PEYTO

Exploration & Development Corp.

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Interim Report
for the three and nine months ended September 30, 2015

	Three Months ended September 30		%	Nine Months ended September 30		%
	2015	2014	Change	**2015**	2014	Change
Operations						
Production						
Natural gas (mcf/d)	**455,137**	420,538	*8%*	**451,829**	399,431	*13%*
Oil & NGLs (bbl/d)	**5,352**	7,502	*-29%*	**6,543**	7,482	*-13%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**487,250**	465,550	*5%*	**491,084**	444,323	*11%*
Barrels of oil equivalent (boe/d @ 6:1)	**81,208**	77,592	*5%*	**81,847**	74,054	*11%*
Production per million common shares (boe/d)*	**511**	505	*1%*	**521**	484	*8%*
Product prices						
Natural gas ($/mcf)	**3.57**	4.18	*-15%*	**3.68**	4.33	*-15%*
Oil & NGLs ($/bbl)	**41.69**	71.01	*-41%*	**40.58**	76.21	*-47%*
Operating expenses ($/mcfe)	**0.28**	0.32	*-13%*	**0.31**	0.36	*-14%*
Transportation ($/mcfe)	**0.16**	0.13	*23%*	**0.15**	0.13	*15%*
Field netback ($/mcfe)	**3.21**	4.12	*-22%*	**3.32**	4.27	*-22%*
General & administrative expenses ($/mcfe)	**0.02**	0.02	-	**0.03**	0.03	-
Interest expense ($/mcfe)	**0.19**	0.20	*-5%*	**0.20**	0.21	*-5%*
Financial ($000, except per share*)						
Revenue	**170,216**	210,640	*-19%*	**526,230**	627,476	*-16%*
Royalties	**6,489**	14,578	*-55%*	**20,356**	50,128	*-59%*
Funds from operations	**134,513**	166,988	*-19%*	**414,349**	489,351	*-15%*
Funds from operations per share	**0.85**	1.09	*-22%*	**2.64**	3.20	*-18%*
Total dividends	**52,456**	46,107	*14%*	**155,693**	125,645	*24%*
Total dividends per share	**0.33**	0.30	*10%*	**0.99**	0.82	*21%*
Payout ratio	**39**	28	*39%*	**38**	26	*46%*
Earnings	**37,347**	68,893	*-46%*	**94,154**	193,181	*-51%*
Earnings per diluted share	**0.23**	0.45	*-49%*	**0.60**	1.26	*-52%*
Capital expenditures	**176,618**	180,024	*-2%*	**431,338**	510,692	*-16%*
Weighted average common shares outstanding	**158,958,273**	153,690,808	*3%*	**156,994,934**	152,763,770	*3%*
As at September 30						
End of period shares outstanding				**158,958,273**	153,690,808	*3%*
Net debt				**1,021,105**	937,611	*9%*
Shareholders' equity				**1,619,916**	1,434,754	*13%*
Total assets				**3,259,579**	2,913,345	*12%*

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

	Three Months ended September 30		Nine Months ended September 30	
($000 except per share)	**2015**	2014	**2015**	2014
Cash flows from operating activities	**139,275**	150,763	**399,724**	449,386
Change in non-cash working capital	**(9,754)**	12,330	**4,941**	22,853
Change in provision for performance based compensation	**4,992**	3,895	**9,684**	17,112
Funds from operations	**134,513**	166,988	**414,349**	489,351
Funds from operations per share	**0.85**	1.09	**2.64**	3.20

(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 third quarter of the 2015 fiscal year. The Company achieved record low costs and again improved operational execution to deliver a 79% operating margin (1) and a 22% profit margin (2). Additional highlights included:

- **Earnings of $0.23/share, dividends of $0.33/share.** Earnings of $37 million were generated in the quarter (inclusive of the 20% increase in Alberta corporate tax rates) while dividends of $52 million were paid to shareholders. The third quarter 2015 represents the 43rd consecutive quarter of positive earnings from which Peyto's sustainable dividends are funded. Since inception Peyto has generated $1.93 billion in cumulative earnings and paid $1.81 billion in cumulative dividends and distributions to shareholders.

- **Funds from operations per share of $0.85.** Generated $135 million in Funds from Operations ("FFO") in Q3 2015 down 19% (22% per share) from $167 million in Q3 2014 due to a 23% reduction in realized commodity prices, partially offset by a 22% reduction in cash costs.

- **Capital investment of $177 million**. A record 40 gross wells (39 net) were drilled in the third quarter. In total, new wells brought on production over the last 12 months accounted for 40,370 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $612 million, equates to an annualized capital efficiency of $15,150/boe/d.

- **Record low cash costs of $0.80/Mcfe ($0.65/mcfe or $3.92/boe excluding royalties).** Total cash costs, including $0.15/mcfe royalties, $0.28/mcfe operating costs, $0.16/mcfe transportation, $0.02/mcfe G&A and $0.19/mcfe interest, were again the lowest in Company history. This 22% decrease from $1.02/mcfe in Q3 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 $3.00/Mcfe ($18.00/boe) or a 79% operating margin.

- **Production per share up 1%.** Third quarter 2015 production increased 5% from 466 MMcfe/d (77,592 boe/d) in Q3 2014 to 487 MMcfe/d (81,208 boe/d) in Q3 2015. Continued interruptible and firm service curtailments on TransCanada's ("TCPL") Nova Gas Transmission system during the quarter deferred an average of 65 MMcfe/d (10,750 boe/d) in the third quarter. Subsequent to quarter end, daily production has reached as high as 104,000 boe/d.

Third Quarter 2015 in Review

Peyto maintained its resource development momentum with 10 active drilling rigs working throughout the third quarter. A record number of wells were drilled and completed in the quarter with 40 gross (39 net) wells drilled and 37 gross (35 net) wells completed. Capital cost savings from reduced industry activity and lower service rates continued in the quarter with average drilling and completion costs of $3.3 million per well down approximately 25% from $4.4 million in 2014. In Q3, a greater proportion of wells were drilled in the Brazeau and Ansell areas, where additional road and lease construction capital was required, which was responsible for the $0.2 million increase in average drilling and completion costs from Q2 2015. Average drilling times of 18.6 days from spud to rig release resulted in improved rig productivity from previous years. These ongoing improvements in drilling performance and cost savings continue to drive down the full-cycle cost to add new production, which is expected to average approximately $12,000/boe/d by the end of 2015. Production for the quarter of 81,208 boe/d was impacted by ongoing TCPL pipeline capacity constraints. A total of 10,750 boe/d of production was shut in or curtailed from older wells as the Company directed the take-away limitations at pre-2015 wells in preference to new 2015 wells so that capital efficiency could be determined. A 13% reduction in operating cost was realized in the quarter which helped preserve operating margins despite the year-over-year reduction in commodity prices. Notwithstanding the increase in corporate tax rates, the strong financial and operating performance delivered $37 million in quarterly earnings, an annualized Return on Capital Employed (ROCE) of 8%, and an annualized Return on Equity (ROE) of 8%.

