PEYTO

Exploration & Development Corp.

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Interim Report
for the three and nine months ended September 30, 2017

HIGHLIGHTS

	Three Months Ended Sep 30		%	Nine Months Ended Sep 30		%
	2017	**2016**	Change	**2017**	**2016**	Change
Operations						
Production						
Natural gas (mcf/d)	**557,958**	534,710	*4%*	**547,456**	530,441	*3%*
Oil & NGLs (bbl/d)	**8,958**	7,247	*24%*	**8,952**	6,960	*29%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**611,703**	578,189	*6%*	**601,168**	572,199	*5%*
Barrels of oil equivalent (boe/d @ 6:1)	**101,951**	96,365	*6%*	**100,195**	95,367	*5%*
Production per million common shares (boe/d)*	**618**	585	*6%*	**608**	589	*3%*
Product prices						
Natural gas ($/mcf)	**2.81**	2.88	*-2%*	**2.90**	2.86	*1%*
Oil & NGLs ($/bbl)	**45.92**	39.76	*15%*	**47.45**	38.54	*23%*
Operating expenses ($/mcfe)	**0.26**	0.25	*4%*	**0.27**	0.25	*8%*
Transportation ($/mcfe)	**0.17**	0.16	*6%*	**0.17**	0.16	*6%*
Field netback ($/mcfe)	**2.72**	2.63	*3%*	**2.76**	2.59	*7%*
General & administrative expenses ($/mcfe)	**0.03**	0.04	*-25%*	**0.04**	0.04	-
Interest expense ($/mcfe)	**0.21**	0.19	*11%*	**0.21**	0.19	*11%*
Financial ($000, except per share*)						
Revenue	**182,226**	168,195	*8%*	**549,158**	488,437	*12%*
Royalties	**5,165**	6,382	*-19%*	**24,872**	18,241	*36%*
Funds from operations	**139,257**	127,915	*9%*	**412,049**	370,000	*11%*
Funds from operations per share	**0.85**	0.78	*9%*	**2.50**	2.29	*9%*
Total dividends	**54,408**	54,328	-	**163,204**	160,583	*2%*
Total dividends per share	**0.33**	0.33	-	**0.99**	0.99	-
Payout ratio	**39**	42	*-7%*	**40**	43	*-7%*
Earnings	**44,818**	22,814	*96%*	**125,029**	73,859	*69%*
Earnings per share	**0.27**	0.14	*93%*	**0.76**	0.46	*65%*
Capital expenditures	**135,187**	113,571	*19%*	**386,800**	339,968	*14%*
Weighted average common shares outstanding	**164,874,175**	164,630,168	-	**164,849,932**	161,882,961	*2%*
As at September 30						
End of period shares outstanding (includes shares to be issued				**164,874,175**	164,630,168	-
Net debt				**1,286,268**	1,060,355	*21%*
Shareholders' equity				**1,668,761**	1,638,860	*2%*
Total assets				**3,691,803**	3,443,871	*7%*

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

	Three Months Ended September 30		Nine Months Ended September 30	
($000 except per share)	**2017**	2016	**2017**	2016
Cash flows from operating activities	**142,659**	129,057	**391,776**	370,299
Change in non-cash working capital	**(4,411)**	(10,256)	**13,938**	(20,647)
Change in provision for performance based compensation	**1,009**	9,114	**6,335**	20,348
Funds from operations	**139,257**	127,915	**412,049**	370,000
Funds from operations per share	**0.85**	0.78	**2.50**	2.29

(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 2017 fiscal year. A 76% operating margin (1) and a 25% profit margin (2) in the quarter delivered an annualized 10% return on equity (ROE) and 8% return on capital employed (ROCE). Additional highlights included:

- **Earnings of $0.27/share, dividends of $0.33/share.** Earnings of $45 million were generated in the quarter bringing year-to-date earnings to $125 million. Earnings per share of $0.27 were up 93% from the $0.14 in Q3 2016. The Company has never incurred a write down or recorded an impairment in its 19 year history and this quarter represents Peyto's 51st consecutive quarter of earnings which is the best evidence shareholder's capital has been invested profitably.

- **Funds from operations of $0.85/share.** Generated $139 million in FFO in Q3 2017 up from $128 million in Q3 2016 (up 9%/share). Year to date in 2017, funds from operations have totaled $412 million while capital expenditures have totaled $387.

- **Total cash costs of $0.76/Mcfe (or $0.67/Mcfe ($4.03/boe) excluding royalties).** Industry leading total cash costs, including $0.09/Mcfe royalties, $0.26/Mcfe operating costs, $0.17/Mcfe transportation, $0.03/Mcfe G&A and $0.21/Mcfe interest, combined with a realized price of $3.24/Mcfe, resulting in a $2.48/Mcfe ($14.85/boe) cash netback, or a 76% operating margin.

- **Capital investment of $135 million**. A total of 44 gross wells (42.5 net) were drilled in the third quarter, 37 gross wells (35.0 net) were completed, and 42 gross wells (39.5 net) brought on production. Over the last 12 months the 138 gross (128 net) new wells brought on production accounted for 42,000 boe/d at the end of the quarter, which when combined with a trailing twelve month capital investment of $517 million, equates to an annualized capital efficiency of $12,300/boe/d.

- **Production per share up 6%.** Third quarter 2017 production of 612 MMcfe/d (101,951 boe/d) was up 6% (also 6% per share) from Q3 2016. Peyto elected to temporarily shut in production during periods of low gas prices in the quarter, which deferred approximately 3,500 boe/d of production from the quarter.

Third quarter 2017 in Review

Peyto had an active quarter of drilling and connecting new gas wells in Q3 2017 with nine drilling rigs operating in the quarter. Drilling and completion costs remained stable as execution and efficiency gains offset inflationary pressures. AECO daily natural gas prices, however, were extremely volatile, with prices ranging from a high of $2.46/GJ to a low of negative $2.20/GJ, which required Peyto to remain both nimble and disciplined in managing its production to ensure that volumes were only sold when profit could be generated. As a result, on certain days, up to 36,000 boe/d was shut in when AECO daily prices turned negative. This translated to a quarterly average volume of 3,500 boe/d being deferred. Despite this deferral, production was still up over the prior quarter and prior year period. At the same time, total cash costs and operating margins matched the same level as Q3 2016. These industry leading cash costs and operating margins allowed Peyto to generate the highest quarterly earnings achieved in the last three years and contributed to a year-over-year increase in annualized Return on Capital Employed.

1. Operating Margin is defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.

2. Profit Margin is defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.

Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

Exploration & Development

Third quarter 2017 activity was spread evenly across the Sundance, Ansell and Brazeau areas focused primarily on the Spirit River group of formations including the Notikewin, Falher and Wilrich. In total, 2 vertical Cardium wells in Brazeau and 42 horizontal wells were drilled as shown in the table below. The Company continues to realize particularly strong results in the Brazeau Notikewin program after refinements were made to the geophysical model earlier in the year.

	Field							Total
Zone	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	Brazeau	Wells Drilled
Belly River								0
Cardium	1						2V	3
Notikewin	1	1		2			12	16
Falher	1	2		1			1	5
Wilrich	6	2		11			1	20
Bluesky								0
Total	9	5		14			16	44

Horizontal well drilling costs in Q3 2017 were in line with the last six quarters despite some additional costs related to stratigraphic testing and increased casing costs. Completion costs (per meter of horizontal lateral) were up from Q2 2017 due to increased fracturing costs; however, costs per stage have also been in line with the previous six quarters. The following table illustrates the progression of cost optimization designed to contribute to lower overall development costs and greater returns:

	2010	2011	2012	2013	2014	2015	2016	2017 Q1	2017 Q2	2017 Q3
Gross Hz Spuds	52	70	86	99	123	140	126	**40**	**25**	**43**
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,309	4,197	**4,313**	**4,143**	**4,230**
Drilling ($MM/well)	$2.76	$2.82	$2.79	$2.72	$2.66	$2.16	$1.82	**$1.82**	**$1.89**	**$1.89**
$ per meter	$734	$723	$694	$651	$626	$501	$433	**$423**	**$457**	**$446**
Completion ($MM/well)	$1.36	$1.68	$1.67	$1.63	$1.70	$1.21	$0.86	**$1.09**	**$0.96**	**$0.95**
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,460	**1,547**	**1,498**	**1,397**
$ per Hz Length (m)	$1,017	$1,286	$1,231	$1,153	$1,166	$792	$587	**$705**	**$641**	**$680**
$ ‘000 per Stage	$231	$246	$257	$188	$168	$115	$79	**$83**	**$76**	**$82**

Capital Expenditures

During the third quarter of 2017, Peyto spent $73 million on drilling, $34 million on completions, $15 million on wellsite equipment and tie-ins, $11 million on facilities and major pipeline projects, and $2 million on lands and seismic, for total capital investments of $135 million.

In addition to the 42 gross (40.5 net) horizontal wells and 2 gross (2 net) vertical wells drilled, 37 gross (35 net) wells were completed and 42 gross (39.5 net) wells were equipped and tied in. Peyto also completed construction of a $3 million multi-well group pipeline in Whitehorse that connected the first three wells in the area and sets up for future drilling to be connected more quickly. Other facility and pipeline work included installing a 12th compressor at the West Brazeau gas plant, taking total capacity to 150 MMcf/d, as well as a pipeline to connect the Company’s Galloway and Swanson plants, further enhancing the Greater Sundance plant inter-connectivity and operating flexibility.

Commodity Prices

Average daily AECO natural gas prices were $1.38/GJ in Q3 2017, down 48% from $2.64/GJ the quarter before and down 37% from $2.20/GJ in Q3 2016. This was in contrast to US Henry Hub spot prices which averaged $2.95/MMBTU for the quarter, similar to the $2.88/MMBTU the year before. A change in the prioritization of gas transmission service on the NGTL system, which severely inhibited the ability for Alberta storage reservoirs to buffer the supply/demand imbalance, led to daily market instability and extreme volatility in AECO daily prices during the quarter which contributed to the dramatic drop in average natural gas price.

On average for Q3 2017, Peyto realized a natural gas price of $2.45/GJ or $2.81/Mcf. This was the result of a combination of approximately 16% of natural gas production being sold in the daily or monthly spot market at an average of $1.93/GJ ($2.21/Mcf) and 84% having been pre-sold at an average hedged price of $2.54/GJ (prices reported net of TCPL fuel).

In September of 2017, higher realized liquid propane prices allowed Peyto to restart its Oldman deep cut plant which resulted in increased NGL recoveries from 15 bbl/mmcf to 18 bbl/mmcf. As a result, Peyto's Q3 2017 liquid recoveries averaged 16 bbl/mmcf with a blended, realized, oil and natural gas liquids price of $45.92/bbl, which represented 81% of the $56.65/bbl average Canadian Light Sweet posted price. Details of realized commodity prices by component are shown in the following table:

Commodity Prices by Component

		Three Months ended September 30	
		2017	2016
AECO monthly	($/GJ)	**1.93**	2.09
AECO daily	($/GJ)	**1.38**	2.20
Henry Hub spot	($US/MMBTU)	**2.95**	2.88
Natural gas – prior to hedging	($/GJ)	**1.93**	2.08
	($/mcf)	**2.21**	2.39
Natural gas – after hedging	($/GJ)	**2.45**	2.50
	($/mcf)	**2.81**	2.88
Oil and natural gas liquids ($/bbl)			
Condensate ($/bbl)		**53.77**	47.95
Propane ($/bbl)		**23.25**	6.51
Butane ($/bbl)		**29.58**	20.25
Pentane ($/bbl)		**55.10**	49.15
Total Oil and natural gas liquids ($/bbl)		**45.92**	39.76
Canadian Light Sweet stream ($/bbl)		**56.65**	54.82
Peyto realized liquids price/Canadian Light Sweet		**81%**	73%

Liquids prices are Peyto realized prices (F.O.B. plant gate) in Canadian dollars adjusted for fractionation and transportation.

