PEYTO

Exploration & Development Corp.

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Interim Report
for the three and six months ended June 30, 2015

HIGHLIGHTS

	Three Months Ended June 30		%	Six Months Ended June 30		%
	2015	2014	Change	**2015**	2014	Change
Operations						
Production						
Natural gas (mcf/d)	**455,443**	388,407	*17%*	**450,148**	388,703	*16%*
Oil & NGLs (bbl/d)	**6,843**	7,568	*-10%*	**7,148**	7,472	*-4%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**496,498**	433,812	*14%*	**489,528**	433,533	*13%*
Barrels of oil equivalent (boe/d @ 6:1)	**82,750**	72,302	*14%*	**82,172**	72,256	*14%*
Production per million common shares (boe/d)*	**523**	470	*11%*	**527**	473	*11%*
Product prices						
Natural gas ($/mcf)	**3.50**	4.37	*-20%*	**3.73**	4.41	*-15%*
Oil & NGLs ($/bbl)	**43.54**	77.30	*-44%*	**40.16**	78.86	*-49%*
Operating expenses ($/mcfe)	**0.31**	0.36	*-14%*	**0.31**	0.37	*-16%*
Transportation ($/mcfe)	**0.15**	0.13	*15%*	**0.15**	0.13	*15%*
Field netback ($/mcfe)	**3.22**	4.32	*-25%*	**3.37**	4.36	*-23%*
General & administrative expenses ($/mcfe)	**0.04**	0.01	*300%*	**0.04**	0.03	*33%*
Interest expense ($/mcfe)	**0.19**	0.22	*-14%*	**0.20**	0.22	*-9%*
Financial ($000, except per share*)						
Revenue	**172,202**	207,519	*-17%*	**356,014**	416,837	*-15%*
Royalties	**5,875**	17,689	*-67%*	**13,867**	35,551	*-61%*
Funds from operations	**135,195**	161,577	*-16%*	**279,837**	322,362	*-13%*
Funds from operations per share	**0.86**	1.05	*-18%*	**1.80**	2.11	*-15%*
Total dividends	**52,456**	43,033	*22%*	**103,237**	79,538	*30%*
Total dividends per share	**0.33**	0.28	*18%*	**0.66**	0.52	*27%*
Payout ratio	**39**	27	*44%*	**37**	25	*48%*
Earnings	**12,295**	62,159	*-80%*	**56,808**	124,288	*-54%*
Earnings per diluted share	**0.08**	0.41	*-80%*	**0.36**	0.81	*-56%*
Capital expenditures	**116,643**	151,290	*-23%*	**254,720**	330,668	*-23%*
Weighted average common shares outstanding	**158,117,853**	153,690,808	*3%*	**155,996,994**	152,763,770	*2%*
As at June 30						
End of period shares outstanding (includes shares to be issued				**158,985,273**	153,690,808	*3%*
Net debt				**934,262**	880,386	*6%*
Shareholders' equity				**1,640,616**	1,392,911	*18%*
Total assets				**3,178,991**	2,781,258	*14%*

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

	Three Months Ended June 30		Six Months Ended June 30	
($000 except per share)	**2015**	2014	**2015**	2014
Cash flows from operating activities	**134,316**	152,170	**260,450**	298,624
Change in non-cash working capital	**(792)**	2,560	**14,695**	10,523
Change in provision for performance based compensation	**1,671**	6,847	**4,692**	13,215
Funds from operations	**135,195**	161,577	**279,837**	322,362
Funds from operations per share	**0.86**	1.05	**1.80**	2.11

(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 dvidends 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 second quarter of the 2015 fiscal year. Continued improvement in operational execution, service cost savings and operating efficiency resulted in a 78% operating margin (1) and a 7% profit margin (2). Additional highlights included:

- **Production per share up 11%.** Second quarter 2015 production increased 14% from 434 MMcfe/d (72,302 boe/d) in Q2 2014 to 496 MMcfe/d (82,750 boe/d) in Q2 2015. Temporary interruptible and firm service curtailments on TransCanada's ("TCPL") Nova Gas Transmission system deferred an average of 27 MMcfe/d (4,500 boe/d) in the second quarter.

- **Funds from operations per share of $0.86.** Generated $135 million in Funds from Operations ("FFO") in Q2 2015 down 16% (18% per share) from $162 million in Q2 2014 due to a 28% reduction in realized commodity prices, partially offset by a 30% reduction in cash costs and a 14% increase in production volumes.

- **Record low cash costs of $0.82/Mcfe ($0.69/mcfe or $4.14/boe excluding royalties).** Total cash costs, including $0.13/mcfe royalties, $0.31/mcfe operating costs, $0.15/mcfe transportation, $0.04/mcfe G&A and $0.19/mcfe interest, were the lowest in Company history. This 30% decrease from $1.17/mcfe in Q2 2014 was primarily due to decreased royalties and operating costs. Lower realized commodity prices, combined with these lower cash costs, resulted in a cash netback of $2.99/Mcfe ($17.95/boe) or a 78% operating margin.

- **Capital investment of $117 million**. A total of 34 gross wells (31.5 net) were drilled in the second quarter. In total, new wells brought on production over the last 12 months accounted for 40,290 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $614 million, equates to an annualized capital efficiency of $15,250/boe/d.

- **Earnings of $0.08/share, dividends of $0.33/share.** Earnings of $12 million were generated in the quarter ($39 million or $0.25/share prior to a one-time charge of $28 million or $0.17/share due to the 20% increase in Alberta corporate tax rates) while dividends of $52 million were paid to shareholders. Despite the one-time charge, Q2 2015 represents the 42nd consecutive quarter of positive earnings from which sustainable dividends are funded.

Second Quarter 2015 in Review

Peyto's plan to drill through the traditional spring breakup period, similar to last year, was successfully executed in the second quarter. The Company took advantage of mild spring breakup conditions and continued low service costs to drill 34 gross wells. Average Q2 drilling and completion costs of $3.1 million per well were 29% lower than the $4.4 million in 2014. In addition, second quarter average drilling times (from spud to rig release) for Greater Sundance Spirit River wells decreased from 22 days in 2014 to 17 days, resulting in a 23% increase in rig productivity for the 9 rigs running at the end of the quarter. These achievements have effectively reduced the cost to add new production in the quarter to less than $12,000/boe/d, resulting in an average trailing twelve month capital efficiency of $15,250/boe/d. Lower realized commodity prices in the second quarter reduced funds from operations but were partially offset by lower operating, royalty and interest costs. Production in the quarter was 4,500 boe/d lower than capability due to continued transportation curtailments and approximately 1,000 boe/d lower as a result of continued propane rejection due to weak propane prices. Transportation curtailments and propane surpluses which are driving weak propane prices are both expected to subside by Q4 2015. Despite the significant drop in commodity prices, the strong financial and operating performance delivered in the quarter resulted in an annualized Return on Capital Employed (ROCE) of 9%. Annualized Return on Equity of 10% in the quarter was reduced to 7% due to the one-time increase in deferred taxes resulting from the announced Alberta NDP government corporate tax rate increase.

