes with a coupon rate of 3.79% and a July 3, 2022 maturity. Net debt at quarter end was $938 million, or 1.4 times annualized FFO, down from 2.2 times in Q3 2013.

- **Dividend Increase to $0.11/share.** The Board of Directors has approved a 10% monthly dividend increase of $0.01/share, starting in November 2014, to be paid on December 15, 2014 to shareholders of record November 30, 2014.

Third quarter 2014 in Review

Peyto continued to actively develop its Alberta Deep Basin resource plays in the quarter, with 9 drilling rigs accomplishing what 10 rigs did a year ago. Improvements in operational execution, combined with longer horizontal well laterals, have resulted in a 10% average productivity improvement over previous years. As this was accomplished for the same capital cost, the trailing twelve month capital efficiency has improved to $16,330/boe/d. More importantly, the risked full cycle returns generated on the 2014 capital program to date has also improved, providing justification for the increased 2014 capital budget. Peyto continued to expand its pipeline and gas processing facility capacity throughout the quarter in order to accommodate growing production volumes. A doubling of the Oldman North gas plant capacity to 80 MMcf/d, along with large pipeline projects at Oldman, Ansell and South Brazeau, ensured timely production additions were realized from ongoing drilling activity. Both oil and natural gas prices declined throughout the quarter resulting in 11% lower realized prices (before hedges) than in the previous quarter, however lower cash costs ensured cash netbacks of approximately $24/boe were effectively preserved. The strong financial and operating performance delivered in the quarter resulted in an annualized 20% Return on Equity (ROE) and 14% Return on Capital Employed (ROCE).

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

Exploration & Development

Third quarter 2014 drilling activity focused predominantly on the deeper Cretaceous aged formations in the Greater Sundance core area, with the Middle Falher and Wilrich formations accounting for 75% of the drilling activity. In total, 32 wells were drilled across the land base, targeting the many prospective zones, as shown in the following table:

Zone	Field							Total Wells Drilled
	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	Brazeau	
Cardium				1				1
Notikewin	1		1					2
Falher	6	1		3				10
Wilrich	7	2	1	1			3	14
Bluesky	2	1		2				5
Total	16	4	2	7			3	32

Ongoing success in the Upper and Middle Falher formation has resulted in this zone becoming the second largest contributor to Peyto's total production base at approximately 18,500 boe/d or 24% of Q3 2014 production.

Capital Expenditures

During the third quarter, Peyto invested $82.5 million to drill 32 gross (29.3 net) wells and $45.9 million to complete 32 gross (29.5 net) wells with horizontal multi-stage fracture treatments. A total of 30 gross (27.5 net) wells were brought onstream with $11.1 million invested in wellsite equipment and gathering pipelines. As illustrated in the following table, less time is required, than in previous years, to drill, complete, and bring on production, wells with even longer horizontal sections, contributing to the improved capital efficiency and increased returns on invested capital.

	2011	2012	2013	2014 to Q3
Gross Spuds	70	86	99	**94**
Measured Depth (m)	3,903	4,017	4,179	**4,248**
HZ Length (m)	1,303	1,358	1,409	**1,467**
Average Drilling ($MM)	$2.823	$2.789	$2.720	**$2.623**
$ per MD meter	$723	$694	$651	**$618**
Spud-Onstream (days)	59	50	59	**43**

Facility capital investments of $40.3 million included the majority of the equipment for the Oldman North plant expansion, a sales pipeline in Oldman, and large gathering lines in Ansell and Brazeau River.

Financial Results

Daily natural gas prices in Alberta (AECO) averaged $3.80/GJ in Q3 2014, while monthly AECO prices averaged $4.00/GJ. As Peyto had committed 85% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $3.93/GJ or $4.50/Mcf, prior to a $0.32/Mcf hedging loss.

Peyto realized a blended oil and natural gas liquids price of $71.27/bbl in Q3 2014, prior to a $0.26/bbl hedging loss, for its blend of condensate, pentane, butane and propane, which represented 73% of the $97.75/bbl average Canadian light sweet oil price.

Combining realized natural gas and liquids prices, Peyto's unhedged revenues totaled $5.21/Mcfe ($4.92/Mcfe including hedging losses), or 133% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of $0.34/Mcfe, operating costs of $0.33/Mcfe, transportation costs of $0.13/Mcfe, G&A of $0.02/Mcfe and interest costs of $0.20/Mcfe, combined for total cash costs of $1.02/Mcfe ($6.11/boe). These industry leading total cash costs resulted in a cash netback of $3.90/Mcfe ($23.39/boe) or a 79% operating margin. This operating margin represents the highest ever achieved in the Company's sixteen year history and is significantly higher than the industry average.

Depletion, depreciation and amortization charges of $1.65/Mcfe, along with a provision for future tax and market based bonus payments reduced the cash netback to earnings of $1.61/Mcfe, or a 33% profit margin, from which dividends of $1.08/Mcfe were funded.

On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase agreement. The notes have a coupon rate of 3.79% and mature on July 3, 2022. As the notes rank equally with Peyto's obligations under its bank facility and existing senior unsecured notes, Peyto's aggregate borrowing capacity increased by $50 million to $1.32 billion.

Marketing

For the quarter, approximately 59% of Peyto's natural gas production received a fixed price of $3.49/GJ from hedges that were put in place over the previous 16 months, while the balance received the blended daily and monthly price of $3.93/GJ, resulting in an after-hedge price of $3.67/GJ or $4.18/Mcf.

Peyto continued throughout the quarter its practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in gas prices. The following table summarizes the remaining hedged volumes and prices for the upcoming years, as of November 12, 2014.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2014	16,055,000	13,960,870	3.88	4.46
2015	82,255,000	71,526,087	3.75	4.31
2016	14,425,000	12,543,478	3.65	4.20
Total	112,735,000	98,030,435	3.75	4.31

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

As illustrated in the following table, Peyto's realized natural gas liquids prices (1) were effectively the same year over year but down 8% from the previous quarter.

