NEWS RELEASE

MAY 8, 2013 **SYMBOL: PEY – TSX**

PEYTO REPORTS RECORD FUNDS FROM OPERATIONS AND DIVIDEND INCREASE

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto") is pleased to present its operating and financial results for the first quarter of the 2013 fiscal year. Peyto's production per share grew for the fourteenth consecutive quarter with first quarter operating margins of 77%[(1)] and profit margins of 27%[(2)]. First quarter 2013 highlights were as follows:

- **Production per share up 26%.** First quarter 2013 production increased 35% (26% per share) from 245 MMcfe/d (40,903 boe/d) in Q1 2012 to 332 MMcfe/d (55,372 boe/d) in Q1 2013.

- **Funds from operations of $0.69/share.** Generated a company record $103 million in Funds from Operations ("FFO") in Q1 2013 up 32% (23% per share) from $78 million in Q1 2012 due to increased production volumes.

- **Operating costs less than $2/boe.** Industry leading operating costs were further reduced from $0.33/mcfe ($1.96/boe) in Q1 2012 to $0.31/mcfe ($1.87/boe) in Q1 2013. Total cash costs, including royalties, operating costs, transportation, G&A and interest were $1.02/mcfe ($6.10/boe), resulting in a $3.44/mcfe ($20.64/boe) cash netback or 77% operating margin.

- **Capital investment of $169 million**. An organic capital program of $169 million was executed in the quarter resulting in production additions of 10,300 boe/d at quarter end. The annualized cost (trailing twelve months) to build new production was $18,900/boe/d (including capital for Peyto's enhanced liquids extraction facilities but excluding the Open Range acquisition). A total of 31 gross wells were drilled during the first quarter.

- **Earnings of $0.25/share, dividends of $0.18/share.** Earnings of $36 million were generated in the quarter while dividends of $27 million were paid to shareholders, representing a before tax payout ratio of 26% of FFO.

- **Dividend increase to $0.08/share.** The Board of Directors has approved a dividend increase of $0.02/share, starting in May 2013, to be paid on June 14, 2013 to shareholders of record as of May 31, 2013.

First Quarter 2013 in Review

The first quarter of 2013 was a continuation from the fourth quarter of 2012, with record levels of capital invested into the exploration and development of Peyto's Deep Basin resource plays. As a result, production continued to grow throughout the quarter while a strict focus on maintaining industry leading cash costs ensured funds from operations also grew proportionately. Peyto's realized natural gas prices were similar to the first quarter of 2012, although less supported by hedging gains, while realized liquids prices were down 10%. Despite the improvement in underlying natural gas prices, North American drilling activity did not increase, allowing Peyto to continue building and developing new production at its industry leading capital efficiencies. The enhanced liquids extraction facilities at Peyto's Oldman gas plant became fully operational at the start of the quarter, achieving the designed process temperatures and additional liquid recoveries, and thus increasing the price Peyto realizes for its production stream. Subsequent to the quarter, Peyto replaced its secured borrowing base revolving bank facility with an unsecured covenant based facility with 37% greater borrowing capacity. This new credit facility gives Peyto the ability to pursue even more opportunities at a lower cost of capital. At quarter end, 65% of the new borrowing capacity of $1.15 billion was utilized resulting in a net debt to annualized FFO ratio of 1.8 times. The strong financial and operating performance delivered in the quarter resulted in an annualized 12% Return on Equity (ROE) and 10% 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.