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

Exploration & Development

Peyto's second quarter 2015 activity was concentrated in the Spirit River group of formations including the Notikewin, Falher and Wilrich formations, and within the Greater Sundance area where both cost savings could be realized and transportation restrictions minimized. A total of 34 wells were drilled across the land base, targeting sweet, liquids rich natural gas resource plays, as shown in the following table:

	Field							
Zone	**Sundance**	**Nosehill**	**Wildhay**	**Ansell**	**Berland**	**Kisku/Kakwa**	**Brazeau**	**Total Wells Drilled**
Cardium								
Notikewin	3	1	1					5
Falher	6	1	4				1	12
Wilrich	3	2	5			1	2	13
Bluesky	2	1	1					4
Total	14	5	11			1	3	34

Amongst the 34 wells drilled, step out wells on existing Wilrich and Falher trends provided encouraging results which opened up additional development opportunities while Notikewin infill drilling successfully encountered virgin reservoir pressures and undisturbed sections of existing channels, also proving up additional future locations. Average per well production results in 2015 have significantly surpassed previous year's results with IP30 rates 23% higher for the 55 wells to date.

Both the average depth and lateral length of Peyto's horizontal wells continues to increase into 2015, as the Company attempts to develop more resource with each wellbore. As illustrated in the following table, second quarter drilling and completion costs per meter were 24% and 39% lower, respectively, as a result of both efficiency gains and service cost reductions.

	2010	**2011**	**2012**	**2013**	**2014**	**2015 Q1**	**2015 Q2**
Gross Spuds	52	70	86	99	123	31	34
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,416	4,289
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,516
Drilling ($MM/well)	$2.763	$2.823	$2.789	$2.720	$2.660	$2.446	$2.045
$ per meter	$734	$723	$694	$651	$626	$555	$477
Completion ($MM/well)	$1.358	$1.676	$1.672	$1.625	$1.702	$1.440	$1.049
$ per meter	$361	$429	$416	$389	$400	$330	$245

Capital Expenditures

Capital expenditures in the second quarter of 2015 totalled $116.6 million, comprised of $59.4 million of drilling, $33.3 million of completions, $10.7 million of wellsite equipment and tie-ins, $11.8 million of facilities and pipelines, and $1.4 million in land and seismic. A total of 34 gross (31.5 net) wells were drilled in the quarter, 29 gross (27.25 net) wells completed and 30 gross (29.25 net) wells equipped and tied in. Drilling times continued to improve in the quarter, despite longer horizontal laterals for 2015, while the combination of frac sand changes and water recycling efforts reduced average completion costs.

The Swanson gas plant expansion accounted for $10 million of the $11.8 million of facility and pipeline projects completed in the quarter. This expansion will be completed by October 2015 and is expected to increase the existing plant capacity from 65 mmcf/d of sales gas to over 100 mmcf/d. Four sections of Greater Sundance land were purchased at crown sales in the quarter for an average of $164/acre while 95 square kilometers of new 3-D seismic was acquired.

Daily production at the end of the quarter peaked at over 91,000 boe/d on those days that were unaffected by transportation curtailments.

Commodity Prices

Oil prices strengthened in the second quarter 2015, while natural gas prices remained relatively flat from the previous quarter as North American supply growth continued to exceed demand. The average second quarter 2015 Alberta (AECO) daily and monthly natural gas prices were effectively the same, at $2.53/GJ down 43% from $4.43/GJ in Q2 2014. As Peyto had committed 88% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $2.53/GJ or $2.86/mcf, prior to a $0.64/mcf hedging gain.

As a result of the Company's hedging strategy, approximately 64% of Peyto's natural gas production received a fixed price of $3.41/GJ from hedges that were put in place over the previous 24 months, while the balance received the blended daily and monthly price of $2.53/GJ, resulting in an after-hedge price of $3.06/GJ or $3.50/mcf.

Peyto realized an oil and natural gas liquids price of $43.54/bbl in Q2 2015 for its blend of condensate, pentane, butane and propane, which represented 64% of the $68.50/bbl average Canadian Light Sweet posted price, as shown in the following table. The blended realized liquids price was impacted by negative propane prices in the quarter. These negative propane prices are expected to improve by Q4 2015 as surplus inventory is consumed, however, in the meantime Peyto is optimizing its plant processes to leave as much propane in the gas stream as possible in order to realize a higher price – otherwise known as propane rejection.

Commodity Prices by Component

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Natural gas – after hedging ($/mcf)	**3.50**	4.37	**3.73**	4.41
Natural gas – after hedging ($/GJ)	**3.06**	3.83	**3.25**	3.87
AECO monthly ($/GJ)	**2.53**	4.43	**2.66**	4.47
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**62.36**	103.73	**55.14**	101.57
Propane ($/bbl)	**(6.07)**	23.05	**(6.25)**	30.70
Butane ($/bbl)	**22.63**	59.47	**26.50**	54.91
Pentane ($/bbl)	**61.36**	106.58	**54.09**	105.45
Total Oil and natural gas liquids ($/bbl)	**43.54**	77.30	**40.16**	78.86
Canadian Light Sweet postings ($/bbl)	**68.50**	104.18	**60.61**	101.99

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

Financial Results

Combining realized natural gas and liquids prices, Peyto's unhedged revenues totaled $3.22/mcfe ($3.81/mcfe including hedging gains). Royalties of $0.13/mcfe, operating costs of $0.31/mcfe, transportation costs of $0.15/mcfe, G&A of $0.04/mcfe and interest costs of $0.19/mcfe, all combined for total cash costs of $0.82/mcfe ($4.91/boe). This is a new Company record and the lowest total cash costs in Peyto's 16.5 year history. These industry leading total cash costs, when deducted from realized revenues, resulted in a cash netback of $2.99/mcfe or a 78% operating margin. Operating costs were 14% lower due to lower chemical and maintenance costs, despite significantly higher property taxes and Alberta regulator fees, and Peyto expects to maintain these gains throughout 2015.

