NEWS RELEASE

AUGUST 13, 2013 **SYMBOL: PEY – TSX**

PEYTO REPORTS RECORD Q2 RESULTS

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto") is pleased to present its operating and financial results for the second quarter of the 2013 fiscal year. Peyto's production per share grew for the fifteenth consecutive quarter with second quarter operating margins of 76%(1) and profit margins of 26%(2). Second quarter 2013 highlights included:

- **Production per share up 31%.** Production increased 41% (31% per share) from 248 MMcfe/d (41,343 boe/d) in Q2 2012 to 349 MMcfe/d (58,145 boe/d) in Q2 2013, setting a new company record. Current production is approximately 60,000 boe/d.

- **Funds from operations per share up 57%.** Funds from Operations ("FFO") grew 70% (57% per share) from $65 million in Q2 2012 to $110 million in Q2 2013 due to increases in both production and natural gas price, also a new company record.

- **Operating costs of $2/boe.** Industry leading operating costs of $0.35/mcfe ($2.10/boe) for Q2 2013 were up slightly from $0.29/mcfe for Q2 2012 mostly due to an increase in power prices. Total cash costs, including royalties, operating costs, transportation, G&A and interest were $1.09/mcfe ($6.54/boe), resulting in a $3.47/mcfe ($20.82/boe) cash netback or 76% operating margin. Peyto has maintained this industry leading operating margin, in excess of 75%, for the past three years.

- **Capital investment of $74 million**. A total of 13 wells were drilled in the second quarter. During the quarter Peyto drilled its 245th horizontal well in the Deep Basin marking 1.0 million meters using the new horizontal multi-stage frac technology.

- **Earnings of $0.25/share, dividends of $0.22/share.** Earnings of $38 million were generated in the quarter while dividends of $33 million were paid to shareholders, representing a before tax payout ratio of 30% of FFO. The monthly dividend was increased in May 2013 from $0.06/share to $0.08/share.

Second Quarter 2013 in Review

The second quarter of 2013 was a period of reduced operational activity for Peyto due to a prolonged spring break-up and higher than normal rainfall. Southwestern Alberta experienced twice the normal rainfall in June causing wet surface conditions and flooding in many areas. As a result, much of Peyto's June drilling and completion operations were delayed to late July. Consequently, company record production levels of 60,000 boe/d, which were achieved in April, declined throughout the quarter as no new wells were connected. Peyto was able to advance three facility projects in the quarter, however, which together will increase total company processing capacity from 440 MMcf/d to 520 MMcf/d by Q4 2013. Realized natural gas prices improved from the previous quarter to almost double that of the previous year and when combined with increased average production drove company funds from operations to record levels. Peyto improved its financial flexibility in the quarter with an expanded credit facility and an increase in total borrowing capacity to $1.15 billion. At quarter end, 65% of this capacity was utilized resulting in a net debt to annualized FFO ratio of 1.7 times, down from 2.0 times in Q2 2012, and leaving over $400 million undrawn. 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.

	Three Months ended June 30		%	Six Months ended June 30		%
	2013	2012	Change	**2013**	2012	Change
Operations						
Production						
Natural gas (mcf/d)	**310,621**	221,176	*40%*	**303,943**	220,994	*38%*
Oil & NGLs (bbl/d)	**6,374**	4,480	*42%*	**6,109**	4,291	*42%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**348,868**	248,058	*41%*	**340,595**	246,737	*38%*
Barrels of oil equivalent (boe/d @ 6:1)	**58,145**	41,343	*41%*	**56,766**	41,123	*38%*
Product prices						
Natural gas ($/mcf)	**3.72**	2.86	*30%*	**3.61**	3.19	*13%*
Oil & NGLs ($/bbl)	**67.82**	71.27	*(5)%*	**71.65**	77.75	*(8)%*
Operating expenses ($/mcfe)	**0.35**	0.29	*21%*	**0.33**	0.31	*6%*
Transportation ($/mcfe)	**0.12**	0.12	-	**0.12**	0.12	-
Field netback ($/mcfe)	**3.77**	3.16	*19%*	**3.72**	3.45	*8%*
General & administrative expenses ($/mcfe)	**0.05**	0.07	*(29)%*	**0.04**	0.06	*(33)%*
Interest expense ($/mcfe)	**0.25**	0.23	*9%*	**0.23**	0.22	*5%*
Financial ($000 except per share)						
Revenue	**144,614**	86,553	*67%*	**277,816**	189,049	*47%*
Royalties	**9,849**	6,082	*62%*	**20,440**	14,917	*37%*
Funds from operations	**109,987**	64,732	*70%*	**212,844**	142,377	*49%*
Funds from operations per share	**0.74**	0.47	*57%*	**1.43**	1.03	*39%*
Total dividends	**32,727**	24,927	*31%*	**59,493**	49,839	*19%*
Total dividends per share	**0.22**	0.18	*31%*	**0.40**	0.36	*11%*
Payout ratio	**30**	39	*(23)%*	**28**	35	*(20)%*
Earnings	**37,773**	18,201	*108%*	**74,179**	45,069	*65%*
Earnings per diluted share	**0.25**	0.13	*92%*	**0.50**	0.33	*52%*
Capital expenditures	**73,809**	45,924	*61%*	**242,908**	144,551	*68%*
Weighted average common shares outstanding	**148,758,923**	138,485,956	*7%*	**148,716,032**	138,399,017	*7%*
As at June 30						
Net debt (before future compensation expense and unrealized hedging gains)				**746,094**	519,328	*44%*
Shareholders' equity				**1,227,842**	999,057	*23%*
Total assets				**2,328,117**	1,789,210	*30%*

