NEWS RELEASE

AUGUST 8, 2012 **SYMBOL: PEY – TSX**

PEYTO REPORTS SECOND QUARTER 2012 RESULTS AND SETS NEW COMPANY RECORD FOR CASH COSTS

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto" or "the Company") is pleased to present its operating and financial results for the second quarter of the 2012 fiscal year. Peyto's production per share grew for the eleventh consecutive quarter while second quarter operating margins of 75%(1) and profit margins of 21%(2) were generated. Second quarter 2012 highlights include:

- **Production per share up 15%.** Second quarter 2012 production increased 20% (15% per share) from 207 MMcfe/d (34,443 boe/d) in Q2 2011 to 248 MMcfe/d (41,343 boe/d) in Q2 2012.

- **Funds from operations of $0.47/share.** Generated $65 million in Funds from Operations ("FFO") in Q2 2012 down 16% (19% per share) from $77 million in Q2 2011. Increased production and lower costs helped offset the 30% year over year reduction in realized commodity prices.

- **Record low cash costs of less than $1/mcfe.** Total cash costs, including royalties, operating costs, transportation, G&A and interest were $0.97/mcfe ($5.84/boe), setting a new Company record. Industry leading operating costs of $0.29/mcfe ($1.76/boe) in Q2 2012 down from $0.32/mcfe ($1.90/boe) in Q2 2011 helped contribute to this new record low. Cash netbacks of $2.86/mcfe ($17.17/boe) represented a 75% operating margin.

- **Capital Investments of $46 million**. At the end of the second quarter, 12,000 boe/d of new production had been added with $145 million of cumulative 2012 capital for a total cost of $12,100/boe/d. The annualized cost to build new production (trailing twelve months) has averaged $17,600/boe/d. A total of 10 gross wells were drilled during the second quarter.

- **Earnings of $0.13/share, dividends of $0.18/share.** Earnings of $18.2 million were generated in the quarter ($45.1 million year-to-date) while dividends of $24.9 million ($49.8 million year-to-date) were paid to shareholders, representing a before tax payout ratio of 39% of FFO.

- **First significant corporate acquisition.** Subsequent to the second quarter, Peyto announced an agreement to purchase all of the issued and outstanding common shares of Open Range Energy Corp. ("Open Range") on the basis of a share exchange, pursuant to a statutory plan of arrangement. This represents the first significant corporate acquisition in the Company's thirteen year history. The acquisition is expected to close on August 14, 2012 subject to, among other things, the approval of Open Range shareholders.

Second quarter 2012 in Review

The second quarter of 2012 was a typical period of reduced activity due to spring break-up. Operations in the field were effectively shut down for a six week period which restricted new production additions from April to late June. Total production for the quarter was maintained at the same level as Q1 2012, although increased liquids production was realized through facility optimizations and new drilling that was focused on the more liquids rich formations in Peyto's inventory. Peyto's strict focus on cost control during the quarter resulted in record low cash costs of $0.97/mcfe ($5.84/boe), inclusive of all royalties, operating costs, transportation, G&A and interest. Financial flexibility was maintained, with quarter ending net debt of $519 million on expanded total debt capacity of $800 million (inclusive of $100 million of senior secured notes) which represented a net debt to annualized FFO ratio of 2.0 times. The strong financial and operating performance delivered in the quarter resulted in an annualized 9% Return on Equity (ROE) and 8% Return on Capital Employed (ROCE).