Depletion, depreciation and amortization charges of $1.78/mcfe were similar to the $1.73/mcfe charged in Q2 2014. On June 18, 2015, the Alberta NDP government announced a 20% increase to the provincial corporate income tax rate which increased the deferred income tax expense by $27.7 million to $41.1 million. This entire change was accounted for in the second quarter, reducing earnings from $38.9 million to $12.3 million. On a per unit of production basis, the one-time charge reduced earnings of $0.86/mcfe to $0.27/mcfe, or from a 23% profit margin to a 7% profit margin. Peyto expects that earnings will not be as significantly affected by the tax increase, on a go-forward basis, now that it has accounted for this one time charge.

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

In addition, Peyto announced it had issued CND $100 million of senior unsecured notes pursuant to a note purchase agreement. The notes have a coupon rate of 4.26% and mature on May 1, 2025. As the notes rank equally with Peyto's obligations under its bank facility and existing senior unsecured notes, Peyto's aggregate borrowing capacity increased by $100 million to $1.42 billion. At the end of the quarter, Peyto's net debt to annualized Q2 2015 FFO was 1.7 times.

Marketing

Peyto's practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in gas prices, continued throughout the quarter. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of August 12, 2015.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2015	48,035,000	42,135,965	3.34	3.81
2016	76,475,000	67,083,333	3.11	3.55
2017	12,600,000	11,052,632	2.94	3.35
Total	137,110,000	120,271,930	3.18	3.63

prices and volumes in mcf use Peyto's historic heat content premium of 1.14.

The Company targets to have approximately 65% of its natural gas production forward sold at any given time in order to improve the confidence of funding for capital planning purposes.

Activity Update

The 2015 drilling program is growing new production with record capital efficiency, however, total company production continues to be frustrated by TCPL take-away capacity constraints. TCPL is the primary shipper of natural gas throughout the province of Alberta and across Canada, and Peyto transports all of its natural gas to the final point of sale through their system. Delays in TCPL's integrity verification, ongoing pipeline and compressor maintenance, and the recent failure of two Alberta mainline compressors have all extended the timeline for return to normal take-away capacity levels until October 2015. Peyto's current production is approximately 80,000 boe/d with an additional 11,000 boe/d of production off line due to restrictions. The latest projections from TCPL are for gradual increases in system capacity over August and September with a larger step up in October. Peyto remains optimistic that production will return to full capability for the normally higher gas price winter months of November and December. In addition, Peyto is rejecting approximately 1,200 boe/d of propane into the gas stream due to negative liquid propane prices.

Drilling and completion costs continue to remain low with realized reductions of approximately 30% as compared to 2014. Aggregate well production results for the new 2015 wells, continue to exceed the per-well average production results of all prior years. These two achievements are combining to preserve Peyto's return expectations in a lower commodity price environment. As a result, the Company increased the drilling activity to 10 active drilling rigs at the start of the third quarter which, when combined with the reduced drilling time, is effectively the same as running 12 rigs a year ago. Six rigs are working throughout the Greater Sundance area, two rigs are working in Brazeau and two rigs are working in the Ansell/Minehead areas. Peyto is currently the 3rd most active gas driller in Alberta with 10 of the 78 gas drilling rigs running. The previous 2015 capital budget between $575 and $625 million remains the same although it is expected that approximately 6 more wells will now be drilled with this same capital investment.

A 5th compressor at Brazeau was installed and commissioned in July taking the facility capacity up to 50 MMcf/d in preparation for second half growth. An additional compressor is being fabricated and can be installed before year end to increase capacity to 60 MMcf/d.

The Swanson Gas Plant expansion has been purposely delayed by one month to an October start-up. With the continuation of TCPL system constraints, the construction schedule has been relaxed to save costs while sliding completion out a few weeks. Since the end of June 2015, all equipment has been moved to the plant site and is being connected.

Additionally, major turnarounds have already occurred at the Kakwa and Galloway plants, coinciding with periods of low TCPL capacity. These plants will not need any extended maintenance outages again until 2020. The finally facility turnaround for 2015 will occur at the Oldman plant, coinciding with a planned TCPL outage in August.

Outlook

Peyto's track record of superior returns is based on a counter cyclical investment strategy whereby the Company aggressively builds long life, low risk assets at times when the rest of the industry cannot. This is made possible by preserving a low cost structure that ensures profitability even during low commodity prices. Currently, the majority of the industry is reducing capital budgets and cutting drilling programs due to low commodity prices and strained balance sheets. Peyto, however, is taking full advantage of its reduced costs, both capital and operating, to accelerate investment and deliver profitable returns to shareholders. Key to ensuring the future success of this strategy is to remain lean and nimble, allowing Peyto to react quickly as the investment environment changes.

Peyto's outlook for the balance of 2015 remains positive. The Company is enjoying a lower cost structure than ever before and minimal competition for future opportunities. At the same time, the outlook for natural gas prices and increased revenues has improved from earlier this year.

(signed) *"Darren Gee"*

Darren Gee
President and CEO
August 12, 2015

Management’s discussion and analysis

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

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of August 11, 2015. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto’s website at www.peyto.com.

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

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

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas in Alberta’s deep basin. As at December 31, 2014, the Company’s total Proved plus Probable reserves were 3.2 trillion cubic feet equivalent (531 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 91% to natural gas and 9% to natural gas liquids and oil.

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

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

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

QUARTERLY FINANCIAL INFORMATION

	2015		**2014**				**2013**	
($000 except per share amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total revenue (net of royalties)	**166,327**	175,820	205,125	196,062	189,830	191,457	154,167	123,851
Funds from operations	**135,195**	144,643	173,437	166,988	161,577	160,785	125,164	99,736
Per share – basic and diluted	**0.86**	0.94	1.13	1.09	1.05	1.05	0.84	0.67
Earnings	**12,295**	44,513	68,597	68,893	62,159	62,129	37,989	30,461
Per share – basic and diluted	**0.08**	0.29	0.45	0.45	0.41	0.41	0.26	0.21
Dividends	**52,456**	50,781	49,292	46,107	43,033	36,505	35,702	35,702
Per share – basic and diluted	**0.33**	0.33	0.32	0.30	0.28	0.24	0.24	0.24

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 June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Natural gas (mmcf/d)	**455.4**	388.4	**450.1**	388.7
Oil & natural gas liquids (bbl/d)	**6,843**	7,568	**7,148**	7,472
Barrels of oil equivalent (boe/d)	**82,750**	72,302	**82,172**	72,256
Thousand cubic feet equivalent (mmcfe/d)	**496.5**	433.8	**489.5**	433.5

Natural gas production averaged 455.4 mmcf/d in the second quarter of 2015, 17 percent higher than the 388.4 mmcf/d reported for the same period in 2014. Oil and natural gas liquids production averaged 6,843 bbl/d, a decrease of 10 percent from 7,568 bbl/d reported in the prior year primarily due to propane rejection. Second quarter production increased 14 percent from 433.8 mmcfe/d to 496.5 mmcfe/d. The production increases are attributable to Peyto's capital program and resulting production additions.