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 continued to focus its drilling activity for the third quarter within the Greater Sundance, Brazeau, and Ansell areas. In the Ansell area, seismic data acquired this past winter was used to identify numerous multiple zone opportunities and has set the stage for ongoing development activity for the next several quarters. Currently, some of the Company's most profitable wells are coming from this area. Total drilling in the quarter, by formation and area, is shown in the following table:

	Field							Total Wells Drilled
Zone	**Sundance**	**Nosehill**	**Wildhay**	**Ansell/Minehead**	**Berland**	**Kisku/Kakwa**	**Brazeau**	
Cardium								
Notikewin	5			1				6
Falher	3	2		6			1	12
Wilrich	5	2	3	4			6	20
Bluesky	1			1				2
Total	14	4	3	12			7	40

The Company also increased drilling activity in the Brazeau area, following up some excellent well results from earlier in the year. Continued cost improvements and increasing well productivity at Brazeau are driving a dramatic growth in area production as well as improvements in per well returns.

While the average horizontal laterals in Q3 were slightly shorter than past quarters this year, the trend to longer wells with longer laterals continues in 2015 as illustrated in the following table.

	2010	**2011**	**2012**	**2013**	**2014**	**2015 Q1**	**2015 Q2**	**2015 Q3**
Gross Spuds	52	70	86	99	123	31	34	40
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,416	4,289	4,308
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,516	1,483
Drilling ($MM/well)	$2.763	$2.823	$2.789	$2.720	$2.660	$2.446	$2.045	$2.111
$ per meter	$734	$723	$694	$651	$626	$555	$477	$490
Completion ($MM/well)	$1.358	$1.676	$1.672	$1.625	$1.702	$1.440	$1.049	$1.202
$ per meter	$361	$429	$416	$389	$400	$330	$245	$279

Capital Expenditures

Capital expenditures for the third quarter of 2015 totalled $177 million, comprised of $88 million of drilling, $44 million of completions, $15 million of wellsite equipment and tie-ins, $32 million of facilities and pipelines, $4 million in land and seismic, and $6 million in dispositions. A total of 40 gross (39 net) wells were drilled in the quarter, 37 gross (35.2 net) wells completed and 32 gross (30.7 net) wells equipped and tied in.

Facility advancements during the third quarter included a compressor addition at Brazeau, increasing capacity to 50 MMcf/d, and the Swanson gas plant expansion, increasing capacity from 65 MMcf/d to over 105 MMcf/d. Refrigeration capacity additions at the Swanson gas plant were sized such that, over the next two years, additional compression can be added to increase throughput by another 35 MMcf/d.

Peyto acquired an additional 19 section of new land in the quarter for $4.2 million, bringing total lands acquired for the year to 51 sections for a total of $8.5 million, or an average of $260/acre. The Company also disposed of 5 sections of minor, non-core lands in the quarter, totalling $6.1 million.

Commodity Prices

Alberta (AECO) natural gas prices improved slightly from Q2 2015 while Canadian Light Sweet oil prices retreated from the previous quarter back to Q1 2015 levels as both commodities remained under pressure from excess North American supply. The average third quarter 2015 Alberta (AECO) daily and monthly natural gas prices were $2.75/GJ and $2.66/GJ, respectively, up from $2.53/GJ in the previous quarter, but down from $3.81/GJ and $4.00/GJ, respectively, in Q3 2014. As Peyto had committed 89% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $2.66/GJ or $3.02/mcf, prior to any hedging gain.

As a result of the Company's hedging strategy, approximately 65% of Peyto's natural gas production received a fixed price of $3.38/GJ from hedges that were put in place over the previous 24 months, while the balance received the blended daily and monthly price of $2.66/GJ, resulting in an after-hedge price of $3.11/GJ, or $3.57/mcf, equating to a $0.55/mcf hedging gain.

Peyto realized an oil and natural gas liquids price of $41.69/bbl in Q3 2015 for its blend of condensate, pentane, butane and propane, which represented 76% of the $54.70/bbl average Canadian Light Sweet posted price, as shown in the following table. The blended realized liquids price was again impacted by negative propane prices in the quarter. These negative propane prices are now expected to persist for the remainder of the year and into 2016. Peyto is continuing to optimize its plant processes to leave as much propane in the gas stream as possible in order to realize a higher blended price for its NGLs, as evidenced in the drop in propane production from 1,654 boe/d in Q3 2014 to 289 boe/d in Q3 2015.

Commodity Prices by Component

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Natural gas – after hedging ($/mcf)	**3.50**	4.18	**3.73**	4.33
Natural gas – after hedging ($/GJ)	**3.06**	3.67	**3.25**	3.78
AECO monthly ($/GJ)	**2.66**	4.00	**2.66**	4.31
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**49.49**	90.58	**55.14**	98.05
Propane ($/bbl)	**(8.22)**	24.82	**(1.64)**	28.73
Butane ($/bbl)	**19.24**	56.50	**23.92**	55.44
Pentane ($/bbl)	**50.70**	93.13	**54.09**	100.76
Total Oil and natural gas liquids ($/bbl)	**41.69**	71.01	**40.58**	76.21
Canadian Light Sweet postings ($/bbl)	**54.70**	97.75	**58.64**	100.58

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

Financial Results

Combining Peyto's realized natural gas and liquids prices resulted in a blended price of $3.80/mcfe (including a hedge gain of $0.52/mcfe) or $22.80/boe for Q3 2015. Royalties of $0.15/mcfe, Operating costs of $0.28/mcfe, Transportation of $0.16/mcfe, G&A of $0.02/mcfe and interest costs of $0.19/mcfe all combined for total cash costs of $0.80/mcfe ($4.79/boe) which is the lowest in Company history.