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

	Three Months ended June 30		%	Six Months ended June 30		%
	2012	2011	Change	**2012**	2011	Change
Operations						
Production						
Natural gas (mcf/d)	**221,176**	183,790	*20%*	**220,994**	175,297	*26%*
Oil & NGLs (bbl/d)	**4,480**	3,811	*18%*	**4,291**	3,779	*14%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**248,058**	206,657	*20%*	**246,737**	197,970	*25%*
Barrels of oil equivalent (boe/d @ 6:1)	**41,343**	34,443	*20%*	**41,123**	32,995	*25%*
Product prices						
Natural gas ($/mcf)	**2.86**	4.43	*(35)%*	**3.19**	4.66	*(32)%*
Oil & NGLs ($/bbl)	**71.27**	84.06	*(15)%*	**77.75**	80.18	*(3)%*
Operating expenses ($/mcfe)	**0.29**	0.32	*(9)%*	**0.31**	0.35	*(11)%*
Transportation ($/mcfe)	**0.12**	0.13	*(8)%*	**0.12**	0.13	*(8)%*
Field netback ($/mcfe)	**3.16**	4.41	*(28)%*	**3.45**	4.57	*(25)%*
General & administrative expenses ($/mcfe)	**0.07**	0.07	-	**0.06**	0.08	*(25)%*
Interest expense ($/mcfe)	**0.23**	0.24	*(8)%*	**0.22**	0.25	*(8)%*
Financial ($000 except per share)						
Revenue	**86,553**	103,193	*(16)%*	**189,049**	202,770	*(7)%*
Royalties	**6,082**	12,007	*(49)%*	**14,917**	21,929	*(32)%*
Funds from operations	**64,732**	77,010	*(16)%*	**142,377**	151,706	*(6)%*
Funds from operations per share	**0.47**	0.58	*(19)%*	**1.03**	1.14	*(10)%*
Total dividends	**24,927**	23,951	*4%*	**49,808**	47,872	*4%*
Total dividends per share	**0.18**	0.18	-	**0.36**	0.36	-
Payout ratio	**39**	31	*26%*	**35**	32	*9%*
Earnings	**18,201**	32,718	*(44)%*	**45,069**	64,406	*(30)%*
Earnings per diluted share	**0.13**	0.25	*(48)%*	**0.33**	0.49	*(33)%*
Capital expenditures	**45,924**	69,017	*(33)%*	**144,557**	172,803	*(16)%*
Weighted average trust shares outstanding	**138,485,956**	133,061,301	*4%*	**138,399,017**	132,900,079	*4%*
As at June 30						
Net debt (before future compensation expense and unrealized hedging gains)				**519,328**	474,008	*10%*
Shareholders' equity				**999,057**	859,205	*16%*
Total assets				**1,789,210**	1,576,618	*13%*

	Three Months ended June 30		Six Months ended June 30	
($000)	**2012**	2011	**2012**	2011
Cash flows from operating activities	**74,551**	81,831	**133,934**	124,718
Change in non-cash working capital	**(10,934)**	(4,751)	**5,433**	22,834
Change in provision for performance based compensation	**1,115**	(70)	**3,010**	4,154
Funds from operations	**64,732**	77,010	**142,377**	151,706
Funds from operations per share	**0.47**	0.58	**1.03**	1.14

(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 International Financial Reporting Standards ("IFRS") and does not have a standardized meaning prescribed by IFRS. 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 IFRS. Funds from operations cannot be assured and future dividends may vary.

Exploration & Development

Peyto focused drilling efforts on the more liquids rich formations in the second quarter. Although all of the drilling was in the Greater Sundance core area, half of the new wells spud were targeting the Cardium formation. The most recent Greater Sundance Cardium wells have averaged 45 bbl/mmcf of natural gas liquid in their first month of production, with over 60% of that liquid production being condensate and pentanes while the remainder is split between propane and butane. This focused drilling has helped improve corporate liquid yields from 18 bbl/mmcf at the start of the year to 22 bbl/mmcf by the end of the second quarter.

Peyto's enhanced liquids recovery project for the Oldman plant continued to progress throughout the quarter, although minor delays in facility manufacturing has pushed the anticipated startup to early October from late September 2012. A similar project at Peyto's Nosehill gas plant remains on schedule for January 2013.

Early production data in Peyto's southern expansion areas of Edson and Ansell are providing confidence in the profitability of future locations there. These areas are expected to benefit from the Open Range acquisition and associated gas plant and gathering system infrastructure. Combined, these areas account for approximately 9 mmcfe/d of production that is currently processed by a third party. After the installation of 25 km of pipeline to connect these wells to the Open Range gathering system, Peyto expects to see a 60% reduction in operating costs for these and future volumes. This strategically located infrastructure also allows Peyto to aggressively pursue additional drilling opportunities in both areas.

Capital Expenditures

Peyto spent $23 million to spud 10 gross (8.3 net) wells in the second quarter 2012. Completion of 10 gross (8.7 net) zones and the wellsite equipment and connection of 12 gross (10.7 net) wells cost $14.3 million and $4.8 million, respectively. New facilities accounted for $2.5 million in the quarter, while $1.2 million was invested into new land and seismic.

Peyto's drilling efficiency continues to improve in 2012, evidenced by the average Cardium well in Greater Sundance now taking 17 days from spud to rig release, down 25% from 23 days in 2011. Second quarter drilling costs are also starting to reflect this improvement in drilling times. The average drilling cost of a Cardium well was $2.1 million in Q2 2012 as compared to $2.5 million in 2011. This reduced drilling time allows for more wells to be drilled with fewer rigs, also enabling Peyto to accomplish more with its small and efficient team of technical professionals.