Financial Results

Approximately 21%, or $0.67/Mcfe, of Peyto's revenue came from its liquids sales while 79%, or $2.57/Mcfe, came from natural gas. This liquids revenue covered all cash costs excluding royalties. Cash costs of $0.76/Mcfe, included royalties of $0.09/Mcfe, operating costs of $0.26/Mcfe, transportation costs of $0.17/Mcfe, G&A of $0.03/Mcfe and interest costs of $0.21/Mcfe. Cash costs were lower than the previous quarter due to reductions in royalties, G&A and transportation, partially offset by increases in operating costs. These total cash costs, when deducted from realized revenues of $3.24/Mcfe, resulted in a cash netback of $2.48/Mcfe or a 76% operating margin. Historical cash costs and operating margins are shown in the following table. Going forward, Peyto expects per unit cash costs will continue to trend towards $0.80/Mcfe levels for the balance of 2017.

	2014	**2015**				**2016**				**2017**		
($/Mcfe)	FY	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**
Revenue	5.04	4.17	3.81	3.80	3.58	3.24	2.92	3.16	3.38	**3.44**	**3.36**	**3.24**
Royalties	0.38	0.18	0.13	0.15	0.13	0.13	0.10	0.12	0.18	**0.19**	**0.17**	**0.09**
Operating Costs	0.34	0.32	0.31	0.28	0.25	0.23	0.26	0.25	0.26	**0.29**	**0.24**	**0.26**
Transportation	0.13	0.15	0.15	0.16	0.16	0.16	0.17	0.16	0.16	**0.17**	**0.18**	**0.17**
G&A	0.03	0.04	0.04	0.02	0.05	0.03	0.06	0.04	0.03	**0.04**	**0.05**	**0.03**
Interest	0.21	0.20	0.19	0.19	0.16	0.17	0.21	0.19	0.18	**0.20**	**0.21**	**0.21**
Total Cash Costs	1.09	0.89	0.82	0.80	0.75	0.72	0.80	0.76	0.81	**0.89**	**0.85**	**0.76**
Netback	3.95	3.28	2.99	3.00	2.83	2.52	2.12	2.40	2.57	**2.55**	**2.51**	**2.48**
Operating Margin	78%	79%	78%	79%	79%	78%	73%	76%	76%	**74%**	**75%**	**76%**

Depletion, depreciation and amortization charges of $1.33/Mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of $0.80/Mcfe, or a 25% profit margin. Dividends of $0.97/Mcfe were paid to shareholders.

Subsequent to the end of the third quarter, Peyto increased and extended its revolving, unsecured credit facility to $1.3 billion with a stated term date of October 2021. This new facility has increased Peyto's total borrowing capacity to $1.82 billion.

Natural Gas Marketing

The current volatility in natural gas markets in Alberta remains high, reinforcing the value of Peyto's hedging practice of layering in future sales in the form of fixed price swaps. For the balance of 2017, approximately 78% of forecast gas volumes have been hedged to protect against this increased AECO volatility. Peyto's hedging program aims to achieve a fixed price on a descending, graduated schedule of up to 85% of gross production for the immediate summer or winter season and 75%, 65%, 55%, 45% and 30% targets thereafter for the successive following seasons. These fixed prices, which are settled against the AECO Monthly price, are achieved through a series of frequent transactions which is similar to "dollar cost averaging" the future gas prices in order to smooth out volatility. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of November 8, 2017:

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2017	30,100,000	26,173,913	$2.64	$3.03
2018	137,255,000	119,326,087	$2.48	$2.85
2019	18,975,000	16,500,000	$2.41	$2.77
2020	1,365,000	1,186,957	$2.39	$2.75
Total	185,385,000	161,204,348	$2.50	$2.88

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

In order to deal with restricted access to take-away capacity, Peyto has secured excess firm transportation on the NGTL system north of the James River receipt point of approximately 110% of Peyto's forecasted natural gas sales for the remainder of 2017 and 115% for the first quarter of 2018.

Both the firm transportation service and hedging strategies are designed to remove the uncertainty of system access and AECO price volatility while at the same time leaving Peyto with the maximum operating margin and future market optionality.

Activity Update

Peyto currently has 9 drilling rigs running in the Greater Sundance and Brazeau areas. Since the end of the third quarter, 13 wells have been drilled, 16 wells completed and 18 wells brought on production. October production averaged approximately 106,000 boe/d with 3,000 boe/d curtailed due to low gas price while current production is 115,000 boe/d and year-end exit production levels are expected to range between 115,000 and 120,000 boe/d. This exit production is expected to be accomplished for a total 2017 capital investment of approximately $530 million, less than the original budget of $550 to $600 million. This reduced capital is due to stronger than expected well results in Peyto's Brazeau Notikewin play and increases in the Brazeau West gas plant capacity that has allowed the construction of the Brazeau East gas plant to be deferred until 2018. It is now anticipated that a total of 146 gross (141 net) wells will be drilled in 2017, building approximately 50,000 boe/d of new production by year end for an expected capital efficiency of $10,600/boe/d.

Propane prices continue to improve which has allowed Peyto to modify the operation of its nine gas plants to recover more natural gas liquids, including continuous operation of the Company's Oldman deep cut plant. As a result, the Company's total natural gas liquid yields have increased from 15 bbl/mmcf earlier in the year to 18 bbl/mmcf.

2018 Budget

The current forecast for Alberta realized natural gas price for the summer of 2018 is less than $2.00/GJ. As a result, Peyto plans to defer a larger portion of its 2018 capital investments until the latter part of 2018 when prices are expected to improve rather than building new volumes throughout the competitive winter season only to bring them on into a seasonally low gas price environment. By timing capital investments in this way, Peyto expects to improve the returns on its capital program much as it has by being counter cyclical over the longer commodity price cycles. Therefore, the Board of Directors of Peyto has approved a preliminary first half 2018 budget which includes a capital program of approximately $150 million that involves the drilling of 45 gross wells (average 97% working interest) along with associated pipeline investments which is expected to build 18,000-20,000 boe/d of new production by mid-year and will contribute to an average first half production target of approximately 113,000 boe/d. Funds from operations are currently forecast to cover this entire capital program, dividend payments and reduce indebtedness.

For the second half of 2018, pending future Board approval and assuming the natural gas price forecast continues to improve, Peyto intends to embark on a larger capital program of approximately $300 million that involves the drilling of approximately 75 gross wells, associated pipelines and facility investments which, combined with the first half capital program, are designed to build total new production for the year of 50,000 boe/d. A portion of this new production would offset an annual forecast of 35% base decline, while a portion would grow 2018 production to an exit level of approximately 125,000 boe/d. New facility investments in Brazeau and Whitehorse are planned to be part of this larger capital program.

The future strip for Alberta natural gas prices remains volatile but is currently forecast to average approximately $2.15/GJ in 2018, along with Canadian Light Sweet oil prices of approximately $70/bbl. In accordance with Peyto's historical hedging practice, the Company has already forward sold approximately 52% of current gas production levels at an average price of $2.46/GJ. These prices, when adjusted for Peyto's historic NGL and heat content premiums and combined with the Company's industry leading cash costs of approximately $0.75 - $0.80/Mcfe ($4.80/boe), are expected to yield cash netbacks of approximately $14.50/boe.

Outlook

Peyto's focus on maximizing the return on and minimizing the risk of future capital investments by controlling the timing and execution of operations and by focusing on reducing costs throughout its business continues to remain steadfast. Volatile commodity markets are nothing new and Peyto's 19 year history of successfully navigating them has rewarded investors over the long term with industry leading profitability. Those profits have and will continue to form the basis for dividends to shareholders.

(signed) *"Darren Gee"*

Darren Gee
President and CEO
November 8, 2017

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, 2016 and 2015. The financial statements have been prepared in accordance with the International Accounting Standards Board’s (“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 7, 2017. 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. The forward-looking statements contained in this MD&A are made as of the date of this MD&A. Except as required by applicable securities law, we assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risks and assumptions affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

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). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl may be misleading as an indication of value.

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas and natural gas liquids in Alberta’s deep basin. As at December 31, 2016, the Company’s total Proved plus Probable reserves were 3.9 trillion cubic feet equivalent (655 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.
- Over time, balance dividends paid 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 eighteen years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

	2017			2016				2015
($000 except per share amounts)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue (net of royalties)	**177,061**	169,911	177,314	179,862	161,813	136,017	172,366	184,943
Funds from operations	**139,257**	133,487	139,305	144,593	127,915	102,178	139,907	151,123
Per share – basic and diluted	**0.85**	0.81	0.85	0.88	0.78	0.63	0.88	0.95
Earnings	**44,818**	39,957	40,255	38,489	22,814	9,102	41,943	43,406
Per share – basic and diluted	**0.27**	0.24	0.24	0.23	0.14	0.06	0.26	0.27
Dividends	**54,408**	54,408	54,387	54,328	54,328	53,735	52,520	52,456
Per share – basic and diluted	**0.33**	0.33	0.33	0.33	0.33	0.33	0.33	0.33

Funds from Operations

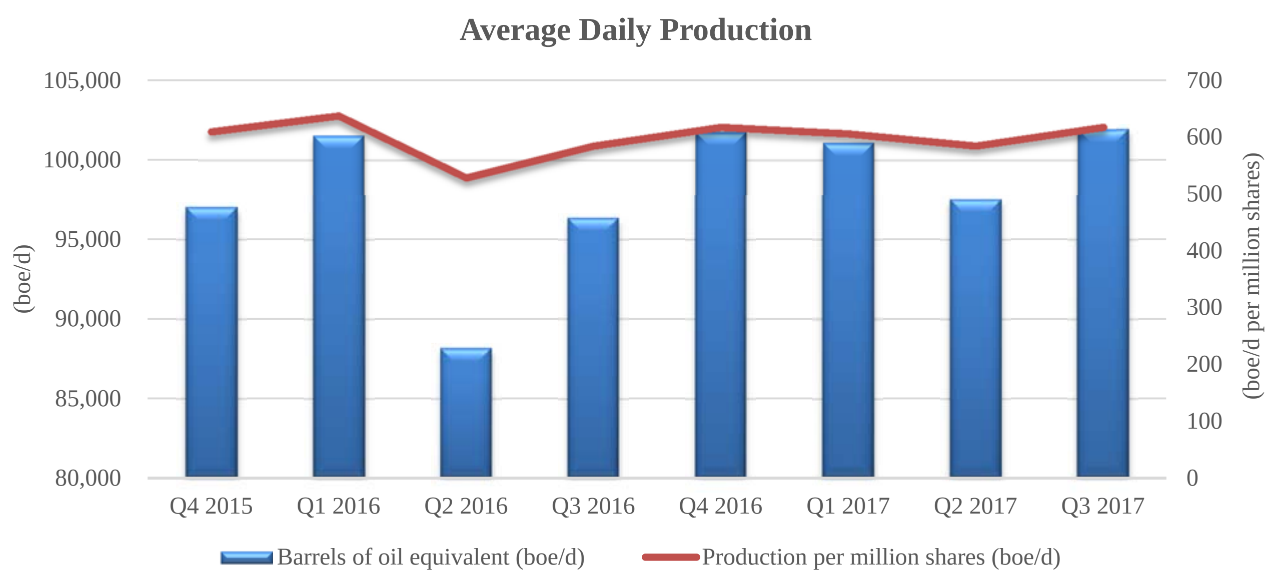
"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance based compensation. Management considers funds from operations and per share calculations of funds from operations 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	
	2017	2016	**2017**	2016
Natural gas (mmcf/d)	**558.0**	534.7	**547.5**	530.4
Oil & natural gas liquids (bbl/d)	**8,958**	7,247	**8,952**	6,960
Barrels of oil equivalent (boe/d)	**101,951**	96,365	**100,195**	95,367
Thousand cubic feet equivalent (mmcfe/d)	**611.7**	578.2	**601.2**	572.2