Oil & Natural Gas Liquids Production by Component

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Condensate (bbl/d)	**2,736**	2,783	**2,902**	2,877
Propane (bbl/d)	**1,148**	1,722	**1,205**	1,663
Butane (bbl/d)	**1,331**	1,451	**1,392**	1,405
Pentane (bbl/d)	**1,466**	1,442	**1,480**	1,343
Other NGL's (bbl/d)	**162**	170	**169**	184
Oil & natural gas liquids (bbl/d)	**6,843**	7,568	**7,148**	7,472
Million cubic feet equivalent (mmcfe/d)	**41.1**	45.4	**42.9**	44.8

The liquid production to sales gas ratio declined from 19 bbl/mmcf in Q2 2014 to 15 bbl/mmcf in Q2 2015 primarily as a result of intentional changes to gas plant operating parameters. Liquid propane prices declined to the point where propane had more value as part of the sales gas stream. Liquid propane recoveries were lowered at Peyto gas plants to an optimal point which coincides with maximizing the recovery of butanes and pentanes.

Commodity Prices

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Oil and natural gas liquids ($/bbl)	**43.54**	77.58	**40.16**	81.04
Hedging – ngls ($/bbl)	**-**	(0.28)	**-**	(2.18)
Oil and natural gas liquids – after hedging ($/mcf)	**43.54**	77.30	**40.16**	78.86
Natural gas ($/mcf)	**2.86**	5.02	**3.00**	5.13
Hedging – gas ($/mcf)	**0.64**	(0.65)	**0.73**	(0.72)
Natural gas – after hedging ($/mcf)	**3.50**	4.37	**3.73**	4.41
Total Hedging ($/mcfe)	**0.59**	(0.59)	**0.66**	(0.68)
Total Hedging ($/boe)	**3.54**	(3.57)	**3.98**	(4.10)

Peyto's natural gas price, before hedging, averaged $2.86/mcf during the second quarter of 2015, a decrease of 43 percent from $5.02/mcf reported for the equivalent period in 2014. Oil and natural gas liquids prices before hedging averaged $43.54/bbl, a decrease of 43 percent from $77.58/bbl a year earlier.

Commodity Prices by Component

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Natural gas – after hedging ($/mcf)	**3.50**	4.37	**3.73**	4.41
Natural gas – after hedging ($/GJ)	**3.06**	3.83	**3.25**	3.87
AECO monthly ($/GJ)	**2.53**	4.43	**2.66**	4.47
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**62.36**	103.73	**55.14**	101.57
Propane ($/bbl)	**(6.07)**	23.05	**(6.25)**	30.70
Butane ($/bbl)	**22.63**	59.47	**26.50**	54.91
Pentane ($/bbl)	**61.36**	106.58	**54.09**	105.45
Total Oil and natural gas liquids ($/bbl)	**43.54**	77.30	**40.16**	78.86
Canadian Light Sweet postings ($/bbl)	**68.50**	104.18	**60.61**	101.99

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

Revenue

	Three Months ended June 30		Six Months ended June 30	
($000)	**2015**	2014	**2015**	2014
Natural gas	**118,444**	177,575	**244,820**	360,821
Oil and natural gas liquids	**27,111**	53,420	**51,961**	109,594
Hedging gain (loss)	**26,647**	(23,476)	**59,233**	(53,578)
Total revenue	**172,202**	207,519	**356,014**	416,837

For the three months ended June 30, 2015, revenue decreased 17 percent to $172.2 million from $207.5 million for the same period in 2014. The decrease in revenue for the period was a result of decreased realized commodity prices and natural gas liquids production volumes offset by an increase in natural gas production volumes, as detailed in the following table:

	Three Months ended June 30			Six Months ended June 30		
	2015	2014	**$million**	2015	2014	**$million**
Total Revenue, June 30, 2014			**207.5**			**416.8**
Revenue change due to:						
Natural gas						
Volume (mmcf)	41,444	35,345	**26.7**	81,477	70,355	**49.1**
Price ($/mcf)	$3.50	$4.37	**(36.0)**	$3.73	$4.41	**(55.3)**
Oil & NGL						
Volume (mbbl)	623	689	**(5.1)**	1,294	1,352	**(4.6)**
Price ($/bbl)	$43.54	$77.30	**(20.9)**	$40.16	$78.86	**(50.0)**
Total Revenue, June 30, 2015			**172.2**			**356.0**

Royalties

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

	Three Months ended June 30		Six Months ended June 30	
($000 except per share amounts)	**2015**	2014	**2015**	2014
Royalties	**5,875**	17,689	**13,867**	35,551
% of sales before hedging	**4.0**	7.7	**4.7**	7.6
% of sales after hedging	**3.4**	8.5	**3.9**	8.5
$/mcfe	**0.13**	0.45	**0.16**	0.45
$/boe	**0.78**	2.69	**0.93**	2.72

For the second quarter of 2015, royalties averaged $0.13/mcfe or approximately 4.0% of Peyto's total petroleum and natural gas sales excluding hedges. Royalties were reduced by $1.7 million related to the annual true up of gas cost allowance on natural gas production by the Alberta Government. Before this adjustment, royalties were $0.18/mcfe or 5.2% of revenue excluding hedging gains.

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 $4.4 billion in capital projects, found and developed 4.0 TCFe of gas reserves, and paid over $750 million in royalties.

Operating Costs & Transportation

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

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Operating costs ($000)	**14,117**	14,059	**28,006**	29,289
$/mcfe	**0.31**	0.36	**0.31**	0.37
$/boe	**1.87**	2.14	**1.88**	2.24
Transportation ($000)	**6,638**	5,100	**13,216**	10,244
$/mcfe	**0.15**	0.13	**0.15**	0.13
$/boe	**0.88**	0.78	**0.89**	0.78

For the second quarter, operating expenses remained flat compared to the same quarter of 2014. On a unit-of-production basis, operating costs decreased 14% averaging $0.31/mcfe in the second quarter of 2015 compared to $0.36/mcfe for the equivalent period in 2014 due to lower service and chemical costs and increases in production volume as a result of our successful capital program.