Financial Results

Alberta natural gas prices averaged $1.74/GJ in the second quarter 2012, resulting in a Peyto unhedged realized price of $1.98/mcf before hedging gains of $0.88/mcf. Meanwhile, Edmonton light oil prices averaged $84.02/bbl from which Peyto realized $71.27/bbl for its natural gas liquids blend of Condensate, Pentane, Butane and Propane. Combined, Peyto's unhedged revenues totaled $3.05/mcfe ($3.83/mcfe including hedging gains), or 175% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of $0.26/mcfe, operating costs of $0.29/mcfe, transportation costs of $0.12/mcfe, G&A of $0.07/mcfe and interest costs of $0.23/mcfe, combined for total cash costs of $0.97/mcfe. These are the lowest total cash costs achieved in the Company's thirteen year history and resulted in a cash netback of $2.86/mcfe or a 75% operating margin.

Depletion, depreciation and amortization charges of $1.73/mcfe, along with a provision for future tax and market based bonus payments reduced the cash netback to earnings of $0.81/mcfe, or a 21% profit margin.

During the quarter, Peyto increased its credit facility with its syndicate of lenders from $625 million to $700 million. Including the $100 million of senior secured notes, Peyto's total borrowing capacity has increased to $800 million.

Marketing

The natural gas price in North America bottomed out in the quarter with both Henry Hub and AECO daily prices averaging $1.95/MMBTU and $1.58/GJ in April 2012. This was the lowest natural gas price seen in over a decade and was caused by an abundance of natural gas in storage due, in part, to the fourth warmest winter on record. Since then, natural gas prices have recovered as this low price drove increased demand and consumption for power generation, as well as reduced drilling activity for new natural gas production. Much of Peyto's natural gas production was protected from this volatile price drop due to forward sales that were layered in over the previous year. Approximately 41% of Peyto's natural gas production was pre-sold for the quarter at an average fixed price of $3.59/GJ.

Natural gas liquids prices were similarly affected by weather and storage levels, most significantly Propane, with Conway Propane prices dropping 47% from US$1.02/gallon in January 2012 to US$0.54/gallon in June. The quarter over quarter comparison of Peyto's realized liquids prices is shown in the table below.

Oil & Natural Gas Liquids Prices by Component

	Three Months ended June 30		Six Months ended June 30	
	2012	2011	**2012**	2011
Condensate ($/bbl)	**90.14**	98.66	**95.22**	93.46
Propane ($/bbl)	**18.61**	42.96	**24.42**	42.26
Butane ($/bbl)	**61.10**	66.52	**64.69**	62.11
Pentane ($/bbl)	**93.44**	99.76	**97.97**	94.75
Total Oil and NGLs ($/bbl)	**71.27**	84.06	**77.75**	80.18

Peyto's hedging practice of layering in fixed price swaps for future production, in order to smooth out the volatility in natural gas and natural gas liquids prices, continued in the quarter. By the end of the second quarter, Peyto had committed to the future sale of 49,000 bbls of Propane and Butane at an average price of $61.56/bbl, and 51,510,000 gigajoules (GJ) of natural gas at an average price of $3.29/GJ or $3.84/mcf (based on Peyto's historical heat content). Had these contracts been closed on June 30, 2012, Peyto would have realized a gain in the amount of $26.1 million.

Activity Update

Peyto has maintained a very active pace since the end of breakup in early June, with six drilling rigs working throughout the Company's Deep Basin core areas. Drilling continues to be focused on the more liquids rich formations including the Cardium, Falher and Bluesky, with only selective locations being drilled in the Notikewin and Wilrich. New production additions for the year have grown to 14,000 boe/d, contributing to total current production of 44,000 boe/d. Natural gas liquids make up approximately 5,000 bbl/d of this total.

The first compressors are starting to arrive at the Oldman gas plant as part of the enhanced liquids recovery project. All new equipment is expected to be set by the end of August with startup expected for early October.

Peyto's natural gas fueling station at its Oldman gas plant also remains on schedule to be operational by November 2012. This will allow for the conversion of both drilling rigs and field trucks to run off natural gas rather than diesel, contributing to both capital and operating cost savings.

ONR Acquisition Update

On July 3, 2012, Peyto announced it had entered into an agreement to acquire Open Range on the basis of 0.0696 of a Peyto common share for each Open Range common share pursuant to a statutory plan of arrangement (for an aggregate of 5.2 million Peyto common shares). On August 6, 2012, Peyto announced it had amended the arrangement and increased the exchange ratio in favour of Open Range to 0.0723 (for an aggregate of 5.4 million Peyto common shares) in response to an unsolicited bid for Open Range by a third party. A copy of the amended Arrangement Agreement was filed by Open Range will be available for viewing on SEDAR at www.sedar.com.