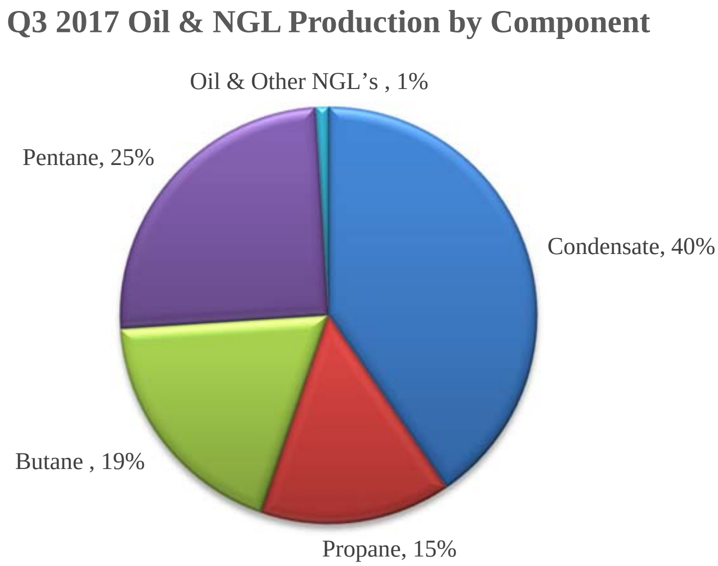
Natural gas production averaged 558.0 mmcf/d in the third quarter of 2017, 4 percent higher than the 534.7 mmcf/d reported for the same period in 2016. Oil and natural gas liquids production averaged 8,958 bbl/d, an increase of 24 percent from 7,247 bbl/d reported in the prior year. Third quarter production increased 6 percent from 578.2 mmcfe/d to 611.7 mmcfe/d. The production increases are attributable to Peyto's capital program and resulting production additions.



Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Condensate (bbl/d)	**3,609**	2,944	**3,667**	3,227
Propane (bbl/d)	**1,323**	735	**1,328**	447
Butane (bbl/d)	**1,670**	1,337	**1,740**	1,282
Pentane (bbl/d)	**2,235**	2,096	**2,075**	1,850
Other Oil and NGL's (bbl/d)	**121**	135	**142**	154
Oil & natural gas liquids (bbl/d)	**8,958**	7,247	**8,952**	6,960
Million cubic feet equivalent (mmcfe/d)	**53.7**	43.5	**53.7**	41.8

The liquid production to sales gas ratio increased from 13.6 bbl/mmcf in Q3 2016 to 16.1 bbl/mmcf in Q3 2017 primarily as a result of intentional changes to gas plant operating practices. Liquid propane prices recovered to the point where propane had more value in liquid form rather than as part of the sales gas stream. Peyto's long-term strategy of owning facilities and controlling production from the wellhead to the sales delivery point continues to allow the Company to respond quickly to changing conditions and thereby maximize profitability.



Commodity Prices

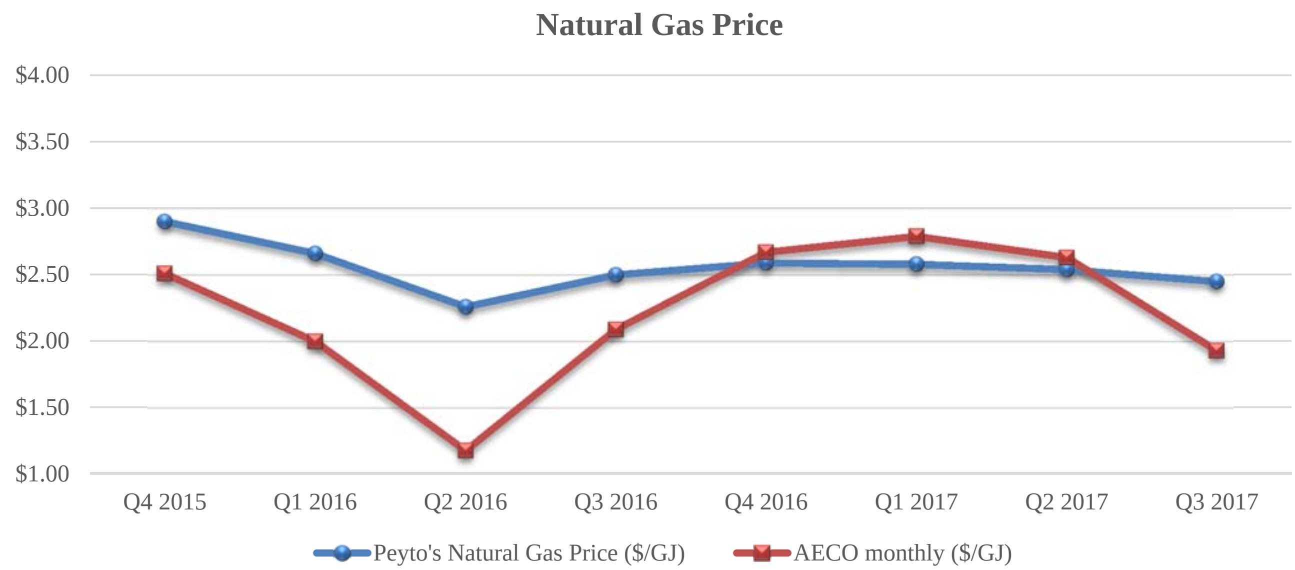
	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Oil and natural gas liquids ($/bbl)	**45.92**	39.76	**47.45**	38.24
Natural gas ($/mcf)	**2.21**	2.39	**2.77**	2.02
Hedging – gas ($/mcf)	**0.60**	0.49	**0.13**	0.84
Natural gas – after hedging ($/mcf)	**2.81**	2.88	**2.90**	2.86
Total Hedging ($/mcfe)	**0.55**	0.45	**0.11**	0.77
Total Hedging ($/boe)	**3.29**	2.70	**0.68**	4.65

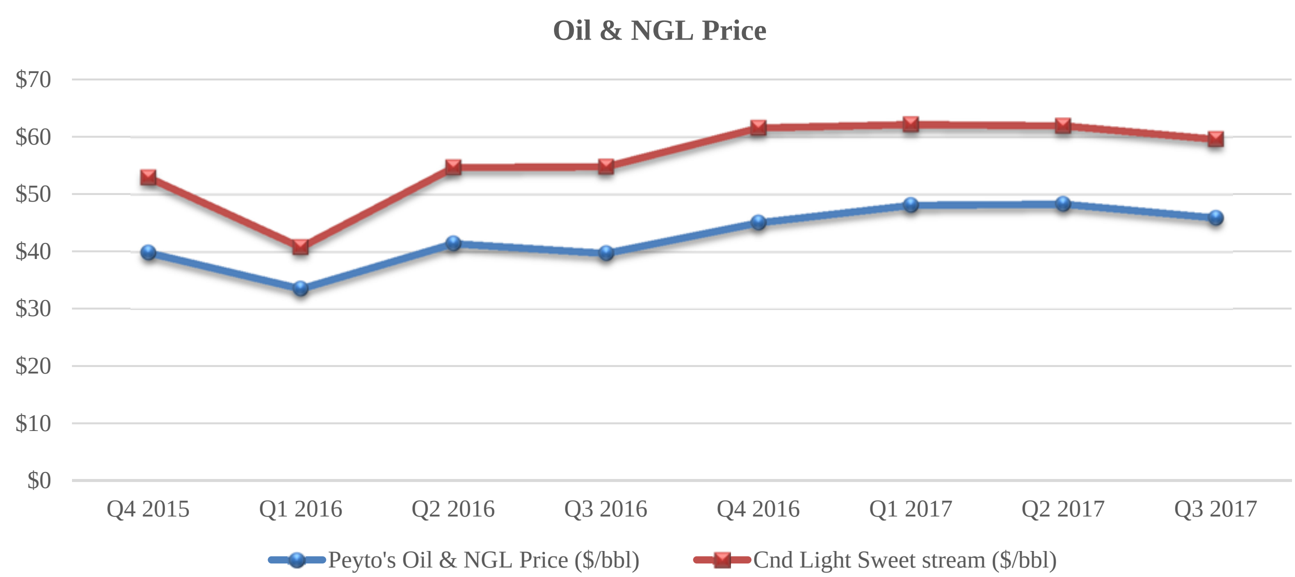
Peyto's natural gas price, before hedging, averaged $2.21/mcf during the third quarter of 2017, a decrease of 8 percent from $2.39/mcf reported for the equivalent period in 2016. Oil and natural gas liquids prices averaged $45.92/bbl, an increase of 15 percent from $39.76/bbl a year earlier.

Commodity Prices by Component

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Natural gas – after hedging ($/mcf)	**2.81**	2.88	**2.90**	2.86
Natural gas – after hedging ($/GJ)	**2.45**	2.50	**2.52**	2.49
AECO monthly ($/GJ)	**1.93**	2.09	**2.45**	1.76
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**53.77**	47.95	**57.47**	44.19
Propane ($/bbl)	**23.25**	6.51	**17.43**	2.30
Butane ($/bbl)	**29.58**	20.25	**29.79**	18.81
Pentane ($/bbl)	**55.10**	49.15	**69.66**	47.22
Total Oil and natural gas liquids ($/bbl)	**45.92**	39.76	**47.45**	38.24
Canadian Light Sweet stream ($/bbl)	**56.76**	54.82	**60.91**	50.15

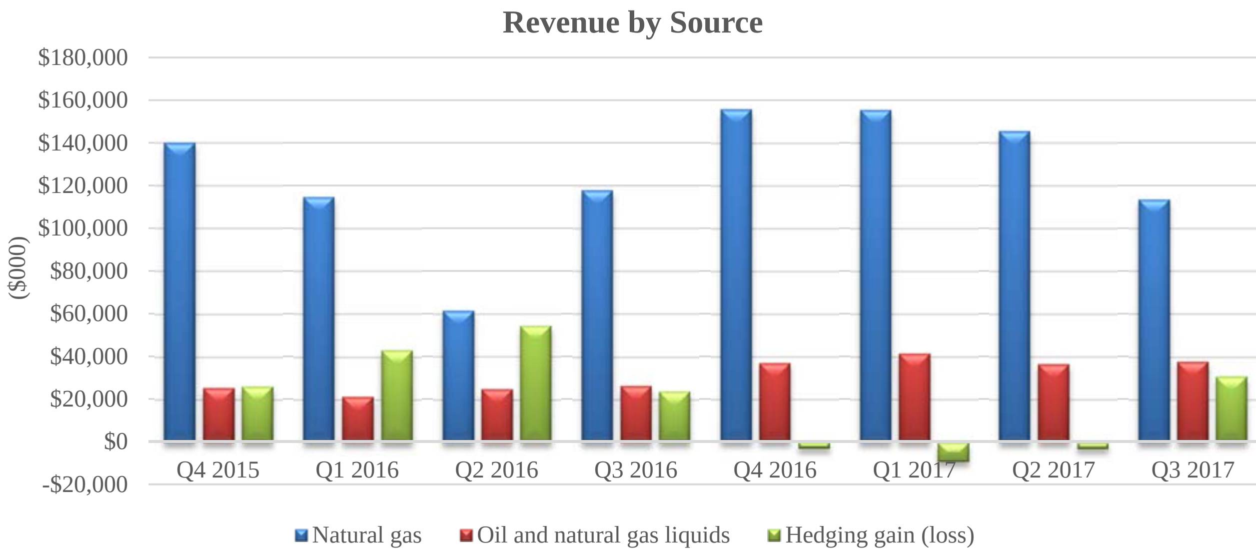
liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.