	3 Months Ended Mar. 31		%
	2013	2012	Change
Operations			
Production			
Natural gas (mcf/d)	**297,191**	220,811	*35%*
Oil & NGLs (bbl/d)	**5,840**	4,101	*42%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**332,230**	245,417	*35%*
Barrels of oil equivalent (boe/d @ 6:1)	**55,372**	40,903	*35%*
Product prices			
Natural gas ($/mcf)	**3.49**	3.53	*(1)%*
Oil & NGLs ($/bbl)	**75.88**	84.83	*(11)%*
Operating expenses ($/mcfe)	**0.31**	0.33	*(6)%*
Transportation ($/mcfe)	**0.12**	0.12	-
Field netback ($/mcfe)	**3.67**	3.75	*(2)%*
General & administrative expenses ($/mcfe)	**0.02**	0.04	*(50)%*
Interest expense ($/mcfe)	**0.21**	0.23	*(9)%*
Financial ($000, except per share)			
Revenue	**133,203**	102,496	*30%*
Royalties	**10,591**	8,835	*20%*
Funds from operations	**102,856**	77,645	*32%*
Funds from operations per share	**0.69**	0.56	*23%*
Total dividends	**26,766**	24,912	*7%*
Total dividends per share	**0.18**	0.18	-
Payout ratio	**26**	32	*(19)%*
Earnings	**36,405**	26,868	*35%*
Earnings per diluted share	**0.25**	0.19	*32%*
Capital expenditures	**169,099**	98,632	*71%*
Weighted average common shares outstanding	**148,672,664**	138,312,078	*7%*
As at March 31			
Net debt (before future compensation expense and unrealized hedging gains)	**749,546**	512,627	*46%*
Shareholders' equity	**1,197,254**	1,027,231	*17%*
Total assets	**2,281,287**	1,800,394	*27%*

	Three Months ended Mar. 31	
($000)	**2013**	2012
Cash flows from operating activities	**92,543**	59,383
Change in non-cash working capital	**7,775**	16,367
Change in provision for performance based compensation	**2,538**	1,895
Funds from operations	**102,856**	77,645
Funds from operations per share	**0.69**	0.56

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

Exploration & Development

Peyto continued to explore and develop many of its liquids rich, sweet gas resource plays in the Deep Basin throughout the first quarter of 2013. A total of 31 wells were drilled across the land base, targeting the many prospective zones, as shown in the following table:

Zone	Field							Total Wells Drilled
	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	New Area	
Cardium	2					1		3
Notikewin	3	2						5
Falher	4		4	1				9
Wilrich	1	1	2	3	2		2	11
Bluesky		3						3
Total	10	6	6	4	2	1	2	31

The majority of the activity focused on the Notikewin, Falher and Wilrich formations of the Spirit River group. Despite the lower natural gas liquids yields from these deeper Spirit River formations, economic returns were still determined to be greater due to the improved natural gas prices combined with greater productivity and recoveries.

In particular, considerable development occurred in the Falher formation where Peyto has now drilled 38 horizontal wells since the start of 2012 and sees significant unbooked drilling inventory that can continue to be proven. Drilling costs in the Falher to date have averaged $2.6 million/well, while completion costs have averaged $1.6 million/well.

In addition, Peyto has drilled a total of six Bluesky horizontal wells since the second quarter of 2012, helping to prove up substantial existing and future inventory in this formation. To date, Bluesky drilling and completion costs have averaged $2.9 million/well and $1.6 million/well, respectively.

Overall, Peyto continues to validate an ever greater inventory of profitable drilling locations within the numerous formations across its Deep Basin lands.

Capital Expenditures

During the first quarter of 2013, Peyto spent $75.5 million to spud 31 gross (28.3 net) horizontal wells and $41.2 million completing 25 gross (23.5 net) wells. Wellsite equipment and tie-ins accounted for $14.6 million, while a total of $36.0 million was invested in new pipelines and facilities including the balance of capital for the Oldman gas plant Deep Cut equipment. New lands were acquired for $0.8 million, or $373/acre, while new seismic accounted for $1.0 million.

In the quarter, 25 gross (23.1 net) wells were brought onstream which contributed 10,300 boe/d to the quarter end exit rate of 59,000 boe/d. Pipeline and facility capital of $36.0 million included the addition of one compressor each to the Wildhay and Nosehill gas plants; the construction of a strategically located 47 km pipeline from Peyto's Ansell property to its Swanson gas plant; the installation of natural gas fired power generation equipment at the Oldman gas plant; and the completion of the Oldman natural gas liquids ("NGLs") extraction facilities. These newly installed Deep Cut facilities are performing as designed, achieving process temperatures ranging from -75C to -80C and recovering an additional 12 to 15 bbl of high value NGLs per MMcf of sales gas.