	Three Months ended June 30		Six Months ended June 30	
($000)	**2013**	2012	**2013**	2012
Cash flows from operating activities	**96,700**	74,551	**189,243**	133,934
Change in non-cash working capital	**6,728**	(10,934)	**14,504**	5,433
Change in provision for performance based compensation	**6,559**	1,115	**9,097**	3,010
Funds from operations	**109,987**	64,732	**212,844**	142,377
Funds from operations per share	**0.74**	0.47	**1.43**	1.03

(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

Second quarter drilling activity focused on the Greater Sundance core area and the many liquids rich, sweet gas resource plays currently under development. A total of 13 wells were drilled across this land base, targeting the prospective zones shown in the following table:

Q2 2013	Field							Total
Zone	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	New Area	Wells Drilled
Cardium	2							2
Notikewin				1				1
Falher	2		1					3
Wilrich	1	1	3					5
Bluesky	2							2
Total	7	1	4	1				13

Both the Bluesky and Falher formations continue to prove up significant additional inventory with each successful well drilled. To date Peyto has drilled and brought onto production ten Bluesky horizontal wells, which combined, currently contribute 5,000 boe/d to company total production. An additional 5 Bluesky wells are planned for the remainder of the year. As well, both Upper and Middle Falher horizontal wells, of which 26 have been brought on production in the last year, are contributing 8,000 boe/d currently, up from 3,000 boe/d a year ago. Peyto has plans to drill 10-15 Falher wells to the end of the year.

Over the past year and a half, Peyto has assembled a significant land base in a new core area in Brazeau River. In total, 98.5 sections (91.6 net) of contiguous land was purchased with previously identified prospectivity in the Spirit River section including the Notikewin, Falher and Wilrich formations. Average land cost to date has been less than $300/net acre of mineral rights. Thus far, Peyto has drilled three Wilrich wells with initial results that are comparable to those achieved in the Greater Sundance area. As well, Peyto has begun construction on a new 20 MMcf/d gas facility in the area, which should be operational by early November 2013. Peyto is encouraged by the initial results to date and the significant drilling inventory currently identified on these lands. Management believes capital invested in this area will meet or exceed Peyto's high return objectives. For the balance of the year, one drilling rig will be active in the Brazeau area.

Capital Expenditures

During the second quarter of 2013, Peyto spent $32.3 million to drill 13 gross (12.3 net) horizontal wells and $10.1 million completing 9 gross (8.0 net) wells. Wellsite equipment and tie-ins accounted for $7.3 million, to bring on production 11 gross (10.0 net) wells. Two major pipeline projects were completed early in the quarter in the Ansell and Berland areas, accounting for $4.1 million, which allowed Peyto to redirect existing production to owned facilities and lower cost processing alternatives. Ongoing progress on the three new gas plants that Peyto is constructing in 2013, at Oldman North, Swanson and Brazeau, accounted for remainder of the $18.5 million in pipeline and facilities capital.