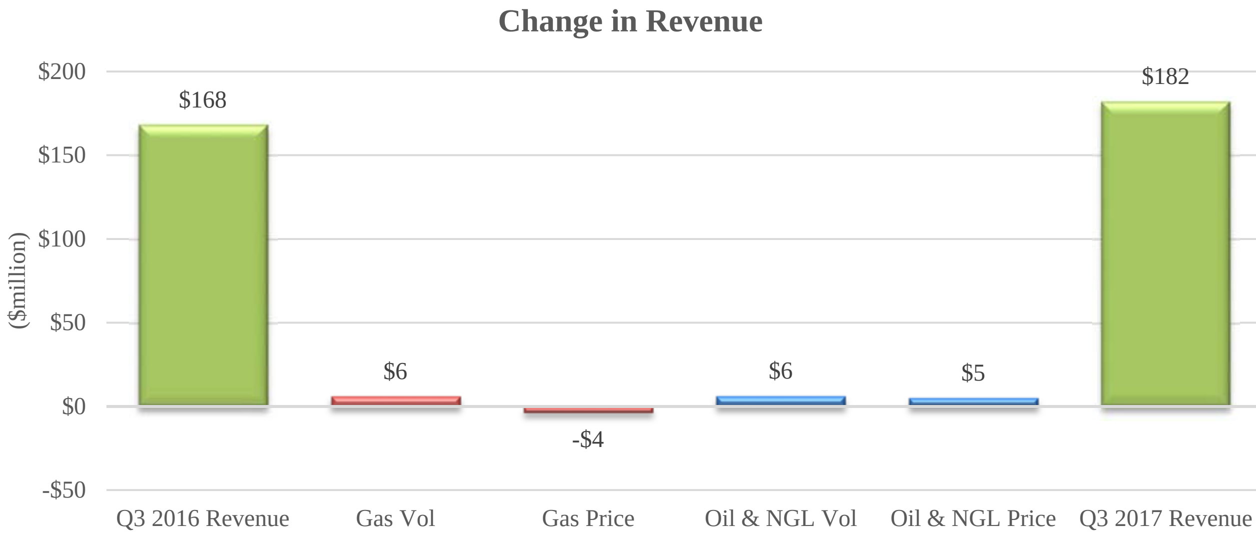
Revenue

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2017**	2016	**2017**	2016
Natural gas	**113,539**	117,794	**414,549**	294,033
Oil and natural gas liquids	**37,839**	26,507	**115,962**	72,914
Hedging gain	**30,848**	23,894	**18,647**	121,490
Total revenue	**182,226**	168,195	**549,158**	488,437



For the three months ended September 30, 2017, revenue increased 8 percent to $182.2 million from $168.2 million for the same period in 2016. The increase in revenue for the period was a result of increased production volumes and realized prices, including hedging gains, as detailed in the following table:

	Three Months ended September 30			Nine Months ended September 30		
	2017	2016	**$million**	2017	2016	**$million**
Total Revenue, September 30, 2016			**168.2**			**488.4**
Revenue change due to:						
Natural gas						
Volume (mmcf)	51,332	49,193	**6.2**	98,123	145,341	**11.8**
Price ($/mcf)	$2.81	$2.88	**(3.6)**	$2.94	$2.86	**6.0**
Oil & NGL						
Volume (mbbl)	824	667	**6.3**	1,620	1,907	**20.5**
Price ($/bbl)	$45.92	$39.76	**5.1**	$48.23	$38.24	**22.5**
Total Revenue, September 30, 2017			**182.2**			**549.2**

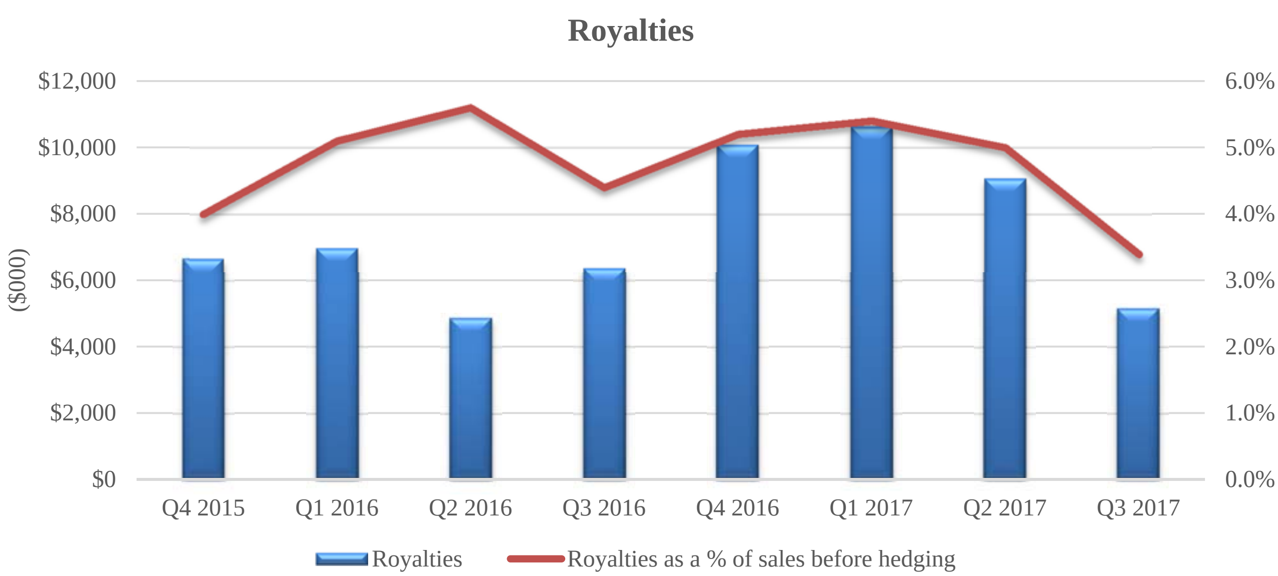


Royalties

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. All of Peyto's new natural gas wells qualify for the Crown incentive programs which have a 5% initial royalty rate. 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.

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Royalties ($000)	**5,165**	6,382	**24,872**	18,241
% of sales before hedging	**3.4**	4.4	**4.7**	5.0
% of sales after hedging	**2.8**	3.8	**4.5**	3.7
$/mcfe	**0.09**	0.12	**0.15**	0.12
$/boe	**0.55**	0.72	**0.91**	0.70

For the third quarter of 2017, royalties averaged $0.09/mcfe or approximately 3.4% of Peyto's total petroleum and natural gas sales excluding hedges.



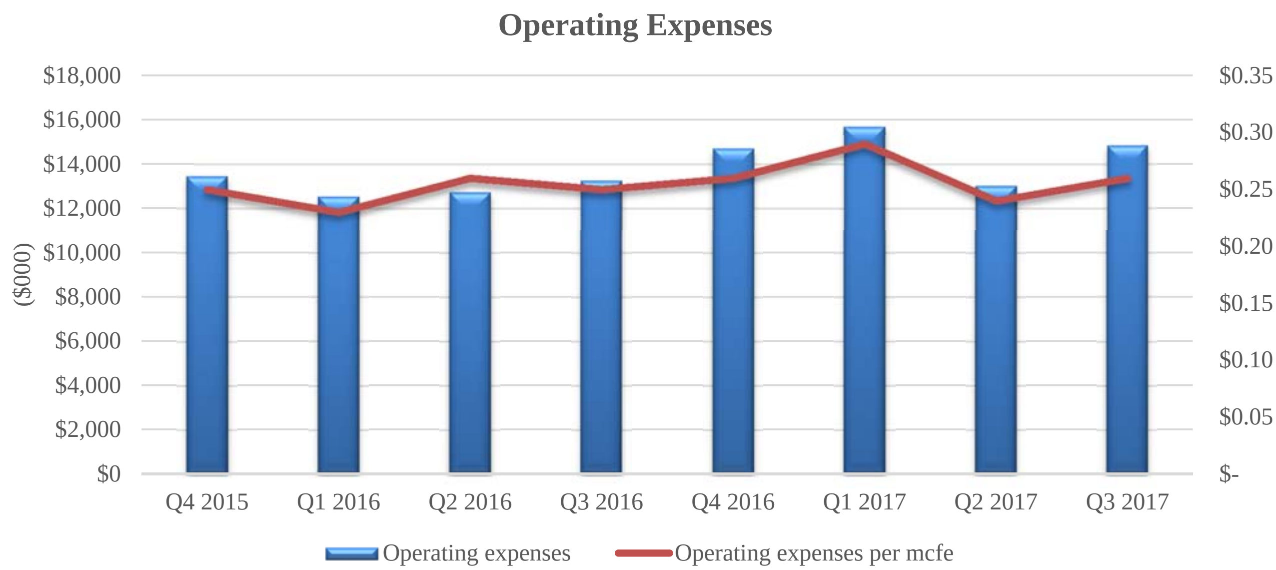
In its 19 year history, Peyto has invested over $5.5 billion in capital projects, found and developed 5.2 TCFe of gas reserves, and paid over $817 million in royalties.

Operating Costs & Transportation

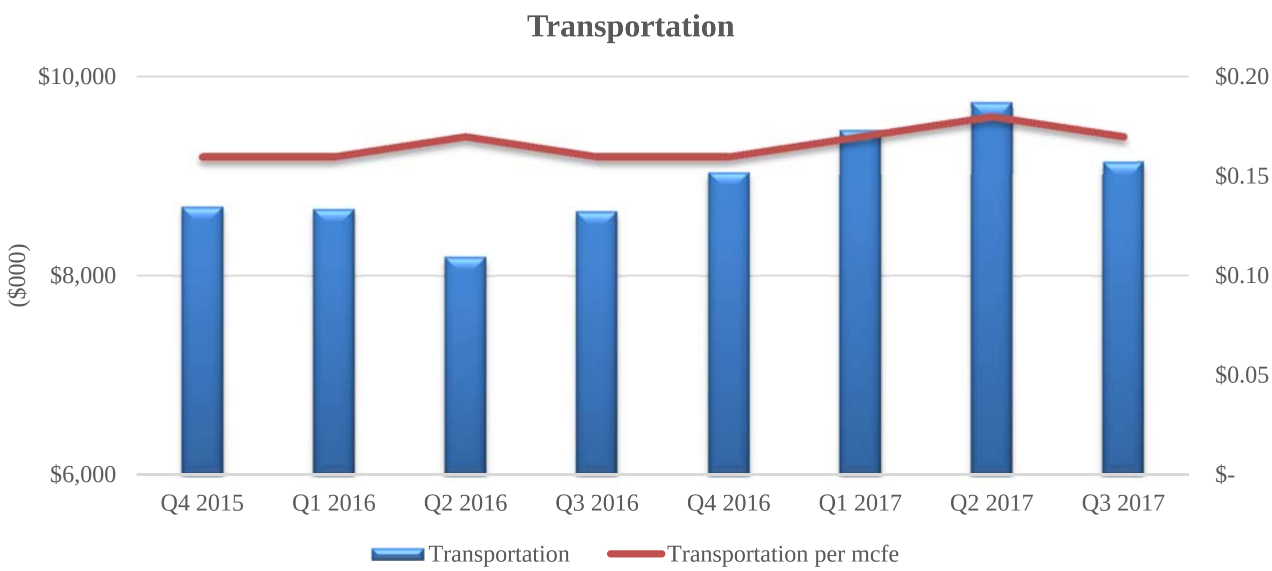
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Operating costs ($000)	**14,844**	13,254	**43,546**	38,526
$/mcfe	**0.26**	0.25	**0.27**	0.25
$/boe	**1.58**	1.49	**1.59**	1.47
Transportation ($000)	**9,149**	8,647	**28,358**	25,506
$/mcfe	**0.17**	0.16	**0.17**	0.16
$/boe	**0.98**	0.98	**1.04**	0.98

For the third quarter, operating expenses increased 12% compared to the same quarter of 2016 primarily due to an inflation and an increase in property taxes and AER Administration fees. On a unit-of-production basis, operating costs increased 4% from $0.25/mcfe in the third quarter of 2016 to $0.26/mcfe in the third quarter of 2017.