Depletion, depreciation and amortization charges of $1.71/mcfe for Q3 2015 were slightly higher than the $1.65/mcfe charges in Q3 2014, while the provision for future tax and future performance based compensation was lower, resulting in earnings of $0.83/mcfe or a 22% profit margin. Third quarter 2015 earnings of $0.83/mcf were below dividend payments for the quarter of $1.17/mcfe. At times dividend payments might exceed earnings, however, over the long term Peyto has balanced dividend payments with earnings generated by the Company.

Fundamental to Peyto's profitability is cost control, which endeavors to preserve cash netbacks and profits throughout the commodity price cycle so that those profits might be enjoyed by all stakeholders. As illustrated in the following table, over the last 3.75 years, during which Alberta natural gas prices have averaged $3.05/GJ, Peyto has generated on average $3.40/mcfe in funds from operations, and after accounting for a blended historical and future cost of reserves replacement (ie. Depletion, Depreciation & Amortization) had $1.64/mcfe in profit to share with stakeholders. Approximately two thirds of that profit was allocated to shareholders in the form of dividends, 27% to the governments of Alberta and Canada in the form of future tax, and 7% to the employees of Peyto.

Netbacks per unit of production

($/mcfe)	2012	2013	2014	YTD 2015	*Average*		Q3 2015
Gross Sales Price	3.66	4.32	5.44	3.31	***4.18***		3.28
Hedging Gain	0.55	0.11	(0.40)	0.62	***0.22***		0.52
Net Sales Price	4.21	4.43	5.04	3.93	***4.40***		3.80
Total Cash Costs	**(1.05)**	**(1.06)**	**(1.08)**	**(0.83)**	***(1.01)***		(0.80)
Cash Netback	3.16	3.37	3.96	3.10	***3.40***		3.00
D, D & A	(1.77)	(1.74)	(1.75)	(1.78)	***(1.76)***		(1.71)
Profit for stakeholders	**1.39**	**1.63**	**2.21**	**1.32**	***1.64***		1.29
Dividends to shareholders	(1.04)	(1.01)	(1.05)	(1.16)	***(1.07)***	*66%*	(1.17)
Performance Compensation to employees	(0.10)	(0.17)	(0.12)	(0.08)	***(0.12)***	*7%*	(0.12)
Future Tax to governments	(0.37)	(0.36)	(0.52)	(0.52)	***(0.44)***	*27%*	(0.33)
Balance	**(0.12)**	**0.09**	**0.52**	**(0.44)**	***0.01***		(0.33)

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 November 12, 2015.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2015	18,285,000	15,900,000	3.24	3.72
2016	95,695,000	83,213,043	3.05	3.50
2017	31,760,000	27,617,391	2.87	3.30
2018	3,600,000	3,130,435	2.86	3.29
Total	149,340,000	129,860,870	3.04	3.49

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

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 streams for capital planning purposes.

Activity Update

Firm service restrictions continued to be in place on much of the TCPL system throughout October, however, Peyto was able to secure additional temporary firm service allowing for all previously restricted production to flow for the last 11 days of October. This has allowed Peyto to fully test productive capability from both base wells and all new drilling for this year. Sales from the start of October increased from 83,500 boe/d to an estimated average of 102,000 boe/d by the end of the month. TransCanada is currently forecasting additional constraints for the first three weeks of November prior to predicted increases in their system capacity. The predicted increases should help alleviate restrictions in Peyto's production towards the end of 2015 and into 2016.

Peyto's development program, meanwhile, is adding new productive capability at an ever increasing pace. Improvements in capital efficiency and rig productivity means Peyto is developing more reserves and production with less capital and equipment than in previous years. The 10 drilling rigs currently operating in Peyto's Deep Basin core areas released a record 16 gross wells in October, bringing the year to date total to 118 gross (112.5 net) wells drilled. The Swanson gas plant expansion was also completed and commissioned in October, increasing processing capacity from 65 MMcf/d to over 105 MMcf/d. Over the balance of the fourth quarter, additional compressors will be added at Brazeau and Swanson, increasing capacity at those facilities by 10 and 17 MMcf/d respectively. By the end of 2015, Peyto will own and operate a total of 9 gas processing facilities, capable of over 730 MMcf/d (130,000 boe/d), along with 1600 km of gas gathering system in the Alberta Deep Basin.

Drilling for the remainder of 2015 will be focused across Peyto's Deep Basin core areas with two rigs working in Brazeau, two in Minehead/Ansell, and six in the Greater Sundance area.

2016 Budget

The Board of Directors of Peyto has approved a preliminary 2016 budget which includes a capital program expected to range between $600 and $650 million. The capital program involves drilling between 130 gross (124 net) and 145 gross (137 net) horizontal wells, along with associated pipeline and facility investments to accommodate the growing production base. The 10 drilling rigs currently contracted are deemed sufficient for this level of activity with the expectation of a minimal amount of disruption during the traditional spring breakup period.

The 2016 drilling locations will be selected from Peyto's multi-year, internal inventory of profitable drilling locations and are all forecast to achieve Peyto's rate of return hurdles at current strip commodity prices. These locations are estimated to add between 45,000 and 50,000 boe/d of new working interest production, for a cost of approximately $12,000 - $13,000/boe/d, based on current service costs. Considering the expected 2016 commodity prices and industry activity levels, Peyto anticipates working with its suppliers to further reduce costs by an additional 10%, thereby enhancing returns and reducing the cost to add new production even further. A portion of the new production will offset an initial forecast of 35% base decline, while a portion will grow overall 2016 production from an expected 2015 exit level of 100,000 boe/d to a 2016 exit between 110,000 boe/d and 115,000 boe/d.

The 2016 facility and pipeline investments of up to $85 million will continue to strengthen and expand Peyto's wholly owned and controlled infrastructure resulting in a 15,000 boe/d capacity increase. This includes a $50 million investment in the expansion of existing gas plants at Swanson and Brazeau. An additional $25 million will be invested into large capacity extensions of existing gathering systems with some of those extensions connecting strategic growth areas for future development. Other components of the facility investment include an $8 million investment into a Greater Sundance area water recycling and disposal facility which will help to reduce future completion costs.