Financial Results

Alberta monthly natural gas prices averaged $2.91/GJ in the first quarter 2013, resulting in a Peyto unhedged realized price of $3.31/mcf before hedging gains of $0.18/mcf. Meanwhile, Edmonton light oil prices averaged $88.60/bbl from which Peyto realized $75.72/bbl, before hedging gains of $0.16/bbl, for its natural gas liquids blend of condensate, pentane, butane and propane. Combined, Peyto's unhedged revenues totaled $4.30/mcfe ($4.46/mcfe including hedging gains), or 153% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of $0.36/mcfe, operating costs of $0.31/mcfe, transportation costs of $0.12/mcfe, G&A of $0.02/mcfe and interest costs of $0.21/mcfe, combined for total cash costs of $1.02/mcfe. These industry leading total cash costs resulted in a cash netback of $3.44/mcfe or a 77% 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 $1.22/mcfe, or a 27% profit margin.

Subsequent to the end of the first quarter, Peyto's $730 million credit facility was reviewed and the annual secured revolver was replaced by a $1.0 billion, two year, covenant based unsecured revolver. This increase in borrowing capacity was a reflection of the 2012 growth in volume and value of Peyto's Proved Producing reserves, as well as a reflection of the company's efficiency with which reserves are developed, produced and sold. The unsecured revolver contains the same financial covenants as the previous secured revolver (see the Management's Discussion & Analysis for a description of the covenants). Including the $150 million of senior unsecured notes, Peyto's total borrowing capacity increased to $1.15 billion.

Marketing

The first quarter 2013 AECO daily natural gas prices were 50% higher than the same period in 2012 due to a more balanced supply demand situation in North America coupled with more typical winter weather. March weather, however, was colder than normal and resulted in record volumes of gas being withdrawn from storage reservoirs, further driving up the natural gas price in both the US and Canada.

Despite this recovery in current natural gas prices, the price offered for future supplies has not increased materially since a year ago. AECO and NYMEX futures up to five years out are only 20% higher than today's price, indicating that natural gas supplies in North America, including those in the prolific US shale plays, will be sufficient to meet current demand growth projections.

The company's hedging practice of layering in future sales in the form of fixed price swaps, in order to smooth out the volatility in natural gas price, continued throughout the quarter. As at March 31, 2013, Peyto had committed to the future sale of 82,627,500 gigajoules (GJ) of natural gas at an average price of $3.23/GJ or $3.71/mcf, based on Peyto's historical heat content. As at May 8, 2013, the remaining hedged volumes and prices for the upcoming years are summarized in the following table.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2013	47,322,500	41,150,000	3.22	3.70
2014	33,485,000	29,117,391	3.30	3.80
2015	450,000	391,304	3.60	4.14
Total	81,257,500	70,658,696	3.26	3.74

As illustrated in the following table, Peyto's unhedged realized natural gas liquids prices (1) were down 11% year over year but up 4% from the previous quarter.

	Three Months ended March 31		Q4
	2013	2012	2012
Condensate ($/bbl)	**96.63**	100.09	91.22
Propane ($/bbl)	**26.75**	31.86	25.58
Butane ($/bbl)	**61.40**	69.17	63.38
Pentane ($/bbl)	**107.13**	102.92	94.34
Total Oil and NGLs ($/bbl)	**75.72**	84.83	73.12

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

Peyto's hedging practice with respect to propane also continued in the quarter and as at March 31, 2013, Peyto had committed to the future sale of 288,000 bbls of propane at an average price of $34.61USD/bbl. As at May 8, 2013, the remaining hedged volumes and prices for the upcoming years are summarized in the following table.

	Propane	
	Future Sales (bbls)	Average Price ($USD/bbl)
2013	168,000	33.60
2014	96,000	36.59
Total	264,000	34.69

Activity Update

Peyto has concluded all of its drilling and completion activities leading up to this year's spring break-up period. Current production levels have ranged from 60,000 to 61,000 boe/d with new 2013 wells contributing 13,000 boe/d.