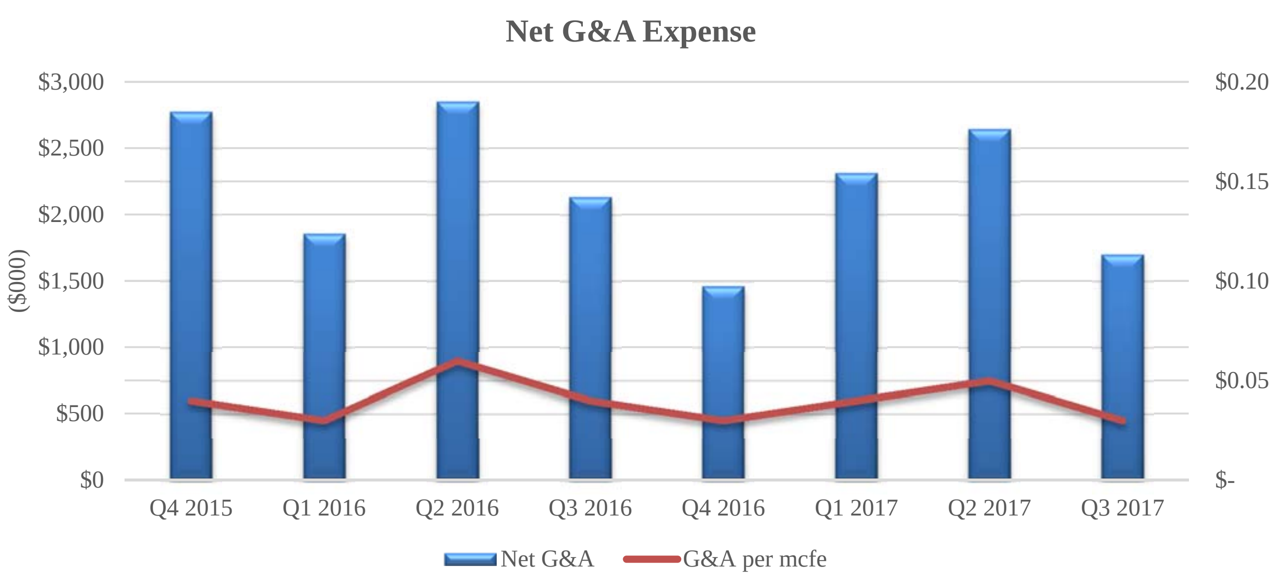
Transportation expenses increased 6% from $0.16/mcfe in the third quarter 2016 to $0.17/mcfe in the third quarter 2017 due to increased TCPL tolls and costs associated with additional firm commitments on NOVA. This additional firm service was added to accommodate future production growth and also to minimize exposure to NOVA curtailments like those experienced in 2016.



General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
G&A expenses ($000)	**4,159**	4,053	**13,144**	12,154
Overhead recoveries ($000)	**(2,458)**	(1,920)	**(6,485)**	(5,311)
Net G&A expenses ($000)	**1,701**	2,133	**6,659**	6,843
$/mcfe	**0.03**	0.04	**0.04**	0.04
$/boe	**0.18**	0.24	**0.24**	0.26

For the third quarter, general and administrative expenses before overhead recoveries increased 3% from $4.1 million to $4.2 million for the same quarter of 2016. This increase was due primarily to increased staffing and office space costs. General and administrative expenses averaged $0.07/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.03/mcfe in the third quarter of 2017.



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. Due to a decrease in future commodity prices, compensation expense recovery of $0.7 million was recorded for the quarter ended September 30, 2017. The cumulative liability totals $1.1 million at September 30, 2017.

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 equally over a three year period. 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, 2017, compensation costs related to 6.4 million non-vested rights (3.9% of the total number of common shares outstanding), with an average grant price of $29.90, are $2.8 million for the third quarter of 2017. 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 liability totals $20.1 million at September 30, 2017.

Rights Outstanding Under Market Based Compensation Plan

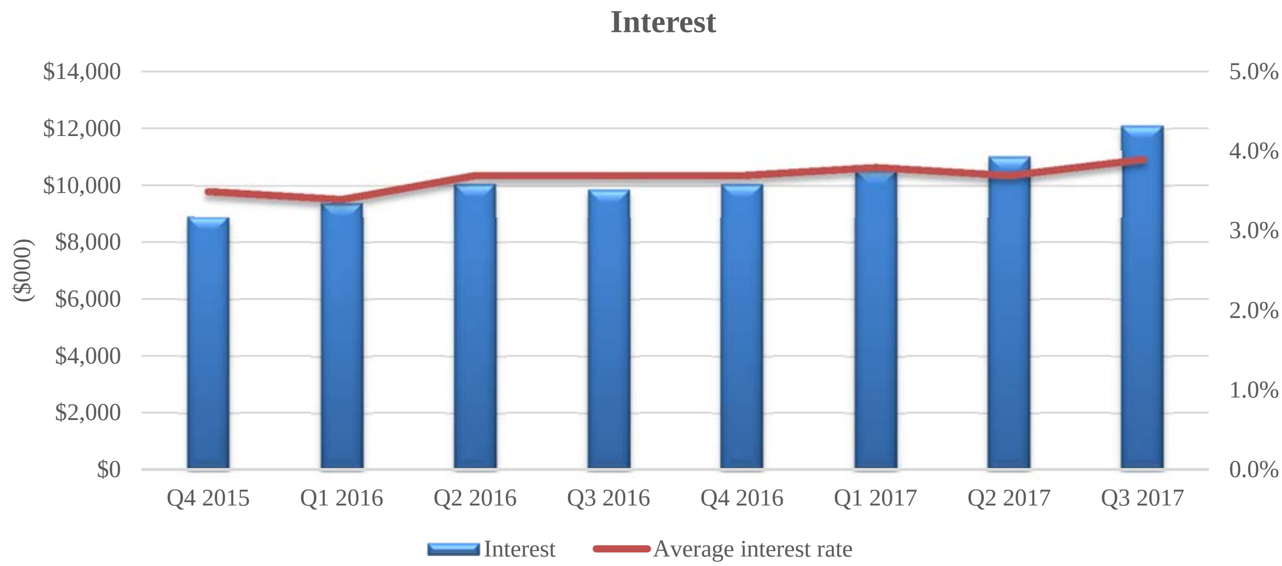
	Valued but Not Vested			To be Valued December 31, 2017	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2017	1,261,833	13,915,712	*	1,306,167	33.64
December 31, 2018	1,261,833	13,915,712	*	1,306,167	33.64
December 31, 2019	-	-		1,306,167	33.64

*Valued on December 31, 2016 at $33.80

Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Interest expense ($000)	**12,110**	9,864	**33,674**	29,320
$/mcfe	**0.21**	0.19	**0.21**	0.19
$/boe	**1.29**	1.11	**1.23**	1.12
Average interest rate	**3.9%**	3.7%	**3.8%**	3.6%

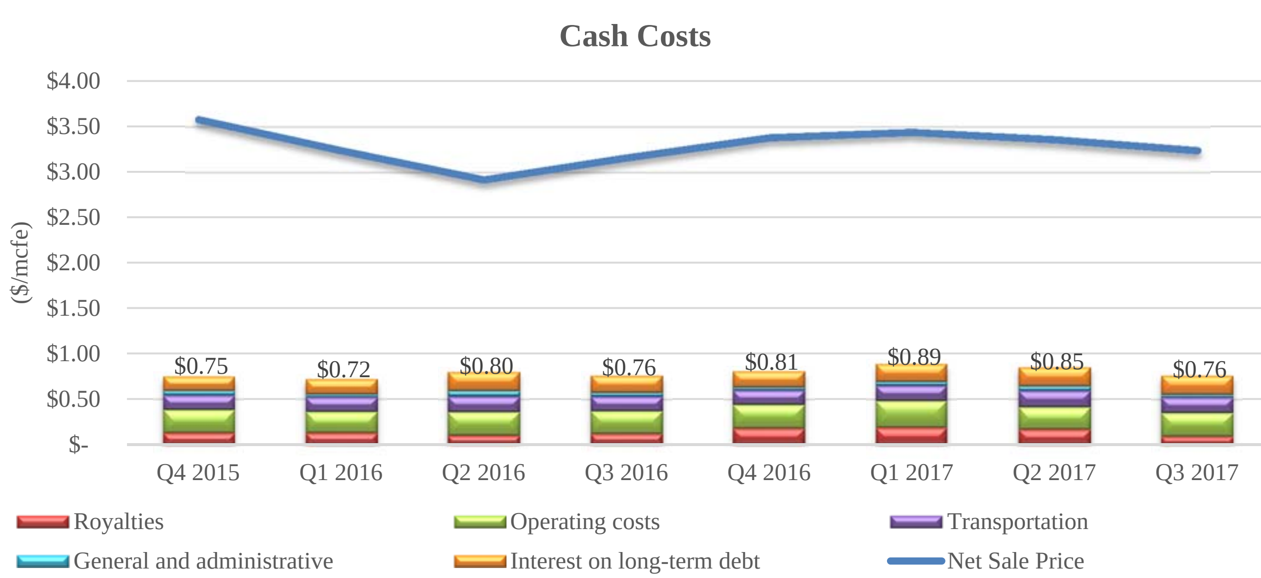
Third quarter 2017 interest expense was $12.1 million or $0.21/mcfe compared to $9.9 million or $0.19/mcfe for the third quarter 2016. The average interest rate for the third quarter 2017 was 3.9% compared to 3.7% in the third quarter of 2016 due to an increase in in interest rates by the Bank of Canada.



Netbacks

($/mcfe)	Three Months ended September 30 **2017**	2016	Nine Months ended September 30 **2017**	2016
Gross Sale Price	**2.69**	2.71	**3.24**	2.35
Hedging gain (loss)	**0.55**	0.45	**0.11**	0.77
Net Sale Price	**3.24**	3.16	**3.35**	3.12
Less: Royalties	**0.09**	0.12	**0.15**	0.12
Operating costs	**0.26**	0.25	**0.27**	0.25
Transportation	**0.17**	0.16	**0.17**	0.16
Field netback	**2.72**	2.63	**2.76**	2.59
General and administrative	**0.03**	0.04	**0.04**	0.04
Interest on long-term debt	**0.21**	0.19	**0.21**	0.19
Cash netback ($/mcfe)	**2.48**	2.40	**2.51**	2.36
Cash netback ($/boe)	**14.85**	14.43	**15.06**	14.16

Netbacks are a non-IFRS measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.



Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2017 third quarter provision for depletion, depreciation and amortization totaled $74.9 million as compared to $82.2 million in 2016. On a unit-of-production basis, depletion and depreciation costs averaged $1.33/mcfe as compared to $1.54/mcfe in 2016. As finding and development costs decrease, associated depletion and depreciation costs also decrease.