Alberta natural gas prices are currently forecast to average approximately $2.50/GJ in 2016, along with Canadian Light Sweet oil prices of $60/bbl. In accordance with Peyto's historical hedging practice, the Company has already forward sold approximately 40% of 2016 forecast gas production at an average price of $3.05/GJ. These prices, when adjusted for Peyto's historic NGL and heat content premiums of approximately 130% and combined with the Company's industry leading cash costs of approximately $0.80/Mcfe ($4.80/boe), should yield cash netbacks of approximately $16/boe to $17/boe, and give Peyto the ability to fund its dividend and the majority of the capital program from internally generated FFO. For remainder of the funding for the capital program, Peyto has available capacity within its bank lines and working capital, while continuing to maintain a strong balance sheet.

Outlook

Peyto has successfully executed one of the largest resource development programs in Company history this year, delivering superior returns on capital invested, despite the challenges in the industry caused by transportation restrictions and low commodity prices. Commodity prices that have averaged $2.65/GJ for AECO natural gas and $58/bbl for Canadian light sweet oil this year are forecast to stay at these levels for most of 2016. Peyto looks to continue to take advantage of low industry activity and consequently low service costs, in a typical counter cyclical manner, to accelerate investment in 2016 and to once again deliver superior returns. While the typical 100,000 boe/d producer would be burdened with a larger staff size and inefficient processes, Peyto with its 50 full time employees remains extremely lean and nimble, able to quickly react to changes in the investment environment as it unfolds. As always, capital investments will only be pursued if Peyto's high risk-adjusted return objectives can be met.

Darren Gee
President and CEO
November 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 November 10, 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 seventeen 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)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue (net of royalties)	**163,727**	166,327	175,820	205,125	196,062	189,830	191,457	154,167
Funds from operations	**134,513**	135,195	144,643	173,437	166,988	161,577	160,785	125,164
Per share – basic and diluted	**0.85**	0.86	0.94	1.13	1.09	1.05	1.05	0.84
Earnings	**37,347**	12,295	44,513	68,597	68,893	62,159	62,129	37,989
Per share – basic and diluted	**0.23**	0.08	0.29	0.45	0.45	0.41	0.41	0.26
Dividends	**52,456**	52,456	50,781	49,292	46,107	43,033	36,505	35,702
Per share – basic and diluted	**0.33**	0.33	0.33	0.32	0.30	0.28	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 September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Natural gas (mmcf/d)	**455.1**	420.6	**451.8**	399.4
Oil & natural gas liquids (bbl/d)	**5,352**	7,502	**6,543**	7,482
Barrels of oil equivalent (boe/d)	**81,208**	77,592	**81,847**	74,054
Thousand cubic feet equivalent (mmcfe/d)	**487.3**	465.6	**491.1**	444.3

Natural gas production averaged 455.1 mmcf/d in the third quarter of 2015, 8 percent higher than the 420.6 mmcf/d reported for the same period in 2014. Oil and natural gas liquids production averaged 5,352 bbl/d, a decrease of 29 percent from 7,502 bbl/d reported in the prior year primarily due to propane rejection. Third quarter production increased 5 percent from 465.6 mmcfe/d to 487.3 mmcfe/d. The production increases are attributable to Peyto's capital program and resulting production additions offset by TCPL pipeline capacity constraints.

Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Condensate (bbl/d)	**2,398**	2,671	**2,732**	2,807
Propane (bbl/d)	**289**	1,654	**896**	1,660
Butane (bbl/d)	**950**	1,377	**1,243**	1,395
Pentane (bbl/d)	**1,561**	1,625	**1,507**	1,438
Other NGL's (bbl/d)	**154**	175	**165**	182
Oil & natural gas liquids (bbl/d)	**5,352**	7,502	**6,543**	7,482
Million cubic feet equivalent (mmcfe/d)	**32.1**	45.0	**39.3**	44.9

The liquid production to sales gas ratio declined from 18 bbl/mmcf in Q3 2014 to 12 bbl/mmcf in Q3 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. Peyto is continuing to optimize its plant processes to leave as much propane in the gas stream as possible in order to realize a higher blended price for its NGLs, as evidenced in the drop in propane production from 1,654 boe/d in Q3 2014 to 289 boe/d in Q3 2015.

Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Oil and natural gas liquids ($/bbl)	**41.69**	71.27	**40.58**	77.74
Hedging – ngls ($/bbl)	**-**	(0.26)	**-**	(1.53)
Oil and natural gas liquids – after hedging ($/mcf)	**41.69**	71.01	**40.58**	76.21
Natural gas ($/mcf)	**3.02**	4.50	**3.01**	4.90
Hedging – gas ($/mcf)	**0.55**	(0.32)	**0.67**	(0.57)
Natural gas – after hedging ($/mcf)	**3.57**	4.18	**3.68**	4.33
Total Hedging ($/mcfe)	**0.52**	(0.29)	**0.62**	(0.54)
Total Hedging ($/boe)	**3.11**	(1.75)	**3.69**	(3.27)

Peyto's natural gas price, before hedging, averaged $3.02/mcf during the third quarter of 2015, a decrease of 33 percent from $4.50/mcf reported for the equivalent period in 2014. Oil and natural gas liquids prices before hedging averaged $41.69/bbl, a decrease of 42 percent from $71.27/bbl a year earlier.

Commodity Prices by Component

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Natural gas – after hedging ($/mcf)	**3.50**	4.18	**3.73**	4.33
Natural gas – after hedging ($/GJ)	**3.06**	3.67	**3.25**	3.78
AECO monthly ($/GJ)	**2.66**	4.00	**2.66**	4.31
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**49.49**	90.58	**55.14**	98.05
Propane ($/bbl)	**(8.22)**	24.82	**(1.64)**	28.73
Butane ($/bbl)	**19.24**	56.50	**23.92**	55.44
Pentane ($/bbl)	**50.70**	93.13	**54.09**	100.76
Total Oil and natural gas liquids ($/bbl)	**41.69**	71.01	**40.58**	76.21
Canadian Light Sweet postings ($/bbl)	**54.70**	97.75	**58.64**	100.58

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

Revenue

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2015**	2014	**2015**	2014
Natural gas	**126,467**	173,935	**371,287**	534,755
Oil and natural gas liquids	**20,526**	49,188	**72,487**	158,783
Hedging gain (loss)	**23,223**	(12,483)	**82,456**	(66,062)
Total revenue	**170,216**	210,640	**526,230**	627,476