This acquisition represents the first significant corporate acquisition in Peyto's thirteen year history. It is a unique opportunity that is consistent with Peyto's strategy of being geographically focused, controlling the infrastructure, and pursuing low-cost, long-life production.

The Open Range properties are a natural fit with Peyto's Greater Sundance core area. Open Range's plant and pipeline infrastructure can be interconnected with Peyto's existing infrastructure and provides a bridge to other proven Peyto lands on the outskirts of the main Sundance area. This will allow for the accelerated development of these Peyto step-out areas and reduce the operating costs of the operated production from both asset bases.

Upon completion of the Arrangement, Peyto intends to aggressively develop the numerous drilling opportunities identified on the Open Range lands by deploying two additional drilling rigs, beyond the six that are currently running on Peyto lands. It is anticipated that up to 55 gross (45 net) wells will be drilled over the next three years for a cumulative capital investment that is currently estimated at $245 million. Recent gains in Peyto's drilling efficiency are expected to reduce this estimate and further enhance the value of the Open Range acquisition for Peyto shareholders.

Much like Peyto's Greater Sundance area where successful drilling activity has generated years of additional development opportunities, Peyto expects the Open Range lands to ultimately yield many more locations beyond those currently identified. Integration of the acquired properties is not anticipated to displace any of Peyto's existing growth plans.

Highlights of the acquisition are as follows:

- Approximately 31 mmcf/d and 460 bbl/d of long life, natural gas and liquids production.
- Of this production over 98% will be operated by Peyto and processed in Peyto owned and operated facilities.
- Over 125 gross (110 net) sections of land primarily in the Sundance/Ansell area of the Alberta Deep Basin.
- Ownership and control of two strategically positioned gas plants in the Sundance/Ansell area with the option to install deep cut processing facilities. These plants have approximately 25 MMcf/d of unutilized processing capacity that adds immediate value to existing and future Peyto wells.
- Peyto has identified over 100 high rate of return, drilling locations offering sweet, liquids-rich potential in the five main formations that Peyto has already been actively developing (Cardium, Notikewin, Falher, Wilrich and Bluesky). These will complement Peyto's existing inventory of over 900 drilling locations.
- Over 115 square miles of three dimensional seismic data covering the Open Range lands.

Completion of the arrangement is expected to occur on August 14, 2012, subject to, among other things, the approval of at least 66⅔% of the votes cast at a meeting of Open Range shareholders.

Outlook

The bulk of Peyto's expanded drilling program of $450 million will be executed in the second half of 2012. This will be the most active period in Peyto's history. At an annualized rate of almost $600 million per year, this pace of capital investment represents one of the largest, natural gas directed capital programs currently in Alberta and sets Peyto apart as a leader in the development of Alberta's natural gas resources. Peyto's advantage as the lowest cost producer in the industry makes this level of capital investment possible during a period of lower natural gas prices and allows Peyto to take advantage of reduced natural gas activity and lower service costs.

With approximately $400 million of the capital program directed to Peyto's existing assets and $50 million towards opportunities that Peyto has identified on the Open Range lands, production is expected to reach 57,000 boe/d by year end. At the same time, Alberta natural gas prices are forecast to recover to over $3/GJ by December 2012, allowing Peyto to fund this capital investment through growing Funds from Operations and available bank lines.

As always, Peyto will maintain its financial flexibility with a healthy balance sheet and remain positioned to take advantage of future opportunities to maximize returns for shareholders.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2012 second quarter on Thursday, August 9th, 2012, at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). To participate, please call 1-416-340-2219 (Toronto area) or 1-866-226-1793 for all other participants. The conference call will also be available on replay by calling 1-905-694-9451 (Toronto area) or 1-800-408-3053 for all other parties, using passcode 7113191. The replay will be available at 11:00 a.m. MDT, 1:00 p.m. EDT Thursday, August 9th, 2012 until midnight EDT on Thursday, August 16th, 2012. The conference call can also be accessed through the internet at http://events.digitalmedia.telus.com/peyto/080912/index.php. After this time the conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

Management's Discussion and Analysis

Management's Discussion and Analysis of this second quarter report is available on the Peyto website at http://www.peyto.com/news/Q22012MDandA.pdf. A complete copy of the second quarter report to shareholders, including the Management's Discussion and Analysis, and Financial Statements is also available at www.peyto.com and will be filed at SEDAR, www.sedar.com , at a later date.