Income Taxes

The current provision for deferred income tax expense is $16.6 million compared to $8.4 million in 2016. 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, 2017**	December 31, 2016	**Annual deductibility**
Canadian Oil and Gas Property Expense	210.5	217.9	10% declining balance
Canadian Development Expense	840.5	818.9	30% declining balance
Canadian Exploration Expense	81.2	121.4	100%
Undepreciated Capital Cost	398.1	388.3	Primarily 25% declining balance
Other	29.1	33.4	Various, 7% to 20% declining balance
Total Federal Tax Pools	**1,559.4**	**1,579.9**	
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 2017, a realized hedging gain of $30.8 million was recorded as compared to a $23.9 million gain for the equivalent period in 2016. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged - Monthly Index	**Type**	**Daily Volume**	**Price (CAD)**
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5400/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.4200/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5000/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5025/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5125/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5900/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.6050/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.6150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.6600/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.6725/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.7100/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.7500/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.1000/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.1750/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.2000/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.4500/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.5400/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.5900/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.6000/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.1100/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.1500/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.2200/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.3050/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.2000/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.3000/GJ

May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.3000/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.3500/GJ
July 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.3750/GJ
July 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.3775/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.2800/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.3850/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.4225/GJ
July 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.4500/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.2200/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.2500/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.2950/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.3000/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.3175/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.3700/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.4500/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.4500/GJ
August 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.5525/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.5100/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.2300/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.2500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.2850/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.3200/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.4000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.4000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.4025/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.4500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.4500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5075/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5200/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5300/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.5775/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6050/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6400/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6500/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6650/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6700/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6725/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.6725/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7400/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.8000/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.8375/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.8450/GJ
April 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.8600/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.6050/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.6500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.7000/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.7000/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.7150/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.7200/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.7500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8000/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8225/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8250/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8250/GJ

April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8350/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8500/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8700/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8750/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9200/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9450/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9550/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0250/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0300/GJ
April 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1075/GJ
April 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.5850/GJ
April 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.7450/GJ
May 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7150/GJ
May 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7500/GJ
June 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.7250/GJ
June 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$2.9400/GJ
September 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$1.9350/GJ
October 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.3650/GJ
October 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.3750/GJ
October 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4000/GJ
October 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4000/GJ
October 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4550/GJ
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	$2.2400/GJ
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	$2.3425/GJ
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	$2.3800/GJ
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	$2.4300/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4075/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4250/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4650/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4650/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4700/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4800/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.5000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.5150/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.5150/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.5400/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.5550/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.6000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.6625/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.7350/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.8700/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9100/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9225/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9300/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.9850/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0425/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0500/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0525/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0600/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.0800/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1000/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1100/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1500/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.1650/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.2100/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.2150/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.2200/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.2300/GJ

November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$3.2700/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.9200/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.3900/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4000/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4300/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4300/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4600/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.4650/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.5350/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$2.5650/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.2500/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3425/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3575/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3625/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3850/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.3875/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4100/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4300/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4600/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4775/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.4800/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5100/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5350/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5550/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.5700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.6150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.6150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.6250/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	$2.4450/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	$2.5000/GJ

Natural Gas Period Hedged -Daily Index	**Type**	**Daily Volume**	**Price (CAD)**
September 1, 2017 to October 31, 2017	Fixed Price	10,000 GJ	$2.030/GJ

As at September 30, 2017, Peyto had committed to the future sale of 188,870,000 gigajoules (GJ) of natural gas at an average price of $2.55 per GJ or $2.93 per mcf. Had these contracts closed on September 30, 2017, Peyto would have realized a net gain in the amount of $73.1 million.

Subsequent to September 30, 2017 Peyto entered into the following contracts:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Price (CAD)
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.3200/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.2850/GJ
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	$2.1200/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.2000/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.3200/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.2700/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.3300/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.3500/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	$2.4650/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$1.7700/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$1.7500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$1.8700/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$1.9050/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$1.9400/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	$1.9200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.0500/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.0400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	$2.1775/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	$2.2225/GJ

Natural Gas Period Hedged - Daily Index	Type	Daily Volume	Price (CAD)
November 1, 2017 to November 30, 2017	Fixed Price	10,000 GJ	$2.1025/GJ
November 1, 2017 to November 30, 2017	Fixed Price	10,000 GJ	$2.1050/GJ
November 1, 2017 to November 30, 2017	Fixed Price	10,000 GJ	$2.1050/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

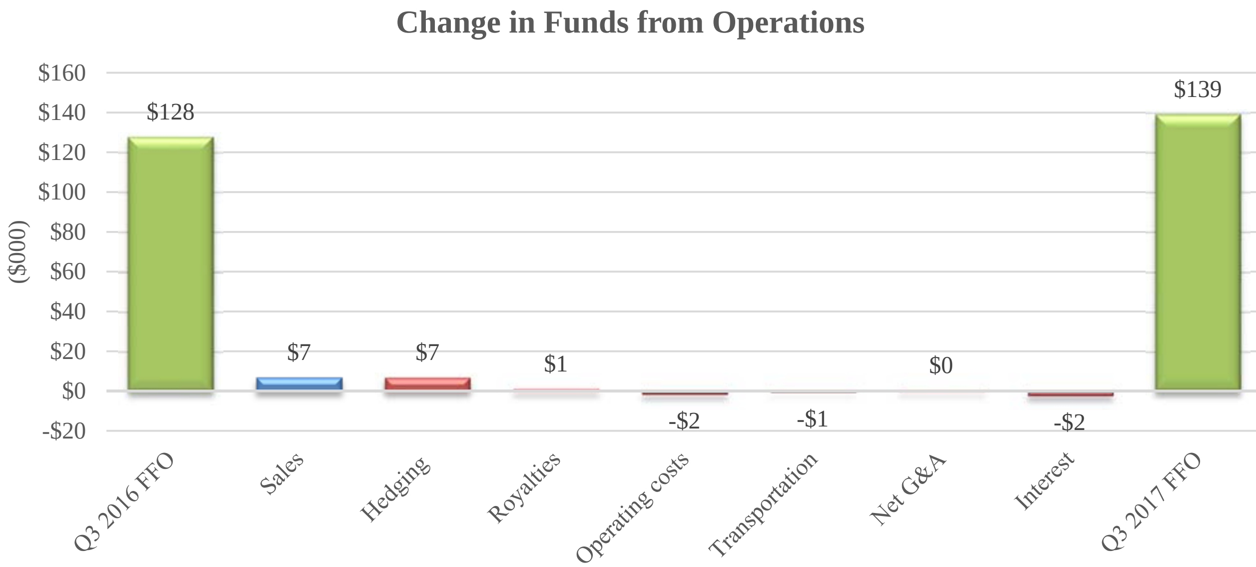
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At September 30 2017, the increase or decrease in earnings for each 100 bps (1%) change in interest rate paid on the outstanding revolving demand loan amounts to approximately $1.8 million per quarter. Average debt outstanding for the quarter was $1,223 million (including $520 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)	**2017**	2016	**2017**	2016
Cash flows from operating activities	**142,659**	129,057	**391,776**	370,299
Change in non-cash working capital	**(4,411)**	(10,256)	**13,938**	(20,647)
Change in provision for performance based compensation	**1,009**	9,114	**6,335**	20,348
Funds from operations	**139,257**	127,915	**412,049**	370,000
Funds from operations per share	**0.85**	0.78	**2.50**	2.29

For the third quarter ended September 30, 2017, funds from operations totaled $139.3 million or $0.85 per share, compared to $127.9 million or $0.78 per share during the same quarter in 2016 due to increases in production volumes and in oil & NGL prices.



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

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

Long-Term Debt

($000)	**September 30, 2017**	December 31, 2016
Bank credit facility	**715,000**	550,000
Senior unsecured notes	**520,000**	520,000
Balance, end of the period	**1,235,000**	1,070,000

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

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

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

  as at September 30, 2017 – 2.22:1.0

- 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, 2017 – 2.22:1.0

- 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, 2017 – 13.0 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, 2017 – 43 per cent

Peyto is in compliance with all financial covenants and has no subordinated debt as at September 30, 2017.

On October 24, 2016 Peyto closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of private placement pursuant to the amended and restated note purchase and private shelf agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.7% and mature on October 24, 2023. Interest will be paid semi-annually in arrears.

Outstanding senior notes are as follows:

Senior Unsecured Notes	**Date Issued**	**Rate**	**Maturity Date**
$100 million	January 3, 2012	4.39%	January 3, 2019
$50 million	September 6, 2012	4.88%	September 6, 2022
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	October 24, 2016	3.70%	October 24, 2023

Peyto's total borrowing capacity after the issuance of the senior, unsecured notes on October 24, 2016 is $1.52 billion of which the credit facility is $1.0 billion.

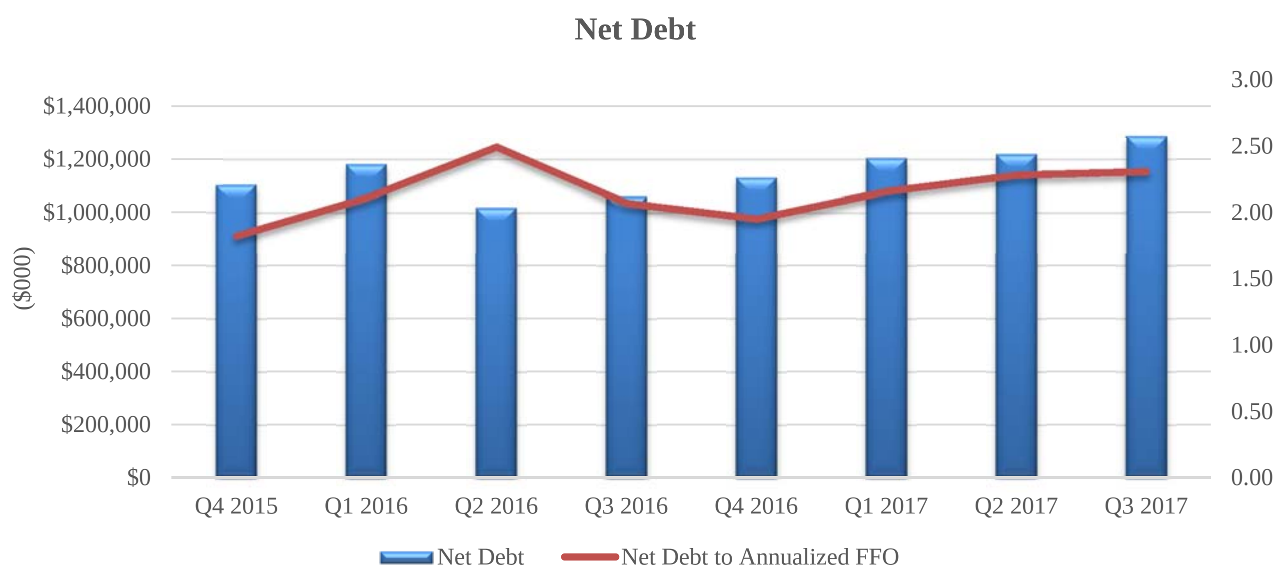
On October 13, 2017, The Company increased and extended its revolving, unsecured credit facility to $1.3 billion with a stated term date of October 13, 2021. The facility is comprised of $40 million working capital sub-tranche and a $1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points. This increased Peyto's borrowing capacity to $1.82 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 approximately $150 million for the first half of 2018. The total amount of capital invested in 2018 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