For the three months ended September 30, 2015, revenue decreased 19 percent to $170.2 million from $210.6 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 September 30			Nine Months ended September 30		
	2015	2014	**$million**	2015	2014	**$million**
Total Revenue, September 30, 2014			**210.6**			**627.5**
Revenue change due to:						
Natural gas						
Volume (mmcf)	41,444	38,690	**13.3**	81,477	109,045	**62.0**
Price ($/mcf)	$3.50	$4.18	**(25.4)**	$3.73	$4.33	**(80.2)**
Oil & NGL						
Volume (mbbl)	623	690	**(14.0)**	1,294	2,043	**(19.5)**
Price ($/bbl)	$43.54	$71.01	**(14.3)**	$40.16	$76.21	**(63.6)**
Total Revenue, September 30, 2015			**170.2**			**526.2**

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 September 30		Nine Months ended September 30	
($000 except per share amounts)	**2015**	2014	**2015**	2014
Royalties	**6,489**	14,578	**20,356**	50,128
% of sales before hedging	**4.4**	6.5	**4.6**	7.2
% of sales after hedging	**3.8**	6.9	**3.9**	8.0
$/mcfe	**0.15**	0.34	**0.15**	0.41
$/boe	**0.87**	2.04	**0.91**	2.48

For the third quarter of 2015, royalties averaged $0.15/mcfe or approximately 4.4% of Peyto's total petroleum and natural gas sales excluding hedges.

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

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

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

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

In its 17 years history, Peyto has invested $4.6 billion in capital projects, found and developed 4.0 TCFe of gas reserves, and paid over $756 million in royalties.

Operating Costs & Transportation

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

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Operating costs ($000)	**12,665**	13,905	**40,672**	43,195
$/mcfe	**0.28**	0.33	**0.31**	0.36
$/boe	**1.70**	1.95	**1.82**	2.14
Transportation ($000)	**7,085**	5,659	**20,302**	15,902
$/mcfe	**0.16**	0.13	**0.15**	0.13
$/boe	**0.95**	0.79	**0.91**	0.79

For the third quarter, operating expenses decreased 9% compared to the same quarter of 2014. On a unit-of-production basis, operating costs decreased 15% averaging $0.28/mcfe in the third quarter of 2015 compared to $0.33/mcfe for the equivalent period in 2014 due to lower power, chemical and maintenance costs and increases in production volume as a result of our successful capital program.

Transportation expenses increased 23% from 0.13/mcfe in the third quarter 2014 to $0.16/mcfe in the third 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 September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
G&A expenses ($000)	**3,862**	3,950	**12,323**	11,961
Overhead recoveries	**(3,040)**	(3,001)	**(7,992)**	(8,874)
Net G&A expenses	**822**	949	**4,331**	3,087
$/mcfe	**0.02**	0.02	**0.03**	0.03
$/boe	**0.11**	0.13	**0.19**	0.15

For the third quarter, general and administrative expenses before overhead recoveries decreased 2% from the same quarter of 2014. General and administrative expenses averaged $0.09/mcfe before overhead recoveries of $0.07/mcfe for net general and administrative expenses of $0.02/mcfe in the third quarter of 2015 unchanged compared to the third quarter of 2014.

Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Interest expense ($000)	**8,642**	8,560	**26,221**	25,812
$/mcfe	**0.19**	0.20	**0.20**	0.21
$/boe	**1.16**	1.20	**1.17**	1.28
Average interest rate	**3.6%**	3.9%	**3.6%**	4.1%

Third quarter 2015 interest expense was $8.6 million ($0.19/mcfe) compared to $8.6 million ($0.20/mcfe) for the third quarter 2014.

Netbacks

($/mcfe)	Three Months ended September 30 **2015**	2014	Nine Months ended September 30 **2015**	2014
Gross Sale Price	**3.28**	5.21	**3.31**	5.71
Hedging gain (loss)	**0.52**	(0.29)	**0.62**	(0.54)
Net Sale Price	**3.80**	4.92	**3.93**	5.17
Less: Royalties	**0.15**	0.34	**0.15**	0.41
Operating costs	**0.28**	0.33	**0.31**	0.36
Transportation	**0.16**	0.13	**0.15**	0.13
Field netback	**3.21**	4.12	**3.32**	4.27
General and administrative	**0.02**	0.02	**0.03**	0.03
Interest on long-term debt	**0.19**	0.20	**0.20**	0.21
Cash netback ($/mcfe)	**3.00**	3.90	**3.09**	4.03
Cash netback ($/boe)	**18.00**	23.39	**18.54**	24.21

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 16% from $3.28 to $3.80 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 third quarter provision for depletion, depreciation and amortization totaled $76.6 million as compared to $70.8 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 $1.71/mcfe as compared to $1.65/mcfe in 2014. Due to the decrease in commodity prices from December 31, 2014 (the date of the last reserve report), an impairment test was conducted to determine if the carrying value of the property, plant and equipment exceeds the estimated fair value. Based on this analysis, there does not appear to be an impairment of the value of property, plant and equipment.

Income Taxes

The current provision for deferred income tax expense is $14.4 million compared to $23.0 million in 2014. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	**September 30, 2015**	December 31, 2014	**Annual deductibility**
Canadian Oil and Gas Property Expense	217.0	232.3	10% declining balance
Canadian Development Expense	879.6	806.6	30% declining balance
Canadian Exploration Expense	41.5	85.7	100%
Undepreciated Capital Cost	393.8	385.3	Primarily 25% declining balance
Other	34.5	32.1	Various, 7% declining balance to 20%
Total Federal Tax Pools	**1,566.4**	**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 third quarter of 2015, a realized hedging gain of $23.2 million was recorded as compared to a $12.5 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 October 31, 2015	Fixed Price	5,000 GJ	$3.285/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.47/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.48/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.78/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.79/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.91/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.865/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.75/GJ
April 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.75/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.9175/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.93/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$4.05/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.915/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.73/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.56/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.57/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.62/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.71/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.67/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.74/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.72/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.70/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.71/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.75/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.65/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.41/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.58/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.65/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.515/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.305/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.7525/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.76/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.8675/GJ
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.925/GJ
April 1, 2015 to October 31, 2016	Fixed Price	5,000 GJ	$2.885/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ

April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.98/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.83/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$3.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.90/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.97/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
June 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.50/GJ
June 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.50/GJ
June 1, 2015 to October 31, 2015	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.88/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.85/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.11/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.78/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.95/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.96/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.045/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.01/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$3.055/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.935/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.9125/GJ
November 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.825/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.975/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.88/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.925/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.92/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.975/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.84/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.37/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.43/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.40/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.35/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.24/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	$3.05/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.81/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.86/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.90/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$3.00/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.8525/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.92/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.975/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.94/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$3.01/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.98/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.92/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.88/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$ 2.95/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.74/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.975/GJ

April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.88/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.945/GJ

As at September 30, 2015, Peyto had committed to the future sale of 140,750,000 gigajoules (GJ) of natural gas at an average price of $3.11 per GJ or $3.58 per mcf. Had these contracts been closed on September 30, 2015, Peyto would have realized a gain in the amount of $50.7 million.