Shareholders and interested investors are encouraged to visit the Peyto website at www.peyto.com where a monthly president's report allows you to follow the progress of the capital program and ensuing production growth.

Darren Gee
President and CEO
August 8, 2012

Certain information set forth in this document and Management's Discussion and Analysis, including management's assessment of Peyto's future plans and operations, capital expenditures and capital efficiencies, 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 Peyto will derive there from. In addition, Peyto is providing future oriented financial information set out in this press release for the purposes of providing clarity with respect to Peyto's strategic direction and readers are cautioned that this information may not be appropriate for any other purpose. Other than is required pursuant to applicable securities law, Peyto does not undertake to update forward looking statements at any particular time.

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	June 30 2012	December 31 2011
Assets		
Current assets		
Cash	-	57,224
Accounts receivable	39,793	53,829
Due from private placement *(Note 6)*	-	9,740
Financial derivative instruments *(Note 8)*	27,409	38,530
Prepaid expenses	11,454	3,991
	78,656	**163,314**
Long-term financial derivative instruments *(Note 8)*	-	6,304
Prepaid capital	6,923	1,414
Property, plant and equipment, net *(Note 3)*	1,703,631	1,629,220
	1,710,554	**1,636,938**
	1,789,210	**1,800,252**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	67,265	110,483
Dividends payable *(Note 6)*	8,309	8,278
Provision for future performance based compensation *(Note 7)*	6,573	4,321
	82,147	**123,082**
Long-term financial derivative instruments *(Note 8)*	1,331	-
Long-term debt *(Note 4)*	495,000	470,000
Provision for future performance based compensation *(Note 7)*	1,993	1,235
Decommissioning provision *(Note 5)*	47,154	38,037
Deferred income taxes	162,527	152,190
	708,005	**661,462**
Shareholders' equity		
Shareholders' capital *(Note 6)*	901,041	889,115
Shares to be issued *(Note 6)*	-	9,740
Retained earnings	78,119	82,889
Accumulated other comprehensive income *(Note 6)*	19,898	33,964
	999,058	**1,015,708**
	1,789,210	**1,800,252**

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Revenue				
Oil and gas sales	68,879	96,607	154,100	183,065
Realized gain on hedges	17,674	6,586	34,949	19,705
Royalties	(6,082)	(12,007)	(14,917)	(21,929)
Petroleum and natural gas sales, net	**80,471**	**91,186**	**174,132**	**180,841**
Expenses				
Operating	6,603	5,945	13,904	12,516
Transportation	2,645	2,371	5,251	4,535
General and administrative	1,639	1,348	2,610	2,954
Future performance based compensation *(Note 7)*	1,115	2,348	3,010	6,572
Interest	4,996	4,512	10,134	9,130
Accretion of decommissioning provision	232	234	489	465
Depletion and depreciation *(Note 3)*	39,101	30,850	78,774	59,876
Gain on disposition of assets *(Note 3)*	(144)	-	(144)	(818)
	56,187	**47,608**	**114,028**	**95,230**
Earnings before taxes	**24,284**	**43,578**	**60,104**	**85,611**
Income tax				
Deferred income tax expense	6,083	10,860	15,035	21,205
Earnings for the period	**18,201**	**32,718**	**45,069**	**64,406**
Earnings per share *(Note 6)*				
Basic and diluted	**$ 0.13**	**$ 0.25**	**$ 0.33**	**$ 0.49**
Weighted average number of common shares outstanding *(Note 6)*				
Basic and diluted	**138,485,956**	**133,061,301**	**138,399,017**	**132,900,079**

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Earnings for the period	**18,201**	**32,718**	**45,069**	**64,406**
Other comprehensive income (loss)				
Change in unrealized gain (loss) on cash flow hedges	(10,923)	6,522	16,194	10,431
Deferred tax recovery	7,149	69	4,689	2,510
Realized (gain) loss on cash flow hedges	(17,674)	(6,586)	(34,949)	(19,705)
Comprehensive Income (Loss)	**(3,247)**	**32,723**	**31,003**	**57,642**

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Six months ended June 30	
	2012	**2011**
Shareholders' capital, beginning of period	**889,115**	755,831
Common shares issued	-	-
Common shares issued by private placement	11,952	17,150
Common shares issuance costs (net of tax)	(26)	(75)
Common shares issued pursuant to DRIP	-	1,973
Common shares issued pursuant to OTUPP	-	2,889
Shareholders' capital, end of period	**901,041**	777,768