	Three Months ended Sept 30		Q2
	2014	2013	2014
Condensate ($/bbl)	**90.58**	95.96	103.73
Propane ($/bbl) (includes hedging)	**24.82**	24.70	23.05
Butane ($/bbl) (includes hedging)	**56.50**	49.72	59.47
Pentane ($/bbl)	**93.13**	99.44	106.58
Total oil and natural gas liquids ($/bbl)	**71.01**	70.91	77.30
Canadian Light Sweet postings ($/bbl)	**97.75**	104.71	104.3

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

As a fixed offset to benchmark pricing can no longer be obtained for Propane and Butane prices, Peyto has discontinued the practice of forward selling these components of its natural gas liquids.

Activity Update

Activity has remained robust throughout October and early November with 2014 capital investment on track towards the revised budget of $690 million. Newly drilled wells continue to meet or exceed expectations on cost and production outcomes, providing a continuation of the Company's rapid production growth and value creation to date. Production is currently between 85,000 to 86,000 boe/d.

Peyto has nine contracted drilling rigs that have spud 17 gross (15.4 net) wells since quarter end. Two rigs are working in the emerging Brazeau River area, one rig is drilling key prospects in the Pedley area (South Wildhay), one rig is developing a prolific trend in the Ansell area and the remaining five rigs are drilling development opportunities in the heart of the Sundance area. A total of 20 gross (17.75 net) wells have been completed and 19 gross (16.75 net) wells have been brought on production since the end of Q3 2014.

Production has grown continuously from 72,000 boe/d at the start of Q3 2014 to 80,000 boe/d by the end of the quarter. This trend has continued through October (81,600 boe/d) and is currently in the range of 85,000 to 86,000 boe/d. The recent start-up of the South Brazeau gathering line has contributed to this increase while additional facility projects at Oldman North, Brazeau and Swanson will lead to additional volume increases over the final six weeks of the year and into 2015.

2015 Budget

The Board of Directors of Peyto has approved a preliminary 2015 budget which includes a capital program expected to range from $700 to $750 million. This will be the sixth year in a row that the capital budget will have increased from the previous year and represents the largest capital program in the Company's history. The 2015 program involves drilling between 124 and 137 gross wells (117 and 130 net to Peyto's working interest) utilizing 9 to 10 drilling rigs with only minimal interruption expected during the traditional spring breakup.

The 2015 drilling locations will be selected from Peyto's current inventory of over 1,700 locations and are expected to add between 41,000 and 45,000 boe/d of new working interest production, for a cost of approximately $17,000/boe/d. While this level of capital efficiency is consistent with the past several years, more recently production has been added at $16,330/boe/d. A portion of this new production addition will offset an internally forecast 35% base decline, while a portion will grow overall 2015 production from an expected 2014 exit level of 85,000 boe/d to a forecast 2015 exit level between 96,000 boe/d and 100,000 boe/d.

Approximately 40 MMcf/d of additional processing capacity will be added to Peyto's Swanson and Brazeau gas plants, while approximately 20 MMcf/d will be added to Peyto's Oldman North and Wildhay gas plants, in order to accommodate the 2015 production growth. These facility investments, which represent 17% of the capital budget, have already been ordered to ensure that timely installation coincides with drilling results. By the end of 2015, Peyto expects to own and operate approximately 750 MMcf/d of processing capacity in the Alberta Deep Basin.

Alberta natural gas prices are currently forecast to average approximately $3.76/GJ in 2015, almost identical to the $3.73/GJ average price of Peyto's hedges for the year (which volume represents approximately 40% of forecast production). These prices, when adjusted for Peyto's historic NGL and heat content premiums of 135% and combined with the Company's industry leading cash costs of approximately $1/Mcfe ($6/boe), should yield cash netbacks of approximately $23/boe to $24/boe and give Peyto the ability to fund its dividend and the majority of the capital program from internally generated FFO. The remainder of the capital program can be funded from available bank lines and working capital, while maintaining a strong balance sheet.

Dividend Increase

The Peyto strategy of total return means that profitable growth in the Company's assets should yield growth in sustainable dividends for shareholders. Over the last year, production per share, funds from operations per share and earnings per share have increased 33%, 63% and 126%, respectively. In recognition of this profitable growth, the Board of Directors has approved a 10% increase to the monthly dividend to $0.11/month starting in November 2014. This represents the third dividend increase in the last two years.

Outlook

Peyto has consistently executed its business strategy in 2014, purposefully navigating infrastructure constraints and expanding its owned and operated processing capacity to ensure that successful drilling and resource development efforts are realized in a timely fashion. This proficiency in operational execution is critically important to maximize the returns for shareholders on what is now the largest pace of capital investment in the Company's history. This proficiency is also what sets Peyto apart from the rest of the industry and illustrates the strength and depth of the Peyto team.

The 20% drop in Canadian light oil prices over the last few months is expected to put strain on the Canadian energy industry as margins are squeezed on the many producers that have moved to oil or condensate rich plays. Alberta natural gas prices, however, are expected to be 30% higher in Q4 2014 than the year before. With sector leading low cash costs, record operating margins, and sixteen years of Deep Basin expertise, Peyto is well positioned to continue to deliver superior returns for investors for the near term and for years to come.

(Signed) "*Darren Gee*"

Darren Gee
President and CEO
November 12, 2014

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, 2013 and 2012. The financial statements have been prepared in accordance with the International Accounting Standards Board ("IASB") most current International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of November 11, 2014. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto's website at www.peyto.com.

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

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

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas in Alberta's deep basin. As at December 31, 2013, the total Proved plus Probable reserves were 2,807 billion cubic feet equivalent (467.8 million barrels of oil equivalent) as evaluated by the independent petroleum engineers. Production is weighted approximately 90% to natural gas and 10% to natural gas liquids and oil.