Subsequent to September 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	5,000 GJ	$2.625/GJ
December 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.5275/GJ
January 1, 2016 to March 31, 2016	Fixed Price	5,000 GJ	$2.62/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.70/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.70/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.6425/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.64/GJ
April 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.58/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.85/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.835/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.85/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.87/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.875/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.825/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.825/GJ

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 September 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 $1.3 million per quarter. Average debt outstanding for the quarter was $964.5 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 September 30		Nine Months ended September 30	
($000)	**2015**	2014	**2015**	2014
Cash flows from operating activities	**139,275**	150,763	**399,724**	449,386
Change in non-cash working capital	**(9,754)**	12,330	**4,941**	22,853
Change in provision for performance based compensation	**4,992**	3,895	**9,684**	17,112
Funds from operations	**134,513**	166,988	**414,349**	489,351
Funds from operations per share	**0.85**	1.09	**2.64**	3.20

For the third quarter ended September 30, 2015, funds from operations totaled $134.5 million or $0.85 per share, as compared to $167.0 million or $1.09 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, income tax 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

	September 30, 2015	December 31, 2014
Bank credit facility	**540,000**	605,000
Senior unsecured notes	**420,000**	320,000
Balance, end of the period	**960,000**	925,000

As at September 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.

The terms and conditions of the remaining CDN $320 million remain unchanged from December 31, 2014.

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 September 30, 2015 – 1.66:1.0

- 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 September 30, 2015 – 1.66:1.0

- 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 September 30, 2015 – 17.3 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 September 30, 2015 – 0.38

Peyto is in compliance with all financial covenants and has no subordinated debt as at September 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 $600 to $650 million for 2016. The total amount of capital invested in 2016 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly 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 September 30, 2015**	As at December 31, 2014	As at September 30, 2014
Bank credit facility	**540,000**	605,000	565,000
Senior secured notes	**420,000**	320,000	320,000
Current assets	**(144,103)**	(218,097)	(132,397)
Current liabilities	**171,942**	217,443	221,271
Financial derivative instruments - current	**51,174**	93,387	(14,051)
Provision for future performance based compensation - current	**(17,908)**	(8,225)	(22,212)
Net debt	**1,021,105**	1,009,508	937,611

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, September 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 $2.5 million was recorded for the quarter ended September 30, 2015. The cumulative provision is $6.1 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 September 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 $3.0 million for the third quarter of 2015. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 7 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative provision totals $13.7 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 third quarter of 2015 totaled $176.6 million. Exploration and development related activity represented $131.8 million (75% of total), while expenditures on facilities, gathering systems and equipment totaled $46.5 million (26% of total) and land, seismic and acquisitions net of dispositions reduced expenditures by $1.7 million (-1% of total). The following table summarizes capital expenditures for the year:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2015**	2014	**2015**	2014
Land	**4,185**	-	**5,451**	8,738
Seismic	**90**	123	**4,372**	6,383
Drilling	**88,052**	82,504	**216,972**	231,216
Completions	**43,742**	45,889	**119,565**	129,990
Equipping & Tie-ins	**14,512**	11,124	**32,494**	37,090
Facilities & Pipelines	**32,027**	40,337	**55,463**	97,002
Acquisitions	**54**	47	**3,107**	273
Dispositions	**(6,102)**	-	**(6,282)**	-
Office	**58**	-	**196**	-
Total Capital Expenditures	**176,618**	180,024	**431,338**	510,692

Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Funds from operations ($000)	**134,513**	166,988	**414,349**	489,351
Total dividends ($000)	**52,456**	46,107	**155,693**	125,645
Total dividends per common share ($)	**0.33**	0.30	**0.99**	0.82
Payout ratio (%)	**39**	28	**38**	26

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 September 30, 2015:

($000)	2015	2016	2017	2018	2019	Thereafter
Interest payments [(1)]	4,830	18,385	18,385	18,385	16,190	41,835
Transportation commitments	6,109	24,441	23,857	32,782	29,299	116,649
Operating leases	600	1,914	1,654	1,295	1,295	9,062
Other	1,065	2,130	-	-	-	-
Total	12,604	46,870	43,896	52,462	46,784	167,546

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

New Open Range was incorporated on September 14, 2011 solely for purposes of participating in a plan of arrangement with Poseidon (formerly named Open Range Energy Corp. ("Old Open Range")), which was completed on November 1, 2011. Pursuant to such arrangement, Poseidon completed a corporate reorganization resulting in two separate publicly-traded companies: Poseidon, which continued to carry on the energy service and supply business; and New Open Range, which carried on Poseidon's former oil and gas exploration and production business. 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 commercial transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. The dollar value of the transactions between Peyto and each of the related reporting entities is summarized below:

($000)			Three Months ended September 30		Nine Months ended September 30	
Director	**Company**	**Description**	**2015**	2014	**2015**	2014
Don Gray	Petrus Resources Ltd.	Chairman of the Board	**(1.5)**	119.9	**13.3**	249.0
Mick MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul) (1)	Director, NCSG Crane and Heavy Haul	**136.5**	373.7	**680.2**	373.7
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	**301.2**	401.90	**633.5**	626.1