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

General and Administrative Expenses

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
G&A expenses ($000)	**4,210**	3,668	**8,461**	8,012
Overhead recoveries	**(2,537)**	(3,086)	**(4,952)**	(5,874)
Net G&A expenses	**1,673**	582	**3,509**	2,138
$/mcfe	**0.04**	0.01	**0.04**	0.03
$/boe	**0.22**	0.09	**0.24**	0.16

For the second quarter, general and administrative expenses before overhead recoveries increased 14% from the same quarter of 2014 due to increased staffing costs and directors fees and expenses. General and administrative expenses averaged $0.09/mcfe before overhead recoveries of $0.05/mcfe for net general and administrative expenses of $0.04/mcfe in the second quarter of 2015 compared to $0.09/mcfe before overhead recoveries of $0.08/mcfe for net expense of $0.01/mcfe in the second quarter of 2014. Overhead recoveries decreased 18% due to a reduction in capital spending.

Interest Expense

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Interest expense ($000)	**8,703**	8,512	**17,579**	17,252
$/mcfe	**0.19**	0.22	**0.20**	0.22
$/boe	**1.16**	1.29	**1.18**	1.32
Average interest rate	**3.7%**	4.2%	**3.6%**	4.3%

Second quarter 2015 interest expense was $8.7 million ($0.19/mcfe) compared to $8.5 million ($0.22/mcfe) for the second quarter 2014.

Netbacks

	Three Months ended June 30		Six Months ended June 30	
($/mcfe)	**2015**	2014	**2015**	2014
Gross Sale Price	**3.22**	5.85	**3.33**	5.99
Hedging gain (loss)	**0.59**	(0.59)	**0.66**	(0.68)
Net Sale Price	**3.81**	5.26	**3.99**	5.31
Less: Royalties	**0.13**	0.45	**0.16**	0.45
Operating costs	**0.31**	0.36	**0.31**	0.37
Transportation	**0.15**	0.13	**0.15**	0.13
Field netback	**3.22**	4.32	**3.37**	4.36
General and administrative	**0.04**	0.01	**0.04**	0.03
Interest on long-term debt	**0.19**	0.22	**0.20**	0.22
Cash netback ($/mcfe)	**2.99**	4.09	**3.13**	4.11
Cash netback ($/boe)	**17.95**	24.56	**18.81**	24.65

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 18% from $3.22 to $3.81 for the quarter.

Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2015 second quarter provision for depletion, depreciation and amortization totaled $80.3 million as compared to $68.4 million in 2014 due to higher levels of production and a larger asset base. On a unit-of-production basis, depletion and depreciation costs averaged $1.78/mcfe as compared to $1.73/mcfe in 2014.

Income Taxes

The current provision for deferred income tax expense is $41.1 million compared to $20.7 million in 2014. The provision was increased by a one-time charge of $27.7 million related to the 20% increase in provincial corporate income tax rate recently announced by the Alberta NDP Government. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	**June 30, 2015**	December 31, 2014	**Annual deductibility**
Canadian Oil and Gas Property Expense	224.7	232.3	10% declining balance
Canadian Development Expense	853.1	806.6	30% declining balance
Canadian Exploration Expense	33.6	85.7	100%
Undepreciated Capital Cost	376.9	385.3	Primarily 25% declining balance
Other	36.0	32.1	Various, 7% declining balance to 20%
Total Federal Tax Pools	**1,524.3**	**1,542.0**	
Additional Alberta Tax Pools	44.9	44.9	Primarily 100%

MARKETING

Commodity Price Risk Management

The Company is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the second quarter of 2015, a realized hedging gain of $26.6 million was recorded as compared to a $23.5 million loss for the equivalent period in 2014. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2015 to March 31, 2016	Fixed Price	190,000 GJ	$2.7525/GJ – 4.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	55,000 GJ	$2.83- $3.05/GJ
April 1, 2015 to October 31, 2015	Fixed Price	80,000 GJ	$2.75- $3.91/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
June 1, 2015 to October 31, 2015	Fixed Price	15,000 GJ	$2.50 - $2.60/GJ
November 1, 2015 to March 31, 2016	Fixed Price	45,000 GJ	$2.78- $3.11/GJ
November 1, 2015 to March 31, 2017	Fixed Price	10,000 GJ	$2.92 -$2.975/GJ
April 1, 2016 to March 31, 2017	Fixed Price	40,000 GJ	$2.81- $3.00/GJ
April 1, 2016 to October 31, 2016	Fixed Price	35,000 GJ	$3.05-$ 3.43/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$ 2.95/GJ

As at June 30, 2015, Peyto had committed to the future sale of 136,435,000 gigajoules (GJ) of natural gas at an average price of $3.22 per GJ or $3.70 per mcf. Had these contracts been closed on June 30, 2015, Peyto would have realized a gain in the amount of $58.3 million.

Subsequent to June 30, 2015 Peyto entered into the following contracts:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
November 1, 2015 to March 31, 2016	Fixed Price	15,000 GJ	$3.00/GJ to $3.045/GJ
November 1, 2015 to March 31, 2017	Fixed Price	10,000 GJ	$2.95/GJ to $2.975/GJ
April 1, 2016 to March 31, 2017	Fixed Price	15,000 GJ	$2.95/GJ to $3.01/GJ

Commodity Price Sensitivity

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

Currency Risk Management

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

Interest Rate Risk Management

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At June 30 2015, the increase or decrease in earnings for each 100 bps (1%) change in interest rate paid on the outstanding revolving demand loan amounts to approximately $1.4 million per quarter. Average debt outstanding for the quarter was $946.9 million (including $420 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months ended June 30		Six Months ended June 30	
($000)	**2015**	2014	**2015**	2014
Cash flows from operating activities	**134,316**	152,170	**260,450**	298,624
Change in non-cash working capital	**(792)**	2,560	**14,695**	10,523
Change in provision for performance based compensation	**1,671**	6,847	**4,692**	13,215
Funds from operations	**135,195**	161,577	**279,837**	322,362
Funds from operations per share	**0.86**	1.05	**1.80**	2.11

For the second quarter ended June 30, 2015, funds from operations totaled $135.2 million or $0.86 per share, as compared to $161.6 million or $1.05 per share during the same quarter in 2014 due to decreases in commodity prices offset in part by increases in natural gas production.

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

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

Long-Term Debt

	June 30, 2015	December 31, 2014
Bank credit facility	**490,000**	605,000
Senior unsecured notes	**420,000**	320,000
Balance, end of the period	**910,000**	925,000

As at June 30, 2015, the Company had a syndicated $1 billion extendible revolving credit facility with a stated term date of April 25, 2017. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. 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 May 1, 2015, Peyto issued CDN $100 million 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 4.26% and mature on May 1, 2025. 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;

  as at June 30, 2015 – 1.49:1.0

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

  as at June 30, 2015 – 1.49:1.0

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

  as at June 30, 2015 – 18.3 times

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

  as at June 30, 2015 – 0.36

Peyto is in compliance with all financial covenants and has no subordinated debt as at June 30, 2015.