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

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

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

QUARTERLY FINANCIAL INFORMATION

	2014			2013				2012
($000 except per share amounts)	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue (net of royalties)	196,062	189,830	191,457	154,167	123,851	134,765	122,612	111,105
Funds from operations	166,988	161,577	160,785	125,164	99,736	109,987	102,856	90,078
Per share – basic and diluted	1.09	1.05	1.06	0.84	0.67	0.74	0.69	0.62
Earnings	68,893	62,159	62,129	37,989	30,461	37,773	36,405	25,823
Per share – basic and diluted	0.45	0.41	0.41	0.26	0.21	0.25	0.25	0.18
Dividends	46,107	43,033	36,505	35,702	35,702	32,727	26,766	26,178
Per share – basic and diluted	0.30	0.28	0.24	0.24	0.24	0.22	0.18	0.18

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 September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Natural gas (mmcf/d)	**420.6**	300.3	**399.4**	302.7
Oil & natural gas liquids (bbl/d)	**7,502**	6,295	**7,482**	6,172
Barrels of oil equivalent (boe/d)	**77,592**	56,343	**74,054**	56,623
Million cubic feet equivalent (mmcfe/d)	**465.6**	338.1	**444.3**	339.7

Natural gas production averaged 420.6 mmcf/d in the third quarter of 2014, 40 percent higher than the 300.3 mmcf/d reported for the same period in 2013. Oil and natural gas liquids production averaged 7,502 bbl/d, an increase of 19 percent from 6,295 bbl/d reported in the prior year. Aggregate third quarter production increased 38 percent from 338.1 mmcfe/d to 465.6 mmcfe/d. The production increases are attributable to Peyto's capital program and resulting production additions.

Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Condensate (bbl/d)	**2,671**	2,132	**2,807**	2,181
Propane (bbl/d)	**1,654**	1,477	**1,660**	1,332
Butane (bbl/d)	**1,377**	1,198	**1,395**	1,174
Pentane (bbl/d)	**1,625**	1,266	**1,438**	1,275
Other NGL's (bbl/d)	**175**	222	**182**	210
Oil & natural gas liquids (bbl/d)	**7,502**	6,295	**7,482**	6,172
Million cubic feet equivalent (mmcfe/d)	**45.0**	37.8	**44.9**	37.0

Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Oil and natural gas liquids ($/bbl)	**71.27**	71.79	**77.74**	71.74
Hedging – ngls ($/bbl)	**(0.26)**	(0.88)	**(1.53)**	(0.34)
Oil and natural gas liquids – after hedging ($/bbl)	**71.01**	70.91	**76.21**	71.40
Natural gas ($/mcf)	**4.50**	2.99	**4.90**	3.39
Hedging – gas ($/mcf)	**(0.32)**	0.36	**(0.57)**	0.13
Natural gas – after hedging ($/mcf)	**4.18**	3.35	**4.33**	3.52
Total Hedging ($/mcfe)	**(0.29)**	0.30	**(0.54)**	0.11
Total Hedging ($/boe)	**(1.75)**	1.80	**(3.27)**	0.33

Peyto's natural gas price, before hedging, averaged $4.50/mcf during the third quarter of 2014, an increase of 51 percent from $2.99/mcf reported for the equivalent period in 2013. Oil and natural gas liquids prices before hedging averaged $71.27/bbl, a decrease of 1 percent from $71.79/bbl a year earlier.

Commodity Prices by Component

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Natural gas – after hedging ($/GJ)	**3.67**	2.93	**3.78**	3.08
AECO monthly ($/GJ)	**4.00**	2.67	**4.31**	3.00
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**90.58**	95.96	**98.05**	91.98
Propane ($/bbl) (includes hedging)	**24.82**	24.70	**28.73**	24.19
Butane ($/bbl) (includes hedging)	**56.50**	49.72	**55.44**	51.10
Pentane ($/bbl)	**93.13**	99.44	**100.76**	99.31
Total Oil and natural gas liquids ($/bbl)	**71.01**	70.91	**76.21**	71.40
Edmonton par crude postings ($/bbl)	**97.75**	104.71	**100.58**	95.01

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

Revenue

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2014**	2013	**2014**	2013
Natural gas	**173,935**	83,686	**534,755**	281,588
Oil and natural gas liquids	**49,188**	40,562	**158,783**	119,549
Hedging gain (loss) on gas	**(12,307)**	9,835	**(62,942)**	10,829
Hedging loss on oil and natural gas liquids	**(176)**	(510)	**(3,120)**	(577)
Total revenue	**210,640**	133,573	**627,476**	411,389

For the three months ended September 30, 2014, revenue increased 58 percent to $210.6 million from $133.6 million for the same period in 2013. The increase in revenue for the period was a result of increased production volumes and commodity prices as detailed in the following table:

	Three Months ended September 30			Nine Months ended September 30		
	2014	2013	**$million**	2014	2013	**$million**
Total Revenue, September 30, 2013			**133.6**			**411.4**
Revenue change due to:						
Natural gas						
Volume (mmcf)	38,690	27,626	**37.1**	109,045	82,640	**92.8**
Price ($/mcf)	$4.18	$3.35	**32.1**	$4.33	$3.52	**88.2**
Oil & NGL						
Volume (mbbl)	690	579	**7.7**	2,043	1,685	**25.4**
Price ($/bbl)	$71.01	$70.91	**0.1**	$76.21	$71.40	**9.7**
Total Revenue, September 30, 2014			**210.6**			**627.5**

Royalties

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

	Three Months ended September 30		Nine Months ended September 30	
($000 except per share amounts)	**2014**	2013	**2014**	2013
Royalties	**14,578**	9,722	**50,128**	30,162
% of sales before hedging	**6.5**	7.8	**7.2**	7.5
% of sales after hedging	**6.9**	7.3	**8.0**	7.3
$/mcfe	**0.34**	0.31	**0.41**	0.33
$/boe	**2.04**	1.86	**2.48**	1.98

For the third quarter of 2014, royalties averaged $0.34/mcfe or approximately 6.9% of Peyto's total petroleum and natural gas sales.