Common shares to be issued, beginning of period	**9,740**	17,285
Common shares issued	(9,740)	(17,285)
Common shares to be issued	-	-
Common shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**82,889**	50,774
Earnings for the period	45,069	64,406
Dividends *(Note 6)*	(49,839)	(47,872)
Retained earnings, end of period	**78,119**	67,308

Accumulated other comprehensive income, beginning of period	**33,964**	20,893
Other comprehensive income (loss)	(14,066)	(6,764)
Accumulated other comprehensive income, end of period	**19,898**	14,129

Total shareholders' equity	**999,058**	859,205

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2012	**2011**	**2012**	**2011**
Cash provided by (used in) operating activities				
Earnings	**18,201**	32,718	**45,069**	64,406
Items not requiring cash:				
Deferred income tax	**6,083**	10,860	**15,035**	21,205
Depletion and depreciation	**39,101**	30,850	**78,774**	59,876
Accretion of decommissioning provision	**232**	234	**489**	465
Change in non-cash working capital related to operating activities	**10,934**	7,169	**(5,433)**	(20,416)
	74,551	81,831	**133,934**	125,536
Financing activities				
Issuance of common shares	**-**	-	**11,952**	4,628
Issuance costs	**-**	(13)	**(35)**	-
Cash dividends paid	**(24,927)**	(23,951)	**(49,808)**	(43,291)
Increase (decrease) in bank debt	**25,000**	30,000	**(75,000)**	100,000
Issuance of long term notes	**-**	-	**100,000**	-
	73	6,036	**(12,891)**	61,337
Investing activities				
Additions to property, plant and equipment	**(74,624)**	(86,258)	**(178,267)**	(182,418)
Net increase (decrease) in cash	**-**	1,609	**(57,224)**	4,455
Cash, Beginning of Period	**-**	10,740	**57,224**	7,894
Cash, End of Period	**-**	12,349	**-**	12,349

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

Cash interest paid	**4,122**	4,228	**8,435**	8,541
Cash taxes paid	**-**	-	**-**	-

Peyto Exploration & Development Corp.
Notes to Condensed Financial Statements *(unaudited)*
As at June 30, 2012 and 2011
(Amount in $ thousands, except as otherwise noted)

1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on August 7, 2012.

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 for the year ended December 31, 2011.

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 audited Financial Statements as at and for the years ended December 31, 2011 and 2010.

3. Property, plant and equipment, net

Cost	
At December 31, 2011	1,843,766
Additions	153,185
Dispositions	-
At June 30, 2012	1,996,951
Accumulated depletion and depreciation	
At December 31, 2011	(214,546)
Depletion and depreciation	(78,774)
Dispositions	-
At June 30, 2012	(293,320)
Carrying amount at June 30, 2012	**1,703,631**

Proceeds received for assets disposed of during the three and six month periods ended June 30, 2012 were $0.1 million and $0.1 million (2011 - $nil and $1.5 million).

During the three and six month periods ended June 30 2012, Peyto capitalized $0.8 million and $2.5 million (2011 - $1.0 million and $2.3 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

Peyto has a syndicated $700 million extendible revolving credit facility with a stated term date of April 28, 2013. The bank facility is made up of a $30 million working capital sub-tranche and a $670 million production line. The facilities are available on a revolving basis for a period of at least 364 days and upon the term out date may be extended for a further 364 day period at the request of Peyto, subject to approval by the lenders. In the event that the revolving period is not extended, the facility is available on a non-revolving basis for a further one year term, at the end of which time the facility would be due and payable. Outstanding amounts on this facility will bear interest at rates ranging from prime plus 1.25% to prime plus 2.75% determined by Peyto's debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank.

On January 3, 2012, Peyto issued CDN $100 million of senior secured notes pursuant to a note purchase and private shelf agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.39% and mature on January 3, 2019. Interest will be paid semi-annually in arrears.

Upon the issuance of the senior secured notes January 3, 2012, Peyto became subject to the following financial covenants as defined in the credit facility and note purchase and private shelf agreements:

- Senior Debt to EBITDA Ratio will not exceed 3.0 to 1.0.
- Total Debt to EBITDA Ratio will not exceed 4.0 to 1.0.
- Interest Coverage Ratio will not be less than 3.0 to 1.0
- Total Debt to Capitalization Ratio will not exceed 0.55:1.0

Peyto is in compliance with all financial covenants at June 30, 2012.

The private shelf agreement was amended on June 25, 2012 to provide for the issuance, on an uncommitted basis, of an additional US $50 million of senior notes on or prior to January 3, 2015.