During April, 10 gross wells (9.5 net) were completed and brought onstream. Additionally, 6 gross wells (5.5 net) have finished drilling and await completion and/or tie in which will occur after break-up. Two wells were suspended at an intermediate stage of drilling operations due to spring break-up. Resumption of drilling, completion and tie in activity is anticipated for the last week of May.

The estimated production additions for the 6 wells awaiting completion and/or tie in, as well as one other previously drilled well in a new area, amount to greater than 5,000 boe/d.

Peyto is planning for the continuation of an active 10 rig drilling program after the breakup period. In order to accommodate the growth in production anticipated from this activity, equipment is currently being fabricated for three key facility projects. The first includes a new gas plant adjacent to the Oldman facility (Oldman North) that is being designed for an eventual 80 MMcf/d of capacity by the end of 2014. The facility will be brought on with initial compression totalling 30 MMcf/d and with an estimated start-up of September, 2013. The second is a 30 MMcf/d expansion to Peyto's Swanson gas plant which has been filled to its current 30 MMcf/d capacity over Q1 of this year. The estimated timing for that project is also September/October of 2013. The final facility project is a new plant contemplated for startup at the end of 2013 in a new area of development. It is being built for an initial capacity of approximately 20 MMcf/d but is fully expandable with continued development drilling success.

Dividend Increase

In keeping with Peyto's total return model, profitable growth in the Company's assets should ultimately yield growth in sustainable dividends for shareholders. Since the conversion back to a dividend paying, growth corporation at the end of 2010, when the current $0.06/month dividend rate was set, Peyto has increased production per share by 70% and grown proved plus probable additional reserves per share by over 30%. Over the same period, and despite lower natural gas prices, funds from operations per share also increased 30%. The strength of the Company's balance sheet has also improved over that time, with greater access to capital and at a lower cost, ensuring future capital programs can continue to be adequately funded.

Based on this recent profitable growth and financial strength, the Board of Directors of Peyto has approved a $0.02/share increase to the monthly dividend starting in May 2013.

Outlook

With the largest capital program in the company's history well underway, 2013 looks to be another record breaking year for Peyto. Near term natural gas prices have improved, driving returns on this capital even higher, while at the same time industry activity remains low, keeping costs down and ensuring services are readily available. Peyto's low cost advantage, which yields high operating and profit margins, ensures the growth in assets resulting from this capital program is profitable growth. Peyto's disciplined, returns driven, low cost strategy continues to reward investors willing to look beyond just the natural gas commodity to a profitable energy business with a clear vision for the future.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2013 first quarter financial results on Thursday, May 9th, 2013, at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). To participate, please call 1-416-340-8530 (Toronto area) or 1-877-440-9795 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 9284446. The replay will be available at 11:00 a.m. MDT, 1:00

p.m. EDT Thursday, May 9th, 2013 until midnight EDT on Thursday, May 16th, 2013. The conference call can also be accessed through the internet at http://events.digitalmedia.telus.com/peyto/050913/index.php. After this time the conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

Annual General Meeting

Shareholders are invited to attend Peyto's AGM at 3:00 p.m. on Wednesday, June 5, 2013 at Livingston Place Conference Centre, +15 level, 222-3rd Avenue SW, Calgary, Alberta.

Management's Discussion and Analysis

Management's Discussion and Analysis of this first quarter report is available on the Peyto website at http://www.peyto.com/news/Q12013MDandA.pdf. A complete copy of the first 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.

Darren Gee
President and CEO
May 8, 2013

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)