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

($000)	**As at September 30, 2017**	As at December 31, 2016	As at September 30, 2016
Bank credit facility	**715,000**	550,000	625,000
Senior unsecured notes	**520,000**	520,000	420,000
Current assets	**(158,187)**	(115,230)	(124,304)
Current liabilities	**154,969**	302,416	178,523
Financial derivative instruments	**67,675**	(119,280)	(16,516)
Provision for future performance based compensation	**(13,189)**	(6,854)	(22,348)
Net debt	**1,286,268**	1,131,052	1,060,355



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, 2016	**164,630,168**	**1,641,982**
Common shares issued by private placement	244,007	7,574
Common share issuance costs, (net of tax)	-	(19)
Balance, September 30, 2017	**164,874,175**	**1,649,537**

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

Capital Expenditures

Net capital expenditures for the third quarter of 2017 totaled $135.2 million. Exploration and development related activity represented $107.2 million (79% of total), while expenditures on facilities, gathering systems and equipment totaled $26.5

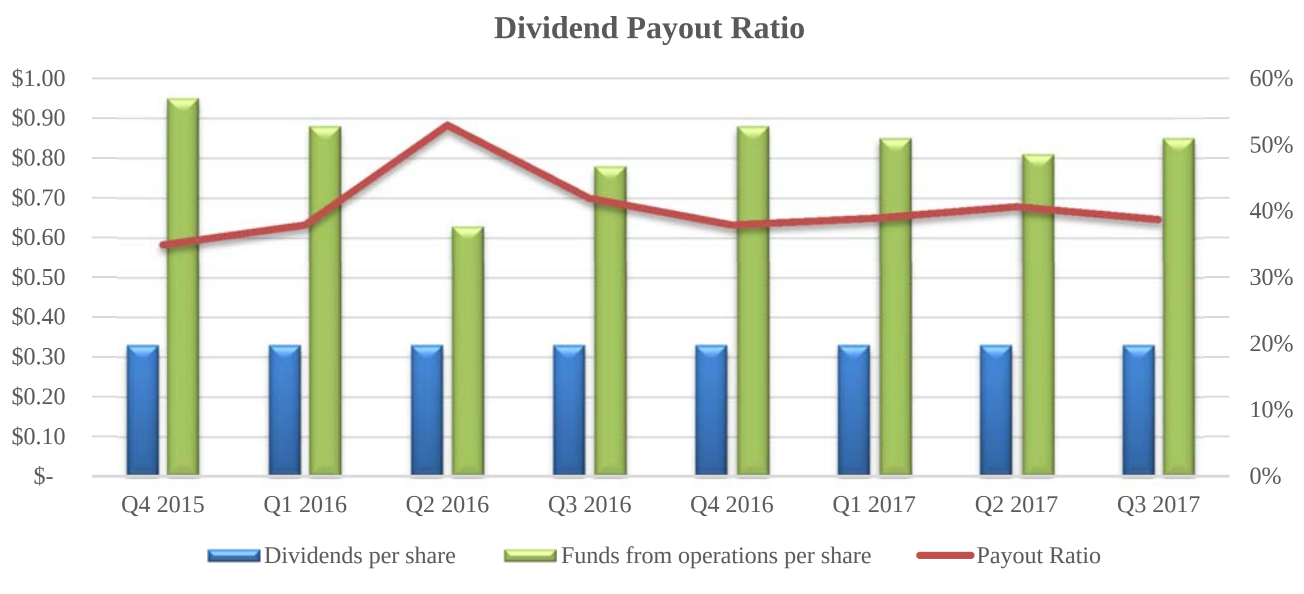
million (20% of total) land, seismic, and acquisitions totaled $1.5 million (1% of total). The following table summarizes capital expenditures for the period:

($000)	Three Months ended September 30 **2017**	2016	Nine Months ended September 30 **2017**	2016
Land	**140**	-	**6,719**	1,003
Seismic	**1,227**	682	**5,737**	4,554
Drilling	**73,057**	64,121	**188,023**	156,654
Completions	**34,161**	26,939	**91,608**	68,089
Equipping & Tie-ins	**15,312**	13,176	**37,451**	27,239
Facilities & Pipelines	**11,201**	3,838	**53,674**	49,204
Acquisitions	**120**	4,765	**3,619**	32,640
Dispositions	**(31)**	-	**(32)**	(28)
Leasehold Improvements	**-**	50	**-**	613
Total Capital Expenditures	**135,187**	113,571	**386,799**	339,968

Dividends

	Three Months ended September 30 **2017**	2016	Nine Months ended September 30 **2017**	2016
Funds from operations ($000)	**139,257**	127,915	**412,049**	370,000
Total dividends ($000)	**54,408**	54,328	**163,204**	160,583
Total dividends per common share ($)	**0.33**	0.33	**0.99**	0.99
Payout ratio (%)	**39**	42	**40**	43

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, 2017:

($000)	2017	2018	2019	2020	2021	Thereafter
Interest payments[1]	6,680	22,085	19,890	17,695	12,295	26,645
Transportation commitments	9,859	45,422	39,506	27,681	23,586	91,174
Operating leases	521	2,242	2,242	2,242	2,242	11,586
Methanol	-	2,916	-	-	-	-
Total	17,060	72,665	61,638	47,618	38,123	129,405

(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 “Poseidon Shareholder Application”). 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 (the “Poseidon Action”). 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 September 24, 2014 Poseidon amended its claim in the Poseidon Action to add Poseidon’s auditor, KPMG LLP (“KPMG”), as a defendant.

On May 4, 2016, KPMG issued a third party claim in the Poseidon Action against Poseidon’s former officers and directors and Peyto for any liability KPMG is determined to have to Poseidon. Peyto is not required to deliver a defence to this claim at this time.

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 (the “KPMG Poseidon Shareholder KPMG Action”). On July 29, 2014, KPMG LLP filed a statement of defence and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP.

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

RELATED PARTY TRANSACTIONS

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

	Expense				Accounts Payable	
	Three Months ended September 30		Nine Months ended September 30		As at September 30	
($000)	**2017**	2016	**2017**	2016	**2017**	2016
	244.7	98.6	**460.4**	579.1	**477.1**	344.3

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, 2017 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, 2016 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 2017. 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, 2017.

> 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. The impact of the standard has been evaluated and is expected to have no material impact on the Company's 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. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosure may be required upon implementation

of IFRS 15 in order to provide sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

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

ADDITIONAL INFORMATION

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

Quarterly information

	2017			2016	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	557,958	535,274	549,037	556,975	534,710
Oil & NGLs (bbl/d)	8,958	8,319	9,586	8,938	7,247
Barrels of oil equivalent (boe/d @ 6:1)	101,951	97,531	101,093	101,767	96,365
Thousand cubic feet equivalent (mcfe/d @ 6:1)	611,703	585,187	606,556	610,602	578,189
Average product prices					
Natural gas ($/mcf)	2.81	2.92	2.96	2.98	2.88
Oil & natural gas liquids ($/bbl)	45.92	48.33	48.14	45.09	39.76
$/MCFE					
Average sale price ($/mcfe)	3.24	3.36	3.44	3.38	3.16
Average royalties paid ($/mcfe)	0.09	0.17	0.19	0.18	0.12
Average operating expenses ($/mcfe)	0.26	0.24	0.29	0.26	0.25
Average transportation costs ($/mcfe)	0.17	0.18	0.17	0.16	0.16
Field netback ($/mcfe)	2.72	2.77	2.79	2.78	2.63
General & administrative expense ($/mcfe)	0.03	0.05	0.04	0.03	0.04
Interest expense ($/mcfe)	0.21	0.21	0.20	0.18	0.19
Cash netback ($/mcfe)	2.48	2.51	2.55	2.57	2.40
Financial ($000 except per share)					
Revenue	182,226	178,982	187,949	189,951	168,195
Royalties	5,165	9,071	10,635	10,089	6,382
Funds from operations	139,257	133,487	139,305	144,593	127,915
Funds from operations per share	0.85	0.81	0.85	0.88	0.78
Total dividends	54,408	54,408	54,387	54,328	54,328
Total dividends per share	0.33	0.33	0.33	0.33	0.33
Payout ratio	39%	41%	39%	38%	42%
Earnings	44,818	39,957	40,255	38,489	22,814
Earnings per share	0.27	0.24	0.24	0.23	0.14
Capital expenditures	135,187	97,738	153,874	129,407	113,571
Weighted average shares outstanding	164,874,175	164,874,175	164,800,637	164,630,168	164,630,168

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	September 30 2017	December 31 2016
Assets		
Current assets		
Cash	1,561	2,102
Accounts receivable	74,134	94,813
Due from private placement *(Note 6)*	-	4,930
Derivative financial instruments *(Note 8)*	67,675	-
Prepaid expenses	14,817	13,385
	158,187	115,230
Long-term derivative financial instruments *(Note 8)*	5,385	-
Property, plant and equipment, net *(Note 3)*	3,528,231	3,347,859
	3,533,616	3,347,859
	3,691,803	3,463,089
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	123,644	158,173
Dividends payable *(Note 6)*	18,136	18,109
Derivative financial instruments *(Note 8)*	-	119,280
Provision for future performance based compensation *(Note 7)*	13,189	6,854
	154,969	302,416
Long-term debt *(Note 4)*	1,235,000	1,070,000
Long-term derivative financial instruments *(Note 8)*	-	31,465
Provision for future performance based compensation (Note 7)	7,947	4,499
Decommissioning provision *(Note 5)*	132,450	127,763
Deferred income taxes	492,676	386,012
	1,868,073	1,619,739
Equity		
Share capital *(Note 6)*	1,649,537	1,641,982
Shares to be issued *(Note 6)*	-	4,930
Retained earnings (deficit)	(37,399)	776
Accumulated other comprehensive income (loss) *(Note 6)*	56,623	(106,754)
	1,668,761	1,540,934
	3,691,803	3,463,089

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Revenue				
Oil and gas sales	151,378	144,301	530,511	366,947
Realized gain on hedges *(Note 8)*	30,848	23,894	18,647	121,490
Royalties	(5,165)	(6,382)	(24,872)	(18,241)
Petroleum and natural gas sales, net	**177,061**	161,813	**524,286**	470,196
Expenses				
Operating	14,844	13,254	43,546	38,526
Transportation	9,149	8,647	28,358	25,506
General and administrative	1,701	2,133	6,659	6,843
Future performance based compensation *(Note 7)*	2,109	13,969	9,783	31,057
Interest	12,110	9,864	33,674	29,320
Accretion of decommissioning provision *(Note 5)*	847	538	2,312	1,685
Depletion and depreciation *(Note 3)*	74,906	82,157	228,681	248,750
Gain on disposition of assets *(Note 3)*	-	-	-	(12,668)
	115,666	130,562	**353,013**	369,019
Earnings before taxes	**61,395**	31,251	**171,273**	101,177
Income tax				
Deferred income tax expense	16,577	8,437	46,244	27,318
Earnings for the period	**44,818**	22,814	**125,029**	73,859
Earnings per share *(Note 6)*				
Basic and diluted	**$0.27**	$0.14	**$0.76**	$0.46

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Earnings for the period	**44,818**	22,814	**125,029**	73,859
Other comprehensive income (loss)				
Change in unrealized gain on cash flow hedges	73,612	42,232	242,451	27,053
Deferred (expense) tax recovery	(11,546)	(4,951)	(60,427)	25,498
Realized (gain) on cash flow hedges	(30,848)	(23,894)	(18,647)	(121,490)
Comprehensive income	**76,036**	36,201	**288,406**	4,920

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30	
	2017	2016
Share capital, beginning of period	**1,641,982**	1,467,264
Common shares issued by private placement	7,574	7,644
Equity offering	-	172,500
Common shares issuance costs (net of tax)	(19)	(5,409)
Share capital, end of period	**1,649,537**	1,641,999