Peyto's total borrowing capacity remains at $800 million; however Peyto's net credit facility is $700 million.

Total interest expense for the three and six month periods ended June 30, 2012 was $5.0 million and $10.1 million (2011 - $4.5 million and $9.1 million) and the average borrowing rate for the three and six month periods was 4.1% and 4.3% (2011 – 4.1% and 4.4%).

5. Decommissioning provision

Peyto makes provision for the future cost of decommissioning wells, pipelines 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 Peyto's internal estimates of 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, 2011	**38,037**
New or increased provisions	2,508
Accretion of decommissioning provision	489
Change in discount rate and estimates	6,120
Balance, June 30, 2012	**47,154**
Current	-
Non-current	47,154

Peyto has estimated the net present value of its total decommissioning provision to be $47.2 million as at June 30, 2012 ($38.0 million at December 31, 2011) based on a total future undiscounted liability of $109.0 million ($101.2 million at December 31, 2011). At June 30, 2012 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2040 to 2061. The Bank of Canada's long term bond rate of 2.33 per cent (2.49 per cent at December 31, 2011) and an inflation rate of two per cent (two per cent at December 31, 2011) were used to calculate the present value of the decommissioning provision.

6. Shareholders' capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount $
Balance, December 31, 2010	131,875,382	755,831
Common shares issued	4,899,000	115,126
Common share issuance costs (net of tax)	-	(3,854)
Common shares issued by private placement	906,196	17,150
Common shares issued pursuant to DRIP	113,527	1,973
Common shares issued pursuant to OTUPP	166,196	2,889
Balance, December 31, 2011	137,960,301	889,115
Common shares issued by private placement	525,655	11,952
Common share issuance costs (net of tax)	-	(26)
Balance, June 30, 2012	**138,485,956**	**901,041**

Peyto reinstated its amended distribution reinvestment and optional trust unit purchase plan (the "Amended DRIP Plan") effective with the January 2010 distribution whereby eligible unitholders could elect to reinvest their monthly cash distributions in additional trust units at a 5 percent discount to market price. The DRIP plan incorporated an Optional Trust Unit Purchase Plan ("OTUPP") which provided unitholders enrolled in the DRIP with the opportunity to purchase additional trust units from treasury using the same pricing as the DRIP. The DRIP and the OTUPP plans were cancelled December 31, 2010.

On December 31, 2010, Peyto completed a private placement of 655,581 common shares to employees and consultants for net proceeds of $12.4 million ($18.95 per share). These common shares were issued on January 6, 2011.

On January 14, 2011, 279,723 common shares (113,527 pursuant to the DRIP and 166,196 pursuant to the OTUPP) were issued for net proceeds of $4.9 million.

On March 25, 2011, Peyto completed a private placement of 250,615 common shares to employees and consultants for net proceeds of $4.7 million ($18.86 per share).

On December 16, 2011, Peyto closed an offering of 4,899,000 common shares at a price of $23.50 per common share, receiving proceeds of $110.1 million (net of issuance costs).

On December 31, 2011 Peyto completed a private placement of 397,235 common shares to employees and consultants for net proceeds of $9.7 million ($24.52 per share). These common shares were issued on January 13, 2012.

On March 23, 2012 Peyto completed a private placement of 128,420 common shares to employees and consultants for net proceeds of $2.2 million ($17.22 per share).

Per share amounts

Earnings per share or unit have been calculated based upon the weighted average number of common shares outstanding for the three and six month periods ended June 30, 2012 were 138,485,956 and 138,399,017 (2011 - 133,061,301 and 132,900,079). There are no dilutive instruments outstanding.

Dividends

During the three and six month periods ended June 30, 2012, Peyto declared and paid dividends of $0.18 and $0.36 per common share or $0.06 per common share per month, totaling $24.9 million and $49.8 million (2011 - $0.18 and $0.36 per share or $0.06 per share per month, $24.0 million and $47.9 million).

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

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

7. Future performance based compensation

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

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

Market based component
Under the market based component, rights with a three year vesting period are allocated to employees. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash over the three year vesting 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.