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

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

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

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

In its 16 years history, Peyto has invested $4.0 billion in capital projects, found and developed 2.1 TCFe of gas reserves, and paid over $723 million in royalties.

Operating Costs and Transportation

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

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Operating costs ($000)	**13,905**	11,656	**43,195**	32,204
$/mcfe	**0.33**	0.37	**0.36**	0.35
$/boe	**1.95**	2.22	**2.14**	2.10
Transportation ($000)	**5,659**	3,879	**15,902**	11,334
$/mcfe	**0.13**	0.12	**0.13**	0.12
$/boe	**0.79**	0.72	**0.79**	0.72

Operating costs increased to $13.9 million in the third quarter of 2014 from $11.7 million for the equivalent period in 2013 due to increased production volumes and well count. On a unit-of-production basis, operating costs decreased 11% averaging $0.33/mcfe in the third quarter of 2014 compared to $0.37/mcfe for the equivalent period in 2013.

Transportation expenses increased 8% from $0.12/mcfe in the third quarter 2013 to $0.13/mcfe in the third quarter 2014 due to increased TCPL tolls beginning in September 2013.

General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
G&A expenses ($000)	**3,950**	3,801	**11,961**	10,816
Capitalized G&A and overhead recoveries	**(3,001)**	(3,100)	**(8,874)**	(7,917)
Net G&A expenses	**949**	701	**3,087**	2,899
$/mcfe	**0.02**	0.02	**0.03**	0.03
$/boe	**0.13**	0.14	**0.15**	0.18

For the third quarter, general and administrative expenses before and after overhead recoveries were relatively flat compared to the same quarter of 2013. General and administrative expenses averaged $0.02/mcfe in the third quarter of 2014 compared to $0.02/mcfe for the equivalent period in 2013. The majority of Peyto's general and administrative costs are related to the execution of its capital program. In the third quarter of 2014, Peyto capitalized $2.5 million of general and administrative expense directly attributable to exploration and development activities compared to $2.7 million in the third quarter of 2013.

Performance Based Compensation

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

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of $3.7 million was recorded for the quarter ended September 30, 2014 ($9.9 million year to date).

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

Based on the weighted average trading price of the common shares for the period ended September 30, 2013, compensation expense related to 5.2 million non-vested rights (3.4% of the total number of common shares outstanding), with an average grant price of $28.66, are $0.1 million for the third quarter of 2014 ($12.3 million year to date). 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 $20.7 million.

Stock Appreciation Rights Outstanding

	Valued but Not Vested			To be Valued December 31, 2014	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2014	71,667	174,000	*	1,052,718	32.42
	970,340	9,998,730	**		
December 31, 2015	970,340	9,998,730	**	1,052,718	32.42
December 31, 2016	-	-		1,052,718	32.42

*Valued on December 31, 2012 at $22.58
**Valued on December 31, 2013 at $32.27

Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Interest expense ($000)	**8,560**	7,880	**25,812**	22,212
$/mcfe	**0.20**	0.25	**0.21**	0.24
$/boe	**1.20**	1.52	**1.28**	1.44
Average interest rate	**3.9%**	4.1%	**4.1%**	4.2%

Third quarter 2014 interest expense was $8.6 million or $0.20/mcfe compared to $7.9 million or $0.25/mcfe for the third quarter 2013.

Netbacks

	Three Months ended September 30		Nine Months ended September 30	
($/mcfe)	**2014**	2013	**2014**	2013
Gross Sale Price	**5.21**	3.99	**5.71**	4.33
Hedging gain (loss)	**(0.29)**	0.30	**(0.54)**	0.11
Net Sale Price	**4.92**	4.29	**5.17**	4.44
Less: Royalties	**0.34**	0.31	**0.41**	0.33
Operating costs	**0.33**	0.37	**0.36**	0.35
Transportation	**0.13**	0.12	**0.13**	0.12
Field netback	**4.12**	3.49	**4.27**	3.64
General and administrative	**0.02**	0.02	**0.03**	0.03
Interest on long-term debt	**0.20**	0.25	**0.21**	0.24
Cash netback ($/mcfe)	**3.90**	3.22	**4.03**	3.37
Cash netback ($/boe)	**23.39**	19.32	**24.21**	20.22

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. Hedging activity increased Peyto's achieved price/mcfe by 15% from $4.29 to $4.92 per mcfe for the quarter.

Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2014 third quarter provision for depletion, depreciation and amortization totaled $70.8 million as compared to $54.3 million in 2013 due to higher levels of production and a larger asset base. On a unit-of-production basis, depletion and depreciation costs averaged $1.65/mcfe as compared to $1.75/mcfe in 2013.

Income Taxes

The deferred income tax expense is $23.0 million for the three months ended September 30, 2014 (2013 - $10.2 million). Resource pools are generated from the capital program, which are available to offset income tax liabilities.

Income Tax Pool type ($ millions)	**September 30, 2014**	December 31, 2013	**Annual deductibility**
Canadian Oil and Gas Property Expense	235.1	245.1	10% declining balance
Canadian Development Expense	789.8	668.5	30% declining balance
Canadian Exploration Expense	82.4	208.7	100%
Undepreciated Capital Cost	373.6	312.3	25% declining balance
Non-capital loss carry forward	-	19.7	100%
Other	33.9	32.5	7% declining balance to 20%
Total Federal Tax Pools	**1,514.8**	1,486.8	
Additional Alberta Tax Pools	44.9	44.9	100% and 30% declining balance