Peyto's total borrowing capacity is $1.42 billion of which the 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 $575 to $625 million for 2015. The total amount of capital invested in 2015 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scaleable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

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

($000)	**As at June 30, 2015**	As at December 31, 2014	As at June 30, 2014
Bank credit facility	**490,000**	605,000	490,000
Senior secured notes	**420,000**	320,000	270,000
Current assets	**(163,420)**	(218,097)	(119,750)
Current liabilities	**142,177**	217,443	273,936
Financial derivative instruments	**58,422**	93,387	(64,221)
Provision for future performance based compensation	**(12,917)**	(8,225)	(11,470)
Net debt	**934,262**	1,009,508	838,495

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount ($000)**
Balance, December 31, 2014	**153,690,808**	**1,292,398**
Common shares issued by private placement	230,465	7,732
Equity offering	5,037,000	172,517
Common share issuance costs, (net of tax)	-	(5,387)
Balance, June 30, 2015	**158,958,273**	**1,467,260**

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

On March 25, 2015, Peyto completed a private placement of 61,545 common shares to employees and consultants for net proceeds of $2.1 million ($34.23 per common share).

On April 16, 2015, Peyto completed a public offering for 5,037,000 common shares at a price of $34.25 per common share, for net proceeds of $165.2 million.

Performance Based Compensation

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

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of $2.8 million was recorded for the quarter ended June 30, 2015. The cumulative provision totals $3.6 million.

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

December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

Based on the weighted average trading price of the common shares for the period ended June 30, 2015, compensation costs related to 6.2 million non-vested rights (3.9% of the total number of common shares outstanding), with an average grant price of $32.03, are a recovery of $1.8 million for the second quarter of 2015. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 7 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative provision totals $10.7 million.

Rights Outstanding Under Market Based Compensation Plan

	Valued but Not Vested			**To be Valued December 31, 2015**	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2015	923,336	9,502,225	*	1,100,400	34.34
	1,004,718	3,107,496	**		
December 31, 2016	1,004,718	3,107,496	**	1,100,400	34.34
December 31, 2017	-	-		1,100,400	34.34

*Valued on December 31, 2013 at $32.27
**Valued on December 31, 2014 at $34.34

Capital Expenditures

Net capital expenditures for the second quarter of 2015 totaled $116.6 million. Exploration and development related activity represented $92.7 million (80% of total), while expenditures on facilities, gathering systems and equipment totaled $22.5 million (19% of total) land, seismic and acquisitions totaled $1.4 million (1% of total). The following table summarizes capital expenditures for the year:

	Three Months ended June 30		Six Months ended June 30	
($000)	**2015**	2014	**2015**	2014
Land	**426**	5,882	**1,266**	8,738
Seismic	**987**	2,322	**4,282**	6,260
Drilling	**59,411**	68,464	**128,920**	148,711
Completions	**33,332**	48,014	**75,823**	84,101
Equipping & Tie-ins	**10,745**	10,254	**17,982**	25,967
Facilities & Pipelines	**11,803**	16,282	**23,436**	56,665
Acquisitions	**-**	72	**3,053**	226
Dispositions	**(180)**	-	**(180)**	-
Office	**119**	-	**138**	-
Total Capital Expenditures	**116,643**	151,290	**254,720**	330,668

Dividends

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Funds from operations ($000)	**135,195**	161,577	**279,837**	322,362
Total dividends ($000)	**52,456**	43,033	**103,237**	79,538
Total dividends per common share ($)	**0.33**	0.28	**0.66**	0.52
Payout ratio (%)	**39**	27	**37**	25

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

Contractual Obligations

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at June 30, 2015:

($000)	2015	2016	2017	2018	2019	Thereafter
Interest payments [1]	9,193	18,385	18,385	18,385	16,190	41,835
Transportation commitments	10,686	22,186	21,638	29,676	27,403	105,441
Operating leases	1,250	1,914	1,654	1,295	1,295	9,062
Other	1,049	-	-	-	-	-
Total	22,178	42,485	41,677	49,356	44,888	156,338

[1] Fixed interest payments on senior unsecured notes

LITIGATION

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

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

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

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

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

RELATED PARTY TRANSACTIONS

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

Director	Company (Reporting Entity)	Description	2015 ($000)	2014 ($000)
Don Gray	Petrus Resources Ltd.	Chairman of the Board	14.8	129.1
Mick MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul) [1]	Director, NCSG Crane and Heavy Haul	543.7	-
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	332.3	224.2

(1) was not a related party until August 2014

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

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

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

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

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

Depletion and Depreciation Estimate

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

Impairment of Long-Lived Assets

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

Decommissioning Provision

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

Future Market Performance Based Compensation

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

Reserve Value Performance Based Compensation

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

Income Taxes

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

Accounting Changes

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB issued the following standards and amendments which are not yet effective for Peyto and discussed in further detail in Note 2 to the Financial Statements for the fiscal period ended June 30, 2015.

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

the company’s financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued with an effective date.

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

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

ADDITIONAL INFORMATION

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

Quarterly information

	2015		2014		
	Q2	Q1	Q4	Q3	Q2
Operations					
Production					
Natural gas (mcf/d)	455,443	444,794	451,044	420,538	388,407
Oil & NGLs (bbl/d)	6,843	7,456	8,077	7,502	7,568
Barrels of oil equivalent (boe/d @ 6:1)	82,750	81,588	83,251	77,592	72,302
Thousand cubic feet equivalent (mcfe/d @ 6:1)	496,498	489,528	499,505	465,550	433,812
Average product prices					
Natural gas ($/mcf)	3.50	3.97	4.22	4.18	4.37
Oil & natural gas liquids ($/bbl)	43.54	37.03	55.47	71.01	77.30
$/MCFE					
Average sale price ($/mcfe)	3.81	4.17	4.71	4.92	5.26
Average royalties paid ($/mcfe)	0.13	0.18	0.24	0.34	0.45
Average operating expenses	0.31	0.32	0.31	0.33	0.36
Average transportation costs	0.15	0.15	0.13	0.13	0.13
Field netback ($/mcfe)	3.22	3.52	4.03	4.12	4.32
General & administrative expense ($/mcfe)	0.04	0.04	0.06	0.02	0.01
Interest expense ($/mcfe)	0.19	0.20	0.19	0.20	0.22
Cash netback ($/mcfe)	2.99	3.28	3.78	3.90	4.09
Financial ($000 except per share)					
Revenue	172,202	183,812	216,321	210,640	207,519
Royalties	5,875	7,992	11,196	14,578	17,689
Funds from operations	135,195	144,643	173,147	166,988	161,577
Funds from operations per share	0.86	0.94	1.13	1.09	1.05
Total dividends	52,456	50,780	49,181	46,107	43,033
Total dividends per share	0.33	0.33	0.32	0.30	0.28
Payout ratio	39%	35%	29%	28%	27%
Earnings	12,295	44,513	68,597	68,893	62,159
Earnings per diluted share	0.08	0.29	0.45	0.45	0.41
Capital expenditures	116,643	138,077	179,697	180,024	151,290
Weighted average shares outstanding	158,117,853	153,852,570	153,690,808	153,690,808	153,690,808