Peyto invested $5.0 million into new lands in the quarter, primarily in the Brazeau, Berland and Sundance areas, as well as $0.6 million in new seismic, adding a significant number of new drilling locations to Peyto's vast, liquids rich, deep basin inventory.

Financial Results

Alberta daily natural gas prices averaged $3.35/GJ in Q2 2013, up 86% from Q2 2012, resulting in a Peyto unhedged realized price of $3.85/mcf before hedging losses of $0.13/mcf. Meanwhile, Edmonton light oil prices averaged $92.62/bbl from which Peyto realized $68.08/bbl, before hedging losses of $0.26/bbl, for its natural gas liquids blend of condensate, pentane, butane and propane. Combined, Peyto's unhedged revenues totaled $4.68/mcfe ($4.56/mcfe including hedging losses), or 138% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of $0.32/mcfe, operating costs of $0.35/mcfe, transportation costs of $0.12/mcfe, G&A of $0.05/mcfe and interest costs of $0.25/mcfe, combined for total cash costs of $1.09/mcfe. These industry leading total cash costs resulted in a cash netback of $3.47/mcfe or a 76% operating margin.

Depletion, depreciation and amortization charges of $1.68/mcfe, along with a provision for future tax and market based bonus payments reduced the cash netback to earnings of $1.19/mcfe, or a 26% profit margin.

During the second 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. Including the $150 million of senior unsecured notes, Peyto's total borrowing capacity increased to $1.15 billion.

Marketing

AECO daily natural gas price was much improved in the second quarter of 2013. This was due to a more typical storage balance entering the spring "shoulder season" than the previous year's excess. Both AECO and NYMEX futures prices for natural gas, however, are forecast to rise by less than 7% per year for the next five years on the expectation that ample supplies of natural gas are available for growing demand.

Approximately 57% of Peyto's (after royalty) natural gas production had been pre-sold for Q2 2013, at an average fixed price of $3.19/GJ. This was the result of an active hedging program which layers in future sales in the form of fixed price swaps in order to smooth out the volatility in natural gas price.

Going forward, Peyto has committed to the future sale of 75,045,000 GJ of natural gas at an average price of $3.34/GJ. As at August 12, 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	27,435,000	23,856,522	3.25	3.74
2014	44,010,000	38,269,565	3.37	3.88
2015	3,600,000	3,130,435	3.60	4.14
Total	75,045,000	65,256,522	3.34	3.84

As illustrated in the following table, Peyto's hedged realized natural gas liquids prices (1) were down 4% year over year and 10% from the previous quarter.

	Three Months ended June 30		Q1
	2013	2012	2013
Condensate ($/bbl)	**92.44**	94.49	96.63
Propane ($/bbl)	**23.70**	19.50	26.75
Butane ($/bbl)	**48.12**	64.05	61.40
Pentane ($/bbl)	**100.37**	97.95	107.13
Total Oil and NGLs ($/bbl)	**68.08**	71.27	75.72

(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 of August 13, 2013, Peyto had committed to the future sale of 236,544 bbls of propane at an average price of $35.69USD/bbl. As at August 12, 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	104,544	34.26
2014	132,000	36.94
Total	236,544	35.76

Activity Update

Since exiting the second quarter of 2013, Peyto has completed an additional 18 wells, 16 that have been brought on production, which has increased production from July's 53,500 boe/d average to approximately 60,000 boe/d currently. The remaining wells will be tied in and producing by the end of August. In addition, 10 wells are currently drilled and waiting on completion, while ten drilling rigs are actively working in Peyto's core Deep Basin areas drilling approximately 14 wells per month. There is also 2,500 boe/d of productive capability waiting on the new Brazeau processing facility, expected in Q4 2013.

On July 7, 2013, Peyto rig released its 245th horizontal well, marking the point at which Peyto had drilled over 1.0 million meters using horizontal well technology. Since the summer of 2009 when Peyto spud its first horizontal well in the Deep Basin, the combination of horizontal wells with multi-stage fracture stimulation technology has helped Peyto become one of the fastest growing E&P companies in Canada, effectively tripling corporate production over that time. The experience and knowledge gained from this activity makes Peyto one of the most proficient drillers in the Deep Basin.

Outlook

Near term Alberta natural gas prices have recently come under pressure due to high transportation tariffs and competition from North Eastern US supplies, however, the long term importance of natural gas in North America continues to increase. Alberta natural gas prices are currently forecast to recover to above $3/GJ by this coming winter season.