MARKETING

Commodity Price Risk Management

Peyto is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. Peyto enters into these forward contracts with well established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions that are members of Peyto's banking syndicate. During the third quarter of 2014, a realized hedging loss of $12.5 million was recorded as compared to a gain of $9.3 million for the equivalent period in 2013. Prices for propane contracts are listed in USD at Conway. The price Peyto realizes is less: i) a market-basis differential from Conway to Edmonton, ii) currency exchange, and iii) a pipeline and fractionation fee to get to Peyto's plant gate price. A summary of contracts outstanding in respect of the hedging activities are as follows:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (USD)**
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$35.70/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$37.485/bbl
October 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$42.84/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
November 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.0575/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.33/GJ
April 1, 2013 to October 31, 2014	Fixed Price	7,500 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.22/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.1925/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	$3.6025/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.505/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.555/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.48/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.335/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.80/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.825/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.95/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.98/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$4.07/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$4.32/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$4.35/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$4.55/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$4.42/GJ

April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.82/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.44/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.4725/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.60/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.27/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.5575/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.465/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.43/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.54/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.23/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.23/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.23/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.31/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.3525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.49/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.54/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.61/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.81/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.83/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.81/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.95/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.05/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.12/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.20/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.44/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.585/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.78/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.60/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.58/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.68/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.68/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.80/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.87/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.50/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.57/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.69/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.50/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.26/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.10/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.86/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.85/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.90/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.00/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.00/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.00/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.9025/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.05/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.01/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.94/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.03/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.123/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.285/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.47/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.48/GJ

April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.78/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.79/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.91/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.865/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.9175/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.93/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$4.05/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.915/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.73/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.56/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.57/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.62/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.71/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.67/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.74/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.72/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.71/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.75/GJ

As at September 30, 2014, Peyto had committed to the future sale of 36,000 barrels of propane at an average price of $43.35 CAD ($38.68 USD) per barrel and 106,392,500 gigajoules (GJ) of natural gas at an average price of $3.77 per GJ or $4.34 per mcf. Had these contracts been closed on September 30, 2014, Peyto would have realized a loss in the amount of $17.8 million.

Subsequent to September 30, 2014 Peyto entered into the following contracts:

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price** **(CAD)**
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.61/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.57/GJ
December 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.63/GJ
December 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.71/GJ
December 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.85/GJ
December 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$4.18/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.65/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.58/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.65/GJ
April 1, 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

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

Currency Risk Management

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

Interest Rate Risk Management
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 September 30 2014, 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 $1.4 million per quarter. Average debt outstanding for the quarter was $833.4 million (including $320 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2014**	2013	**2014**	2013
Cash flows from operating activities	**150,763**	101,361	**449,386**	290,343
Change in non-cash working capital	**12,330**	(4,404)	**22,853**	13,586
Change in provision for performance based compensation	**3,895**	2,779	**17,112**	8,650
Funds from operations	**166,988**	99,736	**489,351**	312,579
Funds from operations per share	**1.09**	0.67	**3.20**	2.10

For the third quarter ended September 30, 2014, funds from operations totaled $167.0 million or $1.09 per share, as compared to $99.7 million, or $0.67 per share during the same quarter in 2013, due to increases in commodity prices and production. 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. 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.

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

Long Term Debt

($000)	**September 30, 2014**	December 31, 2013
Bank credit facility	**565,000**	605,000
Senior unsecured notes	**320,000**	270,000
Balance, end of the period	**885,000**	875,000

As at September 30, 2014, the Company had a syndicated $1 billion extendible revolving credit facility with a stated term date of April 25, 2017. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. The facilities are available on a revolving basis for a three year period. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 3.79% and mature on July 3, 2022. Interest is paid semi-annually in arrears.

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

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

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

Peyto is in compliance with all financial covenants at September 30, 2014.

Peyto's total borrowing capacity is $1.32 billion and Peyto's credit facility is $1.0 billion.

Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of $700 to $775 million for 2015. The total amount of capital invested in 2015 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term rate of return objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scaleable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

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

($000)	**As at September 30, 2014**	As at December 31, 2013	As at September 30, 2013
Bank credit facility	**565,000**	605,000	630,000
Senior unsecured notes	**320,000**	270,000	150,000
Current assets	**(132,397)**	(95,626)	(75,386)
Current liabilities	**221,271**	198,873	166,263
Financial derivative instruments	**(14,051)**	(26,606)	3,313
Provision for future performance based compensation	**(22,212)**	(5,100)	(11,326)
Net debt	**937,611**	946,541	862,864

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount ($000)**
Balance, December 31,2013	**148,758,923**	**1,130,069**
Common shares issued by private placement	211,885	6,997
Equity offering	4,720,000	160,480
Common share issuance costs, (net of tax)	-	(5,162)
Balance, September 30, 2014	**153,690,808**	**1,292,384**

On December 31, 2013, Peyto completed a private placement of 190,525 common shares to employees and consultants for net proceeds of $6.2 million ($32.78 per share). These common shares were issued January 8, 2014

On February 5, 2014, Peyto closed an offering for 4,720,000 common shares at a price of $34.00 per common share, receiving net proceeds of $153.6 million.

On March 17, 2014, Peyto completed a private placement of 21,360 common shares to employees and consultants for net proceeds of $ 0.8 million ($35.20 per common share).

Capital Expenditures

Net capital expenditures for the third quarter of 2014 totaled $180.0 million. Exploration and development related activity represented $128.4 million (71% of total), while expenditures on facilities, gathering systems and equipment totaled $51.5 million (29% of total) and land, seismic and acquisitions/dispositions totaled $0.1 million. The following table summarizes capital expenditures for the period:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2014**	2013	**2014**	2013
Land	**-**	1,315	**8,738**	5,283
Seismic	**123**	611	**6,383**	2,301
Drilling	**82,504**	86,374	**231,216**	194,175
Completions	**45,889**	53,595	**129,990**	104,915
Equipping and tie-ins	**11,124**	14,087	**37,090**	35,915
Facilities and pipelines	**40,337**	24,151	**97,002**	78,636
Acquisitions	**47**	668	**273**	2,483
Total Capital Expenditures	**180,024**	180,801	**510,692**	423,708

Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Funds from operations ($000)	**166,988**	99,736	**489,351**	312,579
Total dividends ($000)	**46,107**	35,702	**125,645**	95,196
Total dividends per share ($)	**0.30**	0.24	**0.82**	0.64
Payout ratio (%)	**28**	36	**26**	30

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. 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 September 30, 2014:

	2014	2015	2016	2017	2018	Thereafter
Interest payments (1)	2,700	14,125	14,125	14,125	14,125	30,335
Transportation commitments	4,550	19,741	19,436	15,691	11,988	15,819
Operating leases	609	2,396	1,863	1,654	1,295	10,356
Other	-	3,200	-	-	-	-
Total	7,859	39,462	35,424	31,470	27,408	56,510

(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. When 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

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

A director of Peyto is a senior managing director of a private equity firm which controls a private company with has a wholly-owned subsidiary that provides services to Peyto. Such services are provided in the normal course of business at market rates.