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	June 30 2015	December 31 2014
Assets		
Current assets		
Accounts receivable	72,564	98,699
Due from private placement *(Note 6)*	-	5,625
Derivative financial instruments *(Note 8)*	58,422	93,387
Prepaid expenses	32,434	20,386
	163,420	218,097
Long-term derivative financial instruments *(Note 8)*	-	11,677
Property, plant and equipment, net *(Note 3)*	3,015,571	2,897,291
	3,015,571	2,908,968
	3,178,991	3,127,065
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	111,775	192,312
Dividends payable *(Note 6)*	17,485	16,906
Provision for future performance based compensation *(Note 7)*	12,917	8,225
	142,177	217,443
Long-term debt *(Note 4)*	910,000	925,000
Provision for future performance based compensation *(Note 7)*	1,410	1,024
Long-term derivative financial instruments *(Note 8)*	108	-
Decommissioning provision *(Note 5)*	112,556	100,815
Deferred income taxes	372,123	330,847
	1,396,197	1,357,686
Equity		
Share capital *(Note 6)*	1,467,260	1,292,398
Shares to be issued *(Note 6)*	-	5,625
Retained earnings	127,498	173,927
Accumulated other comprehensive loss *(Note 6)*	45,859	79,986
	1,640,617	1,551,936
	3,178,991	3,127,065

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 June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Revenue				
Oil and gas sales	145,555	230,995	296,781	470,415
Realized gain (loss) on hedges *(Note 8)*	26,647	(23,476)	59,233	(53,578)
Royalties	(5,875)	(17,689)	(13,867)	(35,551)
Petroleum and natural gas sales, net	**166,327**	189,830	**342,147**	381,286
Expenses				
Operating	14,117	14,059	28,006	29,289
Transportation	6,638	5,100	13,216	10,244
General and administrative	1,673	582	3,509	2,138
Future performance based compensation *(Note 7)*	979	9,803	5,078	18,399
Interest	8,703	8,512	17,579	17,252
Accretion of decommissioning provision *(Note 5)*	616	476	1,127	974
Depletion and depreciation *(Note 3)*	80,252	68,410	160,933	137,262
	112,978	106,942	**229,448**	215,558
Earnings before taxes	**53,349**	82,888	**112,699**	165,728
Income tax				
Deferred income tax expense	41,054	20,729	55,891	41,440
Earnings for the period	**12,295**	62,159	**56,808**	124,288
Earnings per share *(Note 6)*				
Basic and diluted	**$0.08**	$0.41	**$0.36**	$0.81

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income (Loss) *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Earnings for the period	**12,295**	62,159	**56,808**	124,288
Other comprehensive income				
Change in unrealized (loss) gain on cash flow hedges	(21,712)	14,942	(46,749)	(64,971)
Deferred tax (expense) recovery	6,363	(9,694)	12,622	2,846
Realized (gain) loss on cash flow hedges	(26,647)	23,476	(59,233)	53,578
Comprehensive (loss) income	**(29,701)**	90,883	**36,552**	115,741

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Six months ended June 30	
	2015	**2014**
Share capital, beginning of period	**1,292,398**	1,130,069
Common shares issued by private placement	7,732	6,997
Equity offering	172,517	160,480
Common shares issuance costs (net of tax)	(5,387)	(5,162)
Share capital, end of period	**1,467,260**	1,292,384

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

Retained earnings, beginning of period	**173,927**	86,975
Earnings for the period	56,808	124,288
Dividends *(Note 6)*	(103,237)	(79,538)
Retained earnings, end of period	**127,498**	131,725

Accumulated other comprehensive income, beginning of period	**79,986**	(22,651)
Other comprehensive loss	(34,127)	(8,547)
Accumulated other comprehensive income (loss), end of period	**45,859**	(31,198)

Total equity	**1,640,617**	1,392,911

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

See accompanying notes to the financial statements

	Three months ended June 30		Six months ended June 30	
	2015	2014	**2015**	2014
Cash provided by (used in) operating activities				
Earnings	12,295	62,159	56,808	124,288
Items not requiring cash:				
Deferred income tax	41,054	20,729	55,891	41,440
Depletion and depreciation	80,252	68,410	160,933	137,262
Accretion of decommissioning provision	616	476	1,127	974
Long term portion of future performance based compensation	(693)	2,956	386	5,183
Change in non-cash working capital related to operating activities	792	(2,560)	(14,695)	(10,523)
	134,316	152,170	**260,450**	298,624
Financing activities				
Issuance of common shares	172,517	-	180,249	167,477
Issuance costs	(7,342)	-	(7,380)	(6,883)
Cash dividends paid	(51,902)	(39,960)	(102,657)	(76,070)
Increase (decrease) in bank debt	(205,000)	65,000	(115,000)	(50,000)
Issuance of senior unsecured notes	100,000	-	100,000	-
	8,273	25,040	**55,212**	34,524
Investing activities				
Additions to property, plant and equipment	(116,643)	(151,290)	(254,720)	(330,668)
Change in prepaid capital	(1,255)	(9,143)	(13,879)	(349)
Change in non-cash working capital relating to investing activities	(24,691)	(16,777)	(47,063)	(2,131)
	(142,589)	(177,210)	**(315,662)**	(333,148)
Net increase (decrease) in cash	**-**	-	**-**	-
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**-**	-	**-**	-

The following amounts are included in cash flows from operating activities:				
Cash interest paid	**5,189**	5,130	**14,648**	13,460
Cash taxes paid	**-**	-	**-**	-

1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on August 11, 2015.

2. Basis of presentation

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

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

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

Except as disclosed below, all accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2014 and 2013.