	March 31 2013	December 31 2012
Assets		
Current assets		
Accounts receivable	61,707	85,677
Due from private placement *(Note 6)*	-	3,459
Financial derivative instruments *(Note 8)*	-	10,254
Prepaid expenses	5,967	4,150
	67,674	**103,540**
Prepaid capital	-	3,714
Property, plant and equipment, net *(Note 3)*	2,213,713	2,096,270
	2,213,713	**2,099,984**
	2,281,387	**2,203,524**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	168,296	164,946
Income taxes payable	-	1,890
Dividends payable *(Note 6)*	8,925	8,911
Financial derivative instruments *(Note 8)*	22,228	-
Provision for future performance based compensation *(Note 7)*	4,206	2,677
	203,655	**178,424**
Long-term debt *(Note 4)*	640,000	580,000
Long-term derivative financial instruments *(Note 8)*	2,957	2,532
Provision for future performance based compensation *(Note 7)*	1,068	59
Decommissioning provision *(Note 5)*	58,536	58,201
Deferred income taxes	177,917	174,241
	880,478	**815,033**
Equity		
Share capital *(Note 6)*	1,130,069	1,124,382
Shares to be issued *(Note 6)*	-	3,459
Retained earnings	84,886	75,247
Accumulated other comprehensive income (loss) *(Note 6)*	(17,701)	6,979
	1,197,254	**1,210,067**
	2,281,387	**2,203,524**

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 March 31	
	2013	**2012**
Revenue		
Oil and gas sales	128,424	85,221
Realized gain on hedges *(Note 8)*	4,779	17,275
Royalties	(10,591)	(8,835)
Petroleum and natural gas sales, net	**122,612**	**93,661**
Expenses		
Operating	9,306	7,300
Transportation	3,659	2,606
General and administrative	481	972
Future performance based compensation *(Note 7)*	2,538	1,895
Interest	6,310	5,138
Accretion of decommissioning provision *(Note 5)*	368	257
Depletion and depreciation *(Note 3)*	51,625	39,673
	74,287	**57,841**
Earnings before taxes	**48,325**	**35,820**
Income tax		
Deferred income tax expense	11,920	8,952
Earnings for the period	**36,405**	**26,868**
Earnings per share *(Note 6)*		
Basic and diluted	**$ 0.25**	**$ 0.19**
Weighted average number of common shares outstanding *(Note 6)*		
Basic and diluted	**148,672,664**	**138,312,078**

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2013	**2012**
Earnings for the period	**36,405**	**26,868**
Other comprehensive income		
Change in unrealized gain on cash flow hedges	(28,128)	27,116
Deferred tax recovery (expense)	8,227	(2,460)
Realized (gain) loss on cash flow hedges	(4,779)	(17,275)
Comprehensive income	**11,725**	**34,249**

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31 2013	2012
Share capital, beginning of period	**1,124,382**	889,115
Common shares issued by private placement	5,742	11,952
Common shares issuance costs (net of tax)	(55)	(26)
Share capital, end of period	**1,130,069**	901,041
Common shares to be issued, beginning of period	**3,459**	9,740
Common shares issued	(3,459)	(9,740)
Common shares to be issued, end of period	**-**	-
Retained earnings, beginning of period	**75,247**	82,889
Earnings for the period	36,405	26,868
Dividends *(Note 6)*	(26,766)	(24,912)
Retained earnings, end of period	**84,886**	84,845
Accumulated other comprehensive income, beginning of period	**6,979**	33,964
Other comprehensive income (loss)	(24,680)	7,381
Accumulated other comprehensive income (loss), end of period	**(17,701)**	41,345
Total equity	**1,197,254**	1,027,231

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*
(Amount in $ thousands)

	Three months ended March 31	
	2013	**2012**
Cash provided by (used in) operating activities		
Earnings	36,405	26,868
Items not requiring cash:		
Deferred income tax	11,920	8,952
Depletion and depreciation	51,625	39,673
Accretion of decommissioning provision	368	257
Change in non-cash working capital related to operating activities	(7,775)	(16,367)
	92,543	59,383
Financing activities		
Issuance of common shares	5,742	11,952
Issuance costs	(73)	(35)
Cash dividends paid	(26,752)	(24,881)
Increase in bank debt	60,000	-
	38,917	(12,964)
Investing activities		
Additions to property, plant and equipment	**(131,460)**	(103,643)
Net increase (decrease) in cash	**-**	(57,224)
Cash, Beginning of Period	**-**	57,224
Cash, End of Period	**-**	-

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

Cash interest paid	**7,867**	4,313
Cash taxes paid	**1,890**	-

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.