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended September 30, 2014 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

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

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

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

Peyto's estimated quantities of proved and probable reserves at December 31, 2013 were audited by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

Depletion and Depreciation Estimate

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

Impairment of Long-Lived Assets

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

Decommissioning Provision

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

Future Market Performance Based Compensation

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

Reserve Value Performance Based Compensation

The reserve value based compensation is calculated using the year end independent reserves evaluation which was completed in February 2013. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity, dividends, general and administrative expenses and interest expense. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

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

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

CHANGES IN ACCOUNTING POLICIES

Presentation of Financial Statements

Peyto adopted the following standards on January 1, 2014:

> IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Peyto's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.
>
> IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Peyto's financial statements

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 September 30, 2014.

> IFRS 9, as issued, reflects part of the IASB's work on the replacement of IAS 39 "Financial Instruments: Recognition and Measurement" and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39 and hedging transactions. The standard has no effective date. In subsequent phases, the IASB will address impairment of financial assets. The adoption of IFRS 9 may have an effect on the classification and measurement of the company's financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued with an effective date.
>
> In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2017 and the Company is currently evaluating the impact of the standard on Peyto's financial statements.

ADDITIONAL INFORMATION

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

Quarterly information

	2014			2013	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	420,538	388,407	389,002	361,870	300,286
Oil & NGLs (bbl/d)	7,502	7,568	7,375	6,984	6,295
Barrels of oil equivalent (boe/d @ 6:1)	77,592	72,302	72,209	67,296	56,343
Thousand cubic feet equivalent (mcfe/d @ 6:1)	465,550	433,812	433,252	403,774	338,058
Average product prices					
Natural gas ($/mcf)	4.18	4.37	4.45	3.59	3.35
Oil & natural gas liquids ($/bbl)	71.01	77.30	80.49	69.84	70.91
$/MCFE					
Average sale price ($/mcfe)	4.92	5.26	5.37	4.43	4.29
Average royalties paid ($/mcfe)	0.34	0.45	0.46	0.28	0.31
Average operating expenses ($/mcfe)	0.33	0.36	0.39	0.35	0.37
Average transportation costs ($/mcfe)	0.13	0.13	0.13	0.13	0.12
Field netback ($/mcfe)	4.12	4.32	4.39	3.67	3.49
General & administrative expense ($/mcfe)	0.02	0.01	0.04	0.06	0.02
Interest expense ($/mcfe)	0.20	0.22	0.23	0.24	0.25
Cash netback ($/mcfe)	3.90	4.09	4.12	3.37	3.22
Financial ($000 except per share)					
Revenue	210,640	207,519	209,318	164,455	133,573
Royalties	14,578	17,689	17,861	10,288	9,722
Funds from operations	166,988	161,577	160,785	125,164	99,736
Funds from operations per share	1.09	1.05	1.06	0.84	0.67
Total dividends	46,107	43,033	36,505	35,702	35,702
Total dividends per share	0.30	0.28	0.24	0.24	0.24
Payout ratio	28%	27%	23%	29%	36%
Earnings	68,893	62,159	62,129	37,989	30,461
Earnings per diluted share	0.45	0.41	0.41	0.26	0.21
Capital expenditures	180,024	151,290	179,378	154,295	180,801
Weighted average shares outstanding	153,690,808	153,690,808	151,826,431	148,758,923	148,758,923

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	September 30 2014	December 31 2013
Assets		
Current assets		
Cash	21,853	-
Accounts receivable	91,023	83,714
Due from private placement *(Note 6)*	-	6,245
Prepaid expenses	19,521	5,666
	132,397	95,625
Property, plant and equipment, net *(Note 3)*	2,780,948	2,459,531
	2,780,948	2,459,531
	2,913,345	2,555,156
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	169,638	155,265
Dividends payable *(Note 6)*	15,369	11,901
Derivative financial instruments *(Note 8)*	14,051	26,606
Provision for future performance based compensation *(Note 7)*	22,212	5,100
	221,270	198,872
Long-term debt *(Note 4)*	885,000	875,000
Long-term derivative financial instruments *(Note 8)*	3,720	5,180
Provision for future performance based compensation *(Note 7)*	8,318	3,200
Decommissioning provision *(Note 5)*	83,015	61,184
Deferred income taxes	277,268	211,082
	1,257,321	1,155,646
Equity		
Share capital *(Note 6)*	1,292,384	1,130,069
Shares to be issued *(Note 6)*	-	6,245
Retained earnings	154,511	86,975
Accumulated other comprehensive loss *(Note 6)*	(12,141)	(22,651)
	1,434,754	1,200,638
	2,913,345	2,555,156