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 September 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 2015. 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 September 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	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	455,137	455,443	444,794	451,044	420,538
Oil & NGLs (bbl/d)	5,352	6,843	7,456	8,077	7,502
Barrels of oil equivalent (boe/d @ 6:1)	81,208	82,750	81,588	83,251	77,592
Thousand cubic feet equivalent (mcfe/d @ 6:1)	487,250	496,498	489,528	499,505	465,550
Average product prices					
Natural gas ($/mcf)	3.57	3.50	3.97	4.22	4.18
Oil & natural gas liquids ($/bbl)	41.69	43.54	37.03	55.47	71.01
$/MCFE					
Average sale price ($/mcfe)	3.80	3.81	4.17	4.71	4.92
Average royalties paid ($/mcfe)	0.15	0.13	0.18	0.24	0.34
Average operating expenses	0.28	0.31	0.32	0.31	0.33
Average transportation costs	0.16	0.15	0.15	0.13	0.13
Field netback ($/mcfe)	3.21	3.22	3.52	4.03	4.12
General & administrative expense ($/mcfe)	0.02	0.04	0.04	0.06	0.02
Interest expense ($/mcfe)	0.19	0.19	0.20	0.19	0.20
Cash netback ($/mcfe)	3.00	2.99	3.28	3.78	3.90
Financial ($000 except per share)					
Revenue	170,216	172,202	183,812	216,321	210,640
Royalties	6,489	5,875	7,992	11,196	14,578
Funds from operations	134,513	135,195	144,643	173,147	166,988
Funds from operations per share	0.85	0.86	0.94	1.13	1.09
Total dividends	52,456	52,456	50,780	49,181	46,107
Total dividends per share	0.33	0.33	0.33	0.32	0.30
Payout ratio	39%	39%	35%	29%	28%
Earnings	37,347	12,295	44,513	68,597	68,893
Earnings per diluted share	0.23	0.08	0.29	0.45	0.45
Capital expenditures	176,618	116,643	138,077	179,697	180,024
Weighted average shares outstanding	158,958,273	158,117,853	153,852,570	153,690,808	153,690,808

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in Cdn$ thousands)

	September 30 2015	December 31 2014
Assets		
Current assets		
Accounts receivable	72,627	98,699
Due from private placement *(Note 6)*	-	5,625
Derivative financial instruments *(Note 8)*	51,174	93,387
Prepaid expenses	20,302	20,386
	144,103	218,097
Long-term derivative financial instruments *(Note 8)*	-	11,677
Property, plant and equipment, net *(Note 3)*	3,115,476	2,897,291
	3,115,476	2,908,968
	3,259,579	3,127,065
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	136,549	192,312
Dividends payable *(Note 6)*	17,485	16,906
Provision for future performance based compensation *(Note 7)*	17,908	8,225
	171,942	217,443
Long-term debt *(Note 4)*	960,000	925,000
Provision for future performance based compensation *(Note 7)*	1,937	1,024
Long-term derivative financial instruments *(Note 8)*	519	-
Decommissioning provision *(Note 5)*	120,819	100,815
Deferred income taxes	384,446	330,847
	1,467,721	1,357,686
Equity		
Share capital *(Note 6)*	1,467,260	1,292,398
Shares to be issued *(Note 6)*	-	5,625
Retained earnings	112,389	173,927
Accumulated other comprehensive loss *(Note 6)*	40,267	79,986
	1,619,916	1,551,936
	3,259,579	3,127,065

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in Cdn$ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
Revenue				
Oil and gas sales	146,993	223,123	443,774	693,538
Realized gain (loss) on hedges *(Note 8)*	23,223	(12,483)	82,456	(66,062)
Royalties	(6,489)	(14,578)	(20,356)	(50,128)
Petroleum and natural gas sales, net	**163,727**	196,062	**505,874**	577,348
Expenses				
Operating	12,665	13,905	40,672	43,195
Transportation	7,085	5,659	20,302	15,902
General and administrative	822	949	4,331	3,087
Future performance based compensation *(Note 7)*	5,518	3,831	10,596	22,231
Interest	8,642	8,560	26,221	25,812
Accretion of decommissioning provision *(Note 5)*	633	477	1,760	1,452
Depletion and depreciation *(Note 3)*	76,623	70,824	237,555	208,085
	111,988	104,205	**341,437**	319,764
Earnings before taxes	**51,739**	91,857	**164,437**	257,584
Income tax				
Deferred income tax expense	14,392	22,964	70,282	64,403
Earnings for the period	**37,347**	68,893	**94,155**	193,181

Earnings per share *(Note 6)*				
Basic and diluted	**$0.23**	$0.45	**$0.60**	$1.26

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

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

(Amount in Cdn$ thousands)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
Earnings for the period	**37,347**	68,893	**94,155**	193,181
Other comprehensive income				
Change in unrealized (loss) gain on cash flow hedges	(7,660)	12,923	(54,409)	(52,048)
Deferred tax (expense) recovery	2,068	(6,352)	14,690	(3,504)
Realized (gain) loss on cash flow hedges	(23,223)	12,483	(82,456)	66,062
Comprehensive income (loss)	**8,532**	87,947	**(28,020)**	203,691

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in Cdn$ thousands)

	Nine months ended September 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	94,155	193,181
Dividends declared *(Note 6)*	(155,693)	(125,645)
Retained earnings, end of period	**112,389**	154,511

Accumulated other comprehensive income, beginning of period	**79,986**	(22,651)
Other comprehensive loss	(39,719)	10,510
Accumulated other comprehensive income (loss), end of period	**40,267**	(12,141)

Total equity	**1,619,916**	1,434,754

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in Cdn$ thousands)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	**2015**	2014
Cash provided by (used in) operating activities				
Earnings	37,347	68,893	94,155	193,181
Items not requiring cash:				
Deferred income tax	14,392	22,964	70,282	64,403
Depletion and depreciation	76,623	70,824	237,555	208,085
Accretion of decommissioning provision	633	477	1,760	1,452
Long term portion of future performance based compensation	526	(65)	913	5,118
Change in non-cash working capital related to operating activities	9,754	(12,330)	(4,941)	(22,853)
	139,275	150,763	**399,724**	449,386
Financing activities				
Issuance of common shares	-	-	180,249	167,477
Issuance costs	-	-	(7,380)	(6,883)
Cash dividends paid	(52,456)	(46,107)	(155,113)	(122,177)
Increase (decrease) in bank debt	50,000	60,000	(65,000)	10,000
Issuance of senior unsecured notes	-	-	100,000	-
	(2,456)	13,893	**52,756**	48,417
Investing activities				
Additions to property, plant and equipment	(176,618)	(180,024)	(431,338)	(510,692)
Change in prepaid capital	7,721	1,917	(6,158)	1,569
Change in non-cash working capital relating to investing activities	32,078	35,304	(14,984)	33,173
	(136,819)	(142,803)	**(452,480)**	(475,950)
Net increase (decrease) in cash	**-**	21,853	**-**	21,853
Cash, beginning of period	**-**	-	**-**	-
Cash, end of period	**-**	21,853	**-**	21,853
The following amounts are included in cash flows from operating activities:				
Cash interest paid	**9,402**	11,165	**24,050**	24,625
Cash taxes paid	**-**	-	**-**	-