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

	June 30 2012	**June 30 2011**
Share price	$18.83 - $24.75	$18.83 - $21.50
Exercise price	$12.06 - $24.55	$9.57 - $18.84
Expected volatility	0% - 36%	0% - 38%
Expected life	0.50 years	0.50 – 2.50 years
Risk-free interest rate	1.04%	1.58%

8. Risk management contracts

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

Following is a summary of all risk management contracts in place as at June 30, 2012:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (CAD)**
September 1, 2012 to March 31, 2013	Fixed Price	2,000 BBL	$49.56/BBL
September 1, 2012 to March 31, 2013	Fixed Price	2,000 BBL	$44.10/BBL

Butane Period Hedged	**Type**	**Monthly Volume**	**Price (CAD)**
September 1, 2012 to March 31, 2013	Fixed Price	2,000 bbl	$80.64/bbl

Iso-Butane Period Hedged	Type	Monthly Volume	Price (CAD)
September 1, 2012 to March 31, 2013	Fixed Price	1,000 bbl	$82.32/bbl

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	$4.05/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	$4.15/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	$4.10/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2011 to March 31, 2013	Fixed Price	5,000 GJ	$4.055/GJ
April 1, 2011 to March 31, 2013	Fixed Price	5,000 GJ	$3.80/GJ
June 1, 2011 to March 31, 2013	Fixed Price	5,000 GJ	$4.17/GJ
June 1, 2011 to March 31, 2013	Fixed Price	5,000 GJ	$4.10/GJ
June 1, 2011 to March 31, 2013	Fixed Price	5,000 GJ	$4.10/GJ
November 1, 2011 to March 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to December 31, 2012	Fixed Price	5,000 GJ	$3.3125/GJ
April 1, 2012 to December 31, 2012	Fixed Price	5,000 GJ	$3.395/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2012 to March 31, 2013	Fixed Price	5,000 GJ	$2.20/GJ
April 1, 2012 to March 31, 2013	Fixed Price	5,000 GJ	$2.31/GJ
April 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.52/GJ
April 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
May 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.30/GJ
June 1, 2012 to October 31, 2012	Fixed Price	5,000 GJ	$1.83/GJ
July 1, 2012 to October 31, 2012	Fixed Price	5,000 GJ	$2.32/GJ
July 1, 2012 to October 31, 2012	Fixed Price	5,000 GJ	$2.35/GJ
August 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$2.81/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
November 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.0575/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.105/GJ

As at June 30, 2012, Peyto had committed to the future sale of 49,000 barrels of natural gas liquids at an average price of $61.56 per barrel and 51,510,000 gigajoules (GJ) of natural gas at an average price of $3.29 per GJ or $3.84 per mcf. Had these contracts been closed on June 30, 2012, Peyto would have realized a gain in the amount of $26.1 million. If the AECO gas price on June 30, 2012 were to increase by $1/GJ, the unrealized gain would decrease by approximately $51.5 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to June 30, 2012 Peyto entered into the following contracts:

Propane Period Hedged	Type	Monthly Volume	Price (CAD)
September 1, 2012 to March 31, 2013	Fixed Price	2,000 bbl	$32.34/bbl

Butane Period Hedged	Type	Monthly Volume	Price (CAD)
September 1, 2012 to March 31, 2013	Fixed Price	2,000 bbl	$58.38/bbl

Iso-Butane Period Hedged	Type	Monthly Volume	Price (CAD)
September 1, 2012 to March 31, 2013	Fixed Price	1,000 bbl	$60.48/bbl

Natural Gas Period Hedged	Type	Monthly Volume	Price (CAD)
August 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
January 1, 2013 to December 31, 2013	Fixed Price	5,000 GJ	$3.105/GJ

9. Commitments and contingencies

Peyto has contractual obligations and commitments as follows:

	2012	2013	2014	2015	2016	Thereafter
Note repayment(1)	-	-	-	-	-	100,000
Interest payments(2)	2,195	4,390	4,390	4,390	4,390	10,975
Transportation commitments	5,044	9,265	7,746	5,462	2,270	285
Operating lease	536	1,071	1,071	-	-	-
Total	7,775	14,726	13,207	9,852	6,660	111,260

(1) Long-term debt repayment on senior secured notes
(2) Fixed interest payments on senior secured notes

Contingent liability

From time to time, Peyto is the subject of litigation arising out of its day-to-day operations. Damages claimed pursuant to such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact Peyto's financial position or results of operations in the period of settlement. While Peyto assesses the merits of each lawsuit and defends itself accordingly, Peyto may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on Peyto's financial position or results of operations.

10. Subsequent Event

Subsequent to June 30, 2012, Peyto announced its intention to purchase all of the issued and outstanding common shares of Open Range Energy Corp. on the basis of a share exchange, pursuant to a statutory plan of arrangement. This transaction is subject to the approval of Open Range shareholders, among other things.

Officers

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Directors

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

Auditors

Deloitte & Touche LLP

Solicitors

Burnet, Duckworth & Palmer LLP

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Royal Bank of Canada
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