On December 31, 2012, Peyto completed an amalgamation with its wholly-owned subsidiary Open Range Energy Corp. pursuant to section 184(1) of the *Business Corporations Act* (Alberta). Following the amalgamation, Peyto does not have any subsidiaries.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 7, 2013.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the years ended December 31, 2012 and 2011.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

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

Except as disclosed below, all accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's consolidated financial statements as at and for the years ended December 31, 2012 and 2011.

(b) Recent Accounting Pronouncements

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning January 1, 2013 or later periods. The affected standards are consistent with those disclosed in Peyto's consolidated financial statements as at and for the years ended December 31, 2012 and 2011.

Peyto adopted the following standards on January 1, 2013:

IFRS 10 - Consolidated Financial Statements; supercedes IAS 27 "Consolidation and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". This standard provides a single model to be applied in control analysis for all investees including special purpose entities. This standard became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 11 - Joint Arrangements; requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas joint operations will require the venturer to recognize its share of the assets, liabilities, revenue and expenses. This standard became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 12 - Disclosure of Interests in Other Entities; establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance-sheet vehicles. The standard carries forward existing disclosure and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. This standard became effective for Peyto on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

IFRS 13 - Fair Value Measurement; defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies to accounting standards that require or permit fair value measurements or disclosure about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosure about those measurements), except in specified circumstances. IFRS 13 became applicable on January 1, 2013. Peyto adopted the standard on January 1, 2013, with no impact on Peyto's financial position or results of operations.

3. Property, plant and equipment, net

Cost	
At December 31, 2012	2,483,008
Additions	169,068
At March 31, 2013	2,652,076
Accumulated depreciation	
At December 31, 2012	(386,738)
Depletion and depreciation	(51,625)
At March 31, 2013	(438,363)
Carrying amount at December 31, 2012	**2,096,270**
Carrying amount at March 31, 2013	**2,213,713**

During the period ended March 31, 2013, Peyto capitalized $2.6 million (2012 - $1.7 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	March 31, 2013	**December 31, 2012**
Bank credit facility	490,000	430,000
Senior secured notes	150,000	150,000
Balance, end of the year	**640,000**	580,000

As at March 31, 2013, the Company had a syndicated $730 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 $700 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 the Company, 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 1.0% to prime plus 2.5% determined by the Company'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.

Subsequent to March 31, 2013, Peyto has entered into a syndicated two year, unsecured, covenant based revolving credit facility in the amount of $1 billion with a stated term date of April 26, 2015. The note purchase agreement (discussed below) was amended and restated to reflect removal of security on the Senior Notes.

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 is paid semi-annually in arrears.

On September 6, 2012, Peyto issued CDN $50 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 4.88% and mature on September 6, 2022. Interest is 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 March 31, 2013.

Total interest expense for the period ended March 31, 2013 was $6.3 million (2012 - $5.1 million) and the average borrowing rate for the period was 4.0% (2012 – 4.5%).

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, 2012	**58,201**
New or increased provisions	2,961
Accretion of decommissioning provision	368
Change in discount rate and estimates	(2,994)
Balance, March 31, 2013	**58,536**
Current	-
Non-current	58,536

Peyto has estimated the net present value of its total decommissioning provision to be $58.5 million as at March 31, 2013 ($58.2 million at December 31, 2012) based on a total future undiscounted liability of $134.8 million ($127.9 million at December 31, 2012). At March 31, 2013 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2041 to 2062. The Bank of Canada's long term bond rate of 2.50 per cent (2.36 per cent at December 31, 2012) and an inflation rate of two per cent (two per cent at December 31, 2012) 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, 2011	137,960,301	889,115
Common shares issued	4,628,750	115,024
Common shares issued for acquisition	5,404,007	112,187
Common shares issued by private placement	525,655	11,952
Common share issuance costs (net of tax)	-	(3,896)
Balance, December 31,2012	148,518,713	1,124,382
Common shares issued by private placement	240,210	5,742
Common share issuance costs, (net of tax)	-	(55)
Balance, March 31, 2013	**148,758,923**	**1,130,069**

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).