See accompanying notes to the financial statements

1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 10, 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	431,338
Decommissioning provision additions	18,244
Prepaid capital	6,158
At September 30, 2015	4,256,476
Accumulated depletion and depreciation	
At December 31, 2014	(903,445)
Depletion and depreciation	(237,555)
At September 30, 2015	(1,141,000)
Carrying amount at December 31, 2014	2,897,291
Carrying amount at September 30, 2015	**3,115,476**

During the three and nine month periods ended September 30, 2015, Peyto capitalized $3.0 million and $6.8 million (2014 - $2.5 million and $7.3 million) of general and administrative expense directly attributable to exploration and development activities.

4. Long-term debt

	September 30, 2015	**December 31, 2014**
Bank credit facility	540,000	605,000
Senior unsecured notes	420,000	320,000
Balance, end of the period	**960,000**	925,000

As at September 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.

The terms and conditions of the remaining CDN $320 million remain unchanged from December 31, 2014.

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

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

Peyto is in compliance with all financial covenants at September 30, 2015.

Total interest expense for the three and nine month periods ended September 30, 2015 was $8.6 million and $26.2 million (2014 - $8.6 million and $25.8 million) and the average borrowing rate for the periods was 3.6% and 3.6% (2014– 3.9% and 4.1%).

5. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2014	**100,815**
New or increased provisions	16,063
Accretion of decommissioning provision	1,760
Change in discount rate and estimates	2,181
Balance, September 30, 2015	**120,819**
Current	-
Non-current	120,819

Peyto has estimated the net present value of its total decommissioning provision to be $120.8 million as at September 30, 2015 ($100.8 million at December 31, 2014) based on a total future undiscounted liability of $246.9 million ($214.1 million at December 31, 2014). At September 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 2.21 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, September 30, 2015	**158,958,273**	**1,467,260**

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

	Three Months ended September 30		Nine Months ended September 30	
	2015	2014	**2015**	2014
Weighted average common shares basic and diluted	**158,958,273**	148,758,923	**156,994,934**	148,730,485

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 nine month periods ended September 30, 2015, Peyto declared and paid dividends of $0.33 and $0.99 per common share ($0.11 per common share), totaling $52.5 million and $155.7 million respectively (2014 - $0.30 and $0.82 ($0.08 per common share per month for January to April and $0.10 per common share for the months of May and September), totaling $35.7 million and $95.2 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:

	September 30, 2015	September 30, 2014
Share price	$27.75-$34.34	$22.58-$35.34
Exercise price	$21.70-$33.35	$19.91-$31.60
Expected volatility	31%	23%
Option life	0.25 years	0.25 years
Dividend yield	0%	0%
Risk-free interest rate	0.52%	1.12%

8. Financial instruments

Financial instrument classification and measurement
Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at September 30, 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 September 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 September 30, 2015:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
April 1, 2015 to October 31, 2015	Fixed Price	80,000 GJ	$2.75- $3.91/GJ
April 1, 2015 to March 31, 2016	Fixed Price	190,000 GJ	$2.7525- $4.05/GJ
April 1, 2015 to October 31, 2016	Fixed Price	5,000 GJ	$2.855/GJ
April 1, 2015 to March 31, 2017	Fixed Price	50,000 GJ	$2.83/GJ to $3.05/GJ
May 1, 2015 to October 31, 2015	Fixed Price	15,000 GJ	$2.50/GJ to $2.60 /GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
November 1, 2015 to March 31, 2016	Fixed Price	75,000 GJ	$2.78/GJ- $3.11/GJ
November 1, 2015 to March 31, 2017	Fixed Price	40,000 GJ	$2.84/GJ -$2.975/GJ
April 1, 2016 to October 31, 2016	Fixed Price	35,000 GJ	$3.05/GJ-$ 3.43/GJ
April 1, 2016 to March 31, 2017	Fixed Price	70,000 GJ	$2.81/GJ- $3.01/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
April 1, 2017 to October 31, 2017	Fixed Price	15,000 GJ	$2.74/GJ to $2.795/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.945/GJ

As at September 30, 2015, Peyto had committed to the future sale of 140,700,000 gigajoules (GJ) of natural gas at an average price of $3.11 per GJ or $3.58 per mcf. Had these contracts been closed on September 30, 2015, Peyto would have realized a net gain in the amount of $50.7 million. If the AECO gas price on September 30, 2015 were to increase by $1/GJ, the unrealized gain would decrease by approximately $140.7 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to September 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	5,000 GJ	$2.625GJ
December 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	$2.5275/GJ
January 1, 2016 to March 31, 2016	Fixed Price	5,000 GJ	$2.62/GJ
April 1, 2016 to March 31, 2017	Fixed Price	25,000 GJ	$2.58/GJ to $2.700/GJ
April 1, 2017 to March 31, 2018	Fixed Price	35,000 GJ	$2.825/GJ to $2.875/GJ

9. Related party transactions

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

Director	Company	Description	Three Months ended September 30 2015	2014	Nine Months ended September 30 2015	2014
Don Gray	Petrus Resources Ltd.	Chairman of the Board	**(1.5)**	119.9	**13.3**	249.0
Mick MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul) [1]	Director, NCSG Crane and Heavy Haul	**136.5**	373.7	**680.2**	373.7
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	**301.2**	401.90	**633.5**	626.1

[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 September 30, 2015:

	2015	2016	2017	2018	2019	Thereafter
Interest payments[1]	4,830	18,385	18,385	18,385	16,190	41,835
Transportation commitments	6,109	24,441	23,857	32,782	29,299	116,649
Operating leases	600	1,914	1,654	1,295	1,295	9,062
Other	1,065	2,130	-	-	-	-
Total	12,604	46,870	43,896	52,462	46,784	167,546

[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

Bankers

Bank of Montreal
Union Bank, Canada Branch
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank of Nova Scotia
HSBC Bank Canada
Alberta Treasury Branches
Canadian Western Bank

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