Standards issued but not yet effective

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

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

3. Property, plant and equipment, net

Cost	
At December 31, 2014	3,800,736
Additions	254,720
Decommissioning provision additions	10,614
Prepaid capital	13,879
At June 30, 2015	4,079,949
Accumulated depletion and depreciation	
At December 31, 2014	(903,445)
Depletion and depreciation	(160,933)
At June 30, 2015	(1,064,378)
Carrying amount at December 31, 2014	2,897,291
Carrying amount at June 30, 2015	**3,015,571**

During the three and six month periods ended June 30, 2015, Peyto capitalized $1.8 million and $3.8 million (2014 - $2.4 million and $4.8 million) of general and administrative expense directly attributable to exploration and development activities.

4. Long-term debt

	June 30, 2015	**December 31, 2014**
Bank credit facility	490,000	605,000
Senior unsecured notes	420,000	320,000
Balance, end of the period	**910,000**	925,000

As at June 30, 2015, The Company has a syndicated $1.0 billion extendible unsecured revolving credit facility with a stated term date of April 26, 2017. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. 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 May 1, 2015, Peyto issued CDN $100 million 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 4.26% and mature on May 1, 2025. 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 June 30, 2015.

Total interest expense for the three and six month periods ended June 30, 2015 was $8.7 million and $17.6 million (2014 - $8.5 million and $17.3 million) and the average borrowing rate for the period was 3.7% and 3.6% (2014– 4.2% and 4.3%).

5. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2014	**100,815**
New or increased provisions	11,478
Accretion of decommissioning provision	1,127
Change in discount rate and estimates	(864)
Balance, June 30, 2015	**112,556**
Current	-
Non-current	112,556

Peyto has estimated the net present value of its total decommissioning provision to be $112.6 million as at June 30, 2015 ($100.8 million at December 31, 2014) based on a total future undiscounted liability of $233.72 million ($178.5 million at December 31, 2014). At June 30, 2015 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2040 to 2064. The Bank of Canada's long term bond rate of 2.31 per cent (2.33 per cent at December 31, 2014) and an inflation rate of two per cent (two per cent at December 31, 2014) were used to calculate the present value of the decommissioning provision.

6. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2014	**153,690,808**	**1,292,398**
Common shares issued by private placement	230,465	7,732
Equity offering	5,037,000	172,517
Common share issuance costs, (net of tax)	-	(5,387)
Balance, June 30, 2015	**158,958,273**	**1,467,260**

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

	Three Months ended June 30		Six Months ended June 30	
	2015	2014	**2015**	2014
Weighted average common shares basic and diluted	**158,117,853**	153,690,808	**155,996,994**	152,763,770

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

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

On April 16, 2015, Peyto completed a public offering for 5,037,000 common shares at a price of $34.25 per common share, for net proceeds of $165.2 million.

Dividends

During the three and six month periods ended June 30, 2015, Peyto declared and paid dividends of $0.33 and $0.66 per common share ($0.11 per common share for the months of January to June 2015), totaling $52.0 million and $103.0 million respectively (2014 - $0.28 and $0.52 ($0.08 per common share per month for January to April and $0.10 per common share for the months of May and June), totaling $42.9 million and $79.5 million respectively).

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:

	June 30, 2015	June 30, 2014
Share price	$30.53-$32.27	$22.58-$40.10
Exercise price	$21.70-$33.68	$19.91-$31.75
Expected volatility	21.9%	0%-26%
Option life	0.50 years	0.50 years
Dividend yield	0%	0%
Risk-free interest rate	0.49%	1.09%

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 June 30, 2015.

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

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

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and 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 June 30, 2015, cash and financial derivative instruments are carried at fair value. Accounts receivable, due from private placement, current liabilities and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

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

Following is a summary of all risk management contracts in place as at June 30, 2015:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2015 to March 31, 2016	Fixed Price	190,000 GJ	$2.7525/GJ – 4.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	55,000 GJ	$2.83- $3.05/GJ
April 1, 2015 to October 31, 2015	Fixed Price	80,000 GJ	$2.75- $3.91/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
June 1, 2015 to October 31, 2015	Fixed Price	15,000 GJ	$2.50 - $2.60/GJ
November 1, 2015 to March 31, 2016	Fixed Price	45,000 GJ	$2.78- $3.11/GJ
November 1, 2015 to March 31, 2017	Fixed Price	10,000 GJ	$2.92 -$2.975/GJ
April 1, 2016 to March 31, 2017	Fixed Price	40,000 GJ	$2.81- $3.00/GJ
April 1, 2016 to October 31, 2016	Fixed Price	35,000 GJ	$3.05-$ 3.43/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$ 2.95/GJ

As at June 30, 2015, Peyto had committed to the future sale of 136,435,000 gigajoules (GJ) of natural gas at an average price of $3.22 per GJ or $3.70 per mcf. Had these contracts been closed on June 30, 2015, Peyto would have realized a net gain in the amount of $58.3 million. If the AECO gas price on June 30, 2015 were to increase by $1/GJ, the unrealized gain would decrease by approximately $136.4 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to June 30, 2015 Peyto entered into the following contracts:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
November 1, 2015 to March 31, 2016	Fixed Price	15,000 GJ	$3.00/GJ to $3.045/GJ
November 1, 2015 to March 31, 2017	Fixed Price	10,000 GJ	$2.95/GJ to $2.975/GJ
April 1, 2016 to March 31, 2017	Fixed Price	15,000 GJ	$2.95/GJ to $3.01/GJ

9. Related party transactions

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

Director	Company	Description	2015 ($000)	2014 ($000)
Don Gray	Petrus Resources Ltd.	Chairman of the Board	14.8	129.1
Mick MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul) [(1)]	Director, NCSG Crane and Heavy Haul	543.7	-
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	332.3	224.2

(1) was not a related party until August 2014

10. 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 June 30, 2015:

	2015	2016	2017	2018	2019	Thereafter
Interest payments[1]	9,193	18,385	18,385	18,385	16,190	41,835
Transportation commitments	10,686	22,186	21,638	29,676	27,403	105,441
Operating leases	1,250	1,914	1,654	1,295	1,295	9,062
Other	1,049	-	-	-	-	-
Total	22,178	42,485	41,677	49,356	44,888	156,338

[1] Fixed interest payments on senior unsecured notes

11. Contingencies

On October 31, 2013, Peyto was named as a party to a statement of claim received with respect to transactions between Poseidon Concepts Corp. and Open Range Energy Corp. The allegations against New Open Range contained in the claim described above are based on factual matters that pre-existed the Company's acquisition of New Open Range. The Company has not yet been required to defend this action. If it is required to defend the action, the Company intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions

Officers

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Todd Burdick
Vice President, Production

Directors

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

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Canadian Imperial Bank of Commerce
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