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Revenue				
Oil and gas sales	223,123	124,248	693,538	401,137
Realized (loss) gain on hedges *(Note 8)*	(12,483)	9,325	(66,062)	10,252
Royalties	(14,578)	(9,722)	(50,128)	(30,162)
Petroleum and natural gas sales, net	**196,062**	123,851	**577,348**	381,227
Expenses				
Operating	13,905	11,656	43,195	32,204
Transportation	5,659	3,879	15,902	11,334
General and administrative	949	701	3,087	2,899
Future performance based compensation *(Note 7)*	3,831	4,451	22,231	13,548
Interest	8,560	7,880	25,812	22,212
Accretion of decommissioning provision *(Note 5)*	477	393	1,452	1,130
Depletion and depreciation *(Note 3)*	70,824	54,277	208,085	159,189
	104,205	83,237	**319,764**	242,516
Earnings before taxes	**91,857**	40,614	**257,584**	138,711
Income tax				
Deferred income tax expense	22,964	10,153	64,403	34,073
Earnings for the period	**68,893**	30,461	**193,181**	104,638
Earnings per share *(Note 6)*				
Basic and diluted	**$0.45**	$0.21	**$1.26**	$ 0.71

See accompanying notes to the financial statements

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Earnings for the period	**68,893**	30,461	**193,181**	104,638
Other comprehensive income				
Change in unrealized gain (loss) on cash flow hedges	12,923	3,676	(52,048)	5,752
Deferred tax (expense) recovery	(6,352)	1,412	(3,504)	1,125
Realized loss (gain) on cash flow hedges	12,483	(9,325)	66,062	(10,252)
Comprehensive income	**87,947**	26,224	**203,691**	101,263

See accompanying notes to the financial statements

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30	
	2014	**2013**
Share capital, beginning of period	**1,130,069**	1,124,382
Common shares issued by private placement	6,997	-
Equity offering	160,480	5,742
Common shares issuance costs (net of tax)	(5,162)	(55)
Share capital, end of period	**1,292,384**	1,130,069

Shares to be issued, beginning of period	**6,245**	3,459
Shares issued	(6,245)	(3,459)
Shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**86,975**	75,247
Earnings for the period	193,181	104,638
Dividends *(Note 6)*	(125,645)	(95,197)
Retained earnings, end of period	**154,511**	84,688

Accumulated other comprehensive (loss) income, beginning of period	**(22,651)**	6,979
Other comprehensive (loss) income	10,510	(3,374)
Accumulated other comprehensive (loss) income, end of period	**(12,141)**	3,605

Total equity	**1,434,754**	1,218,362

See accompanying notes to the financial statements

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		**Nine months ended September 30**	
	2014	2013	**2014**	2013
Cash provided by (used in) operating activities				
Earnings	68,893	30,461	193,181	104,638
Items not requiring cash:				
Deferred income tax	22,964	10,153	64,403	34,073
Depletion and depreciation	70,824	54,277	208,085	159,189
Accretion of decommissioning provision	477	393	1,452	1,130
Long term portion of future performance based compensation	(65)	1,673	5,118	4,899
Change in non-cash working capital related to operating activities	(12,330)	4,404	(22,853)	(13,586)
	150,763	101,361	**449,386**	290,343
Financing activities				
Issuance of common shares	-	-	167,477	5,742
Issuance costs	-	-	(6,883)	(73)
Cash dividends paid	(46,107)	(35,702)	(122,177)	(92,206)
Increase in bank debt	60,000	30,000	10,000	200,000
	13,893	(5,702)	**48,417**	113,463
Investing activities				
Additions to property, plant and equipment	(180,024)	(180,801)	(510,692)	(423,708)
Change in capital inventory	1,917	-	1,569	3,714
Change in non-cash working capital relating to investing activities	35,304	69,822	33,173	16,379
	(142,803)	(110,979)	**(475,950)**	(403,615)
Net increase (decrease) in cash	**21,853**	(15,320)	**21,853**	191
Cash, beginning of period	**-**	15,511	**-**	-
Cash, end of period	**21,853**	191	**21,853**	191

The following amounts are included in cash flows from operating activities:				
Cash interest paid	**11,165**	9,407	**24,625**	23,920
Cash taxes paid	**-**	-	**-**	1,890

See accompanying notes to the financial statements

1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 11, 2014.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the years ended December 31, 2013 and 2012.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

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

Except as disclosed below, all accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2013 and 2012.

(b) Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning January 1, 2014 or later periods. The affected standards are consistent with those disclosed in Peyto's financial statements as at and for the years ended December 31, 2013 and 2012.

Peyto adopted the following standards on January 1, 2014:

IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" are required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Peyto's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Peyto's financial statements

Standards issued but not yet effective

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

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

3. Property, plant and equipment, net

Cost	
At December 31, 2013	3,071,245
Additions	510,692
Decommissioning provision additions	20,379
Capital inventory	(1,569)
At September 30, 2014	3,600,747
Accumulated depletion and depreciation	
At December 31, 2013	(611,714)
Depletion and depreciation	(208,085)
At September 30, 2014	(819,799)
Carrying amount at December 31, 2013	2,459,531
Carrying amount at September 30, 2014	**2,780,948**

During the three and nine month periods ended September 30, 2014, Peyto capitalized $2.5 million and $7.3 million (2013 - $2.7 million and $6.4 million) of general and administrative expense directly attributable to exploration and development activities.

4. Long-term debt

	September 30, 2014	December 31, 2013
Bank credit facility	565,000	605,000
Senior unsecured notes	320,000	270,000
Balance, end of the period	**885,000**	875,000

As at September 30, 2014, the Company had a syndicated $1 billion extendible revolving credit facility with a stated term date of April 25, 2017. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. The facilities are available on a revolving basis for a three year period. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 3.79% and mature on July 3, 2022. Interest is paid semi-annually in arrears.

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

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

Peyto is in compliance with all financial covenants at September 30, 2014.

Total interest expense for the three and nine month periods ended September 30, 2014 was $8.6 million and $25.8 million (2013 - $7.9 million and $22.2 million) and the average borrowing rate for the period was 3.9% and 4.1% (2013 – 4.1% and 4.2%).

5. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2013	**61,184**
New or increased provisions	8,265
Accretion of decommissioning provision	1,452
Change in discount rate and estimates	12,114
Balance, September 30, 2014	**83,015**
Current	-
Non-current	83,015

Peyto has estimated the net present value of its total decommissioning provision to be $83.0 million as at September 30, 2014 ($61.2 million at December 31, 2013) based on a total future undiscounted liability of $200.5 million ($177.8 million at December 31, 2013). At September 30, 2014 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 2063. The Bank of Canada's long term bond rate of 2.67 per cent (3.24 per cent at December 31, 2013) and an inflation rate of two per cent (two per cent at December 31, 2013) 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, 2013	**148,758,923**	**1,130,069**
Common shares issued by private placement	211,885	6,997
Equity offering	4,720,000	160,480
Common share issuance costs, (net of tax)	-	(5,162)
Balance, September 30, 2014	**153,690,808**	**1,292,384**

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

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Weighted average common shares basic and diluted	**153,690,808**	148,758,923	**153,076,178**	148,730,485

On December 31, 2013, Peyto completed a private placement of 190,525 common shares to employees and consultants for net proceeds of $6.2 million ($32.78 per share). These common shares were issued January 8, 2014

On February 5, 2014, Peyto closed an offering for 4,720,000 common shares at a price of $34.00 per common share, receiving net proceeds of $153.6 million.

On March 17, 2014, Peyto completed a private placement of 21,360 common shares to employees and consultants for net proceeds of $ 0.8 million ($35.20 per common share).

Dividends

During the three and nine month periods ended September 30, 2014, Peyto has declared dividends of $0.30 and $0.82 per common share ($0.08 per common share per month for January to April and $0.10 per common share for the months of May to September), totaling $46.1 million and $125.6 million respectively (2013 - $0.24 and $0.64 or $0.06 per share for the months of January to April and $0.08 for the months of May to September totaling, $35.7 million and $95.2 million).

Comprehensive income

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

Accumulated hedging gains

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

7. Future performance based compensation

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

Reserve based component

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

Market based component

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

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

	September 30, 2014	September 30, 2013
Share price	$22.58-$35.34	$22.58 - $30.44
Exercise price	$19.91-$31.60	$18.41 - $22.08
Expected volatility	0%-23%	0% - 23%
Option life	0.25 years	0.25 years
Dividend yield	0%	0%
Risk-free interest rate	1.12%	1.19%

8. Financial instruments

Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at September 30, 2014.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2013.

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

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

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

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At September 30, 2014, cash and financial derivative instruments are carried at fair value. Accounts receivable, due from private placement, current liabilities and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

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

Following is a summary of all risk management contracts in place as at September 30, 2014:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (USD)**
January 1, 2014 to December 31, 2014	Fixed Price	8,000 bbl	$35.70 to $37.485/bbl
October 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$42.84/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
November 1, 2012 to October 31, 2014	Fixed Price	45,000 GJ	$3.0575/GJ -$4.03 GJ
April 1, 2013 to October 31, 2014	Fixed Price	47,500 GJ	$3.1925- $3.33/GJ
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	$3.6025/GJ
November 1, 2013 to October 31, 2014	Fixed Price	20,000 GJ	$3.50- $4.10/GJ
April 1, 2014 to October 31, 2014	Fixed Price	70,000 GJ	$3.10- $4.55/GJ

April 1, 2014 to March 31, 2015	Fixed Price	140,000 GJ	$3.20- $3.83/GJ
November 1, 2014 to March 31, 2015	Fixed Price	100,000 GJ	$3.81- $4.87GJ
April 1, 2015 to October 31, 2015	Fixed Price	80,000 GJ	$3.285- $4.123/GJ
April 1, 2015 to March 31, 2016	Fixed Price	100,000 GJ	$3.56-$ 4.05/GJ

As at September 30, 2014, Peyto had committed to the future sale of 36,000 barrels of propane at an average price of $43.35 CAD ($38.68 USD) per barrel and 106,392,500 gigajoules (GJ) of natural gas at an average price of $3.77 per GJ or $4.34 per mcf. Had these contracts been closed on September 30, 2014, Peyto would have realized a net loss in the amount of $17.8 million. If the AECO gas price on September 30, 2014 were to increase by $1/GJ, the unrealized loss would increase by approximately $106.4 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to September 30, 2014 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
November 1, 2014 to March 31, 2015	Fixed Price	10,000 GJ	$3.57/GJ -$3.61/GJ
December 1, 2014 to March 31, 2015	Fixed Price	20,000 GJ	$3.63/GJ -$4.18/GJ
April 1, 2015 to March 31, 2016	Fixed Price	35,000 GJ	$3.41/GJ -$3.65/GJ
April 1, 2016 to October 31, 2016	Fixed Price	10,000 GJ	$3.37/GJ- $3.43/GJ

9. Commitments

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 September 30, 2014:

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Interest payments [(1)]	2,700	14,125	14,125	14,125	14,125	30,335
Transportation commitments	4,550	19,741	19,436	15,691	11,988	15,819
Operating leases	609	2,396	1,863	1,654	1,295	10,356
Other	-	3,200	-	-	-	-
Total	7,859	39,462	35,424	31,470	27,408	56,510

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

10. Related Party Transactions

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

A director of Peyto is a senior managing director of a private equity firm which controls a private company with has a wholly-owned subsidiary that provides services to Peyto. Such services are provided in the normal course of business at market rates.

11. Contingencies

On October 31, 2013, Peyto was named as a co-defendant in a statement of claim filed by Poseidon Concepts Corp. ("Poseidon") with respect to transactions between Poseidon and Open Range Energy Corp. ("Open Range") that occurred prior to the Company's acquisition of Open Range. On July 3, 2014, two shareholders of Poseidon filed a lawsuit with the Alberta Court of Queen's Bench against KPMG LLP and Poseidon's former auditors, making allegations substantially similar to those in other claims against Poseidon and others. 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 contained in these claims are based on factual matters that pre-existed Peyto's involvement with Open Range. However, Peyto intends to aggressively protect its interests and the interests of its shareholders and will seek all available legal remedies in defending the action. Management continues to assess the nature of this claim, in conjunction with their legal advisors.

Officers

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Directors

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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