Shares to be issued, beginning of period	**4,930**	3,769
Shares issued	(4,930)	(3,769)
Shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**776**	103,339
Earnings for the period	125,029	73,859
Dividends *(Note 6)*	(163,204)	(160,583)
Retained (deficit) earnings, end of period	**(37,399)**	16,615

Accumulated other comprehensive income, beginning of period	**(106,754)**	49,185
Other comprehensive income (loss)	163,377	(68,939)
Accumulated other comprehensive (loss) income, end of period	**56,623**	(19,754)

Total equity	**1,668,761**	1,638,860

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	**2017**	2016
Cash provided by (used in) operating activities				
Earnings	44,818	22,814	125,029	73,859
Items not requiring cash:				
Deferred income tax	16,577	8,437	46,244	27,318
Depletion and depreciation	74,906	82,157	228,681	248,750
Accretion of decommissioning provision	847	538	2,312	1,685
Gain on disposition of assets	-	-	-	(12,668)
Long term portion of future performance based compensation	1,010	4,855	3,448	10,708
Change in non-cash working capital related to operating activities	4,411	10,256	(13,938)	20,647
	142,569	**129,057**	**391,776**	**370,299**
Financing activities				
Issuance of common shares	-	-	7,574	180,144
Issuance costs	-	(10)	(26)	(7,409)
Cash dividends paid	(54,408)	(54,328)	(163,178)	(159,960)
Increase in bank debt	30,000	-	165,000	-
Issuance of senior unsecured notes	-	-	-	-
	(24,408)	**(54,338)**	**9,370**	**12,775**
Investing activities				
Additions to property, plant and equipment	(135,187)	(113,571)	(386,779)	(339,968)
Change in prepaid capital	(17,050)	(1,567)	(19,879)	6,166
Change in non-cash working capital relating to investing activities	31,311	48,059	4,990	(16,175)
	(120,926)	(67,079)	**(401,688)**	(349,977)
Net increase (decrease) in cash	**(2,675)**	7,640	**(542)**	33,097
Cash, beginning of period	**4,235**	25,457	**2,102**	-
Cash, end of period	**1,560**	33,097	**1,560**	33,097

The following amounts are included in cash flows from operating activities:				
Cash interest paid	**7,963**	9,140	**32,991**	28,547
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 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 7, 2017.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2016 and 2015.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

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

All accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2016 and 2015.

(b) 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. The impact of the standard has been evaluated and is expected to have no material impact on the Company's 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. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosure may be required upon implementation of IFRS 15 in order to provide sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

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

3. Property, plant and equipment, net

Cost	
At December 31, 2016	**4,901,523**
Additions	386,799
Decommissioning provision additions	2,375
Prepaid capital	19,879
At September 30, 2017	**5,310,576**
Accumulated depletion and depreciation	
At December 31, 2016	**(1,553,664)**
Depletion and depreciation	(228,681)
At September 30, 2017	**(1,782,345)**
Carrying amount at December 31, 2016	3,347,859
Carrying amount at September 30, 2017	**3,528,231**

During the three and nine month periods ended September 30, 2017, Peyto capitalized $2.2 million and $5.7 million (2016 - $1.6 million and $4.7 million) of general and administrative expense directly attributable to exploration and development activities.

4. Long-term debt

	September 30, 2017	December 31, 2016
Bank credit facility	715,000	550,000
Senior unsecured notes	520,000	520,000
Balance, end of the period	**1,235,000**	1,070,000

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

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

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

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

Peyto is in compliance with all financial covenants at September 30, 2017.

Outstanding senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$100 million	January 3, 2012	4.39%	January 3, 2019
$50 million	September 6, 2012	4.88%	September 6, 2022
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	October 24, 2016	3.70%	October 24, 2023

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

Total interest expense for the three and nine month periods ended September 30, 2017 was $12.1 million and $33.7 million (2016 - $9.9 million and $29.3 million) and the average borrowing rate for the period was 3.9% and 3.8% (2016– 3.7% and 3.6%).

5. Decommissioning provision

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

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

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2016	**127,763**
New or increased provisions	11,192
Accretion of decommissioning provision	2,312
Change in discount rate and estimates	(8,817)
Balance, September 30, 2017	**132,450**
Current	-
Non-current	132,450

Peyto has estimated the net present value of its total decommissioning provision to be $132.5 million as at September 30, 2017 ($127.8 million at December 31, 2016) based on a total future undiscounted liability of $280.9 million ($258.2 million at December 31, 2016). At September 30, 2017 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2047 to 2065. The Bank of Canada's long term bond rate of 2.47 per cent (2.31 per cent at December 31, 2016) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2016) 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, 2016	**164,630,168**	**1,641,982**
Common shares issued by private placement	244,007	7,574
Common share issuance costs, (net of tax)	-	(19)
Balance, September 30, 2017	**164,874,175**	**1,649,537**

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

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	**2017**	2016
Weighted average common shares basic and diluted	**164,874,175**	164,630,168	**164,849,932**	161,882,961

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

Dividends

During the three and nine month periods ended September 30, 2017, Peyto declared and paid dividends of $0.33 and $0.99 per common share ($0.11 per common share for the months of January to September 2017, totaling $56.9 million and $163.2 million respectively (2016 - $0.33 and $0.99 ($0.11 per common share for the months of January to September 2016), totaling $54.3 million and $160.6 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, 2017	September 30, 2016
Share price	$20.40-$33.80	$36.82
Exercise price (net of dividend)	$22.77- $33.02	$23.10
Expected volatility	28.9%	36.1%
Option life	0.25 years	0.25 years
Risk-free interest rate	1.51%	0.51%

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, 2017.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2016.

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, 2017, 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, 2017:

Natural Gas Period Hedged – Monthly Index	Type	Daily Volume	Price (CAD)
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.54/GJ
April 1, 2016 to March 31, 2018	Fixed Price	60,000 GJ	$2.42/GJ to $2.75/GJ
April 1, 2016 to October 31, 2018	Fixed Price	35,000 GJ	$2.10/GJ to $2.60/GJ
May 1, 2016 to October 31, 2017	Fixed Price	20,000 GJ	$2.11/GJ to $2.305/GJ
May 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.20/GJ to $2.35/GJ
July 1, 2016 to October 31, 2017	Fixed Price	10,000 GJ	$2.375/GJ to $2.3775/GJ
July 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.28/GJ to $2.45/GJ
August 1, 2016 to October 31, 2017	Fixed Price	20,000 GJ	$2.22/GJ to $2.30/GJ
August 1, 2016 to October 31, 2018	Fixed Price	25,000 GJ	$2.3175/GJ to $2.5525/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.51/GJ
April 1, 2017 to October 31, 2017	Fixed Price	160,000 GJ	$2.23/GJ to $2.86/GJ
April 1, 2017 to March 31, 2018	Fixed Price	110,000 GJ	$2.6050/GJ to $3.1075/GJ
April 1, 2017 to October 31, 2018	Fixed Price	10,000 GJ	$2.585/GJ to $2.745/GJ
May 1, 2017 to October 31, 2017	Fixed Price	10,000 GJ	$2.715GJ to $2.70/GJ
June 1, 2017 to October 31, 2017	Fixed Price	10,000 GJ	$2.725/GJ to $2.94/GJ
September 1, 2017 to October 31, 2017	Fixed Price	5,000 GJ	$1.935/GJ
October 1, 2017 to March 31, 2018	Fixed Price	25,000 GJ	$2.365/GJ- $2.455/GJ
November 1, 2017 to December 31, 2017	Fixed Price	20,000 GJ	$2.240/GJ to $2.430/GJ
November 1, 2017 to March 31, 2018	Fixed Price	175,000 GJ	$2.4075/GJ to $3.27/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.92/GJ
April 1, 2018 to October 31, 2018	Fixed Price	50,000 GJ	$2.39/GJ to $2.565/GJ
April 1, 2018 to March 31, 2019	Fixed Price	150,000 GJ	$2.25/GJ to $2.625/GJ
April 1, 2019 to March 31, 2020	Fixed Price	10,000 GJ	$2.445/GJ to $2.50/GJ

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (CAD)
September 1, 2017 – October 31, 2017	Fixed Price	10,000 GJ	$2.03/GJ

As at September 30, 2017 Peyto had committed to the future sale of 188,870,000 gigajoules (GJ) of natural gas at an average price of $2.55 per GJ or $2.93 per mcf. Had these contracts been closed on September 30, 2017, Peyto would have realized a net gain in the amount of $73.1 million. If the AECO gas price on September 30, 2017 were to decrease by $0.10/GJ, the financial derivative liability would decrease by approximately $18.9 million. An opposite change in commodity prices rates would result in an opposite impact.

Subsequent to September 30, 2017 Peyto entered into the following contracts:

Natural Gas Period Hedged – Monthly Index	Type	Daily Volume	Price (CAD)
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	$2.12/GJ
November 1, 2017 to March 31, 2018	Fixed Price	10,000 GJ	$2.285/GJ to $2.32/GJ
December 1, 2017 to March 31, 2018	Fixed Price	30,000 GJ	$2.20/GJ to $2.465/GJ
April 1, 2018 to March 31, 2019	Fixed Price	15,000 GJ	$2.04/GJ to $2.1775/GJ
April 1, 2018 to October 31, 2018	Fixed Price	30,000 GJ	$1.75/GJ to $1.94/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	$2.2225/GJ

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (CAD)
November 1, 2017 – November 30, 2017	Fixed Price	10,000 GJ	$2.1025/GJ
November 1, 2017 – November 30, 2017	Fixed Price	20,000 GJ	$2.1050/GJ

9. Related party transactions

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

Expense				Accounts Payable	
Three Months ended September 30		Nine Months ended September 30		As at September 30	
2017	2016	**2017**	2016	**2017**	2016
244.7	98.6	**460.4**	579.1	**477.1**	344.3

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, 2017:

	2017	**2018**	**2019**	**2020**	**2021**	**Thereafter**
Interest payments[(1)]	6,680	22,085	19,890	17,695	12,295	26,645
Transportation commitments	9,859	45,422	39,506	27,681	23,586	91,174
Operating leases	521	2,242	2,242	2,242	2,242	11,586
Methanol	-	2,916	-	-	-	-
Total	17,060	72,665	61,638	47,618	38,123	129,405

(1) Fixed interest payments on senior unsecured notes

11. Contingencies

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Company, as a successor to new Open Range Energy Corp. ("New Open Range") (the "Poseidon Shareholder Application"). 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 (the “Poseidon Action”). 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 September 24, 2014 Poseidon amended its claim in the Poseidon Action to add Poseidon’s auditor, KPMG LLP (“KPMG”), as a defendant.

On May 4, 2016, KPMG issued a third party claim in the Poseidon Action against Poseidon’s former officers and directors and Peyto for any liability KPMG is determined to have to Poseidon. Peyto is not required to deliver a defence to this claim at this time.

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 (the “KPMG Poseidon Shareholder KPMG Action”). On July 29, 2014, KPMG LLP filed a statement of defence 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.

12. Subsequent Events

On October 13, 2017, The Company increased and extended its revolving, unsecured credit facility to $1.3 billion with a stated term date of October 13, 2021. The facility is comprised of $40 million working capital sub-tranche and a $1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto’s option, Canadian dollar bankers’ acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers’ acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

Officers

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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

Todd Burdick
Vice President, Production

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Stephen Chetner
Corporate Secretary

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

Auditors
Deloitte LLP

Solicitors
Burnet, Duckworth & Palmer LLP

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Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
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*Subsequent to September 30, 2017.