On August 14, 2012, Peyto issued 5,404,007 common shares which were valued at $112.2 million (net of issuance costs) ($20.76 per share) in relation to the closing of a corporate acquisition.

On December 11, 2012, Peyto closed an offering of 4,628,750 common shares at a price of $24.85 per common share, receiving proceeds of $110.0 million (net of issuance costs).

On December 31, 2012, Peyto completed a private placement of 154,550 common shares to employees and consultants for net proceeds of $3.5 million ($22.38 per share). These common shares were issued January 7, 2013.

On March 19, 2013, Peyto completed a private placement of 85,660 common shares to employees and consultants for net proceeds of $2.2 million ($26.65 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 period ended March 31, 2013 of 148,672,664 (2012 – 138,312,078). There are no dilutive instruments outstanding.

Dividends

During the period ended March 31, 2013, Peyto declared and paid dividends of $0.18 per common share or $0.06 per common share per month, totaling $26.8 million (2012 - $0.18 or $0.06 per share per month, $24.9 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. 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:

	March 31, 2013	March 31, 2012
Share price	\$22.58 - \$26.94	\$16.38 -\$24.75
Exercise price	\$19.30 - \$22.58	\$12.06 - \$24.75
Expected volatility	25%	31%
Option life	1 year	1 year
Dividend yield	0%	0%
Risk-free interest rate	1.02%	1.19%

8. Financial instruments

Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at March 31, 2013.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2012.

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 significant and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant 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 March 31, 2013, 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 March 31, 2013:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (USD)**
April 1, 2013 to June 30, 2013	Fixed Price	4,000 bbl	$34.86/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$30.66/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$32.34/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$34.86/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$35.39/bbl
April 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$34.44/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$35.70/bbl
January 1, 2014 to December 31, 2014	Fixed Price	4,000 bbl	$35.49/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
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 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
August 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/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 October 31, 2013	Fixed Price	5,000 GJ	$3.005/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$3.00/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 March 31, 2014	Fixed Price	5,000 GJ	$3.05/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.02/GJ
November 1, 2012 to October 31, 2014	Fixed Price	5,000 GJ	$3.0575/GJ
January 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.42/GJ
January 1, 2013 to December 31, 2013	Fixed Price	5,000 GJ	$3.105/GJ
January 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ
January 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.02/GJ
April 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.205/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.105/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.45/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.08/GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.17GJ
April 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.10/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.33/GJ
April 1, 2013 to October 31, 2014	Fixed Price	7,500 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.22/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.20/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.1925/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.25/GJ
April 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.30/GJ
July 1, 2013 to October 31, 2013	Fixed Price	5,000 GJ	$3.34/GJ
August 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.55/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.71/GJ
November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.50/GJ

November 1, 2013 to October 31, 2014	Fixed Price	5,000 GJ	$3.53/GJ
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	$3.6025/GJ

As at March 31, 2013, Peyto had committed to the future sale of 288,000 barrels of propane at an average price of $34.61 per barrel and 82,627,500 gigajoules (GJ) of natural gas at an average price of $3.23 per GJ or $3.71 per mcf. Had these contracts been closed on March 31, 2013, Peyto would have realized a loss in the amount of $25.2 million. If the AECO gas price on March 31, 2013 were to increase by $1/GJ, the unrealized loss would increase by approximately $82.6 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2013 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.76/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.86/GJ
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$4.00/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.505/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.555/GJ
April 1, 2014 to October 31, 2014	Fixed Price	5,000 GJ	$3.48/GJ

9. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2013.

	2013	**2014**	**2015**	**2016**	**2017**	**Thereafter**
Note repayment(1)	-	-	-	-	-	150,000
Interest payments(2)	3,415	6,830	6,830	6,830	6,830	18,785
Transportation commitments	10,300	13,217	9,913	5,224	1,688	1,235
Operating leases	1,258	1,694	522	-	-	-
Total	14,973	21,741	17,265	12,054	8,518	170,020

(1) Long-term debt repayment on senior secured notes

(2) Fixed interest payments on senior secured notes

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

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Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

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