Based on continued profitability at these levels and at the current pace of activity, management believes that year end 2013 production will exceed the previous 67,000 boe/d exit guidance, once again achieving capital efficiencies of less than $18,000/boe/d.

Peyto's high level of ownership and control, combined with a lean team, allows the company to be nimble with the ability to slow down or increase activity as market conditions dictate, taking advantage of opportunities to maximize shareholder returns. The low cost structure and high operating margins combined with a strong hedge book mean Peyto is also financially well positioned to withstand continued volatility in natural gas prices. As always, Peyto will maintain a strong balance sheet while only pursuing capital investments if its high return objectives can be met.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2013 second quarter on Wednesday, August 14th, 2013, at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). To participate, please call 1-416-340-8018 (Toronto area) or 1-866-223-7781 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 9039358. The replay will be available at 11:00 a.m. MDT, 1:00 p.m. EDT Wednesday, August 14th, 2013 until midnight EDT on Thursday, August 21st, 2013. The conference call can also be accessed through the internet at http://www.gowebcasting.com/4414. 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/Q22013MDandA.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.

Darren Gee
President and CEO
August 13, 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)

	June 30 2013	December 31 2012
Assets		
Current assets		
Cash	15,511	-
Accounts receivable	61,956	85,677
Due from private placement *(Note 6)*	-	3,459
Financial derivative instruments *(Note 8)*	7,139	10,254
Prepaid expenses	13,910	4,150
	98,516	**103,540**
Long term portion of financial derivative instruments *(Note 8)*	1,732	-
Prepaid capital	-	3,714
Property, plant and equipment, net *(Note 3)*	2,227,869	2,096,270
	2,229,601	**2,099,984**
	2,328,117	**2,203,524**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	75,571	164,946
Income taxes payable	-	1,890
Dividends payable *(Note 6)*	11,901	8,911
Provision for future performance based compensation *(Note 7)*	8,548	2,677
	96,020	**178,424**
Long-term debt *(Note 4)*	750,000	580,000
Long-term derivative financial instruments *(Note 8)*	-	2,532
Provision for future performance based compensation *(Note 7)*	3,285	59
Decommissioning provision *(Note 5)*	52,540	58,201
Deferred income taxes	198,430	174,241
	1,004,255	**815,033**
Equity		
Share capital *(Note 6)*	1,130,069	1,124,382
Shares to be issued *(Note 6)*	-	3,459
Retained earnings	89,932	75,247
Accumulated other comprehensive income (loss) *(Note 6)*	7,841	6,979
	1,227,842	**1,210,067**
	2,328,117	**2,203,524**

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2013	2012	**2013**	2012
Revenue				
Oil and gas sales	148,466	68,879	276,889	154,100
Realized gain (loss) on hedges *(Note 8)*	(3,852)	17,674	927	34,949
Royalties	(9,849)	(6,082)	(20,440)	(14,917)
Petroleum and natural gas sales, net	**134,765**	80,471	**257,376**	174,132
Expenses				
Operating	11,242	6,603	20,548	13,904
Transportation	3,796	2,645	7,455	5,251
General and administrative	1,717	1,639	2,197	2,610
Future performance based compensation *(Note 7)*	6,559	1,115	9,097	3,010
Interest	8,022	4,996	14,332	10,134
Accretion of decommissioning provision *(Note 5)*	369	232	737	489
Depletion and depreciation *(Note 3)*	53,287	39,101	104,912	78,774
Gain on disposition of assets	-	(144)	-	(144)
	84,992	56,187	**159,278**	114,028
Earnings before taxes	**49,773**	24,284	**98,098**	60,104
Income tax				
Deferred income tax expense	12,000	6,083	23,919	15,035
Earnings for the period	**37,773**	18,201	**74,179**	45,069
Earnings per share *(Note 6)*				
Basic and diluted	**$0.25**	$ 0.13	**$ 0.50**	$ 0.33
Weighted average number of common shares outstanding *(Note 6)*				
Basic and diluted	**148,758,923**	138,485,956	**148,716,032**	138,399,017

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Earnings for the period	**37,773**	18,201	**74,179**	45,069
Other comprehensive income				
Change in unrealized gain on cash flow hedges	30,204	(10,923)	2,076	16,194
Deferred tax recovery (expense)	(8,514)	7,149	(287)	4,689
Realized (gain) loss on cash flow hedges	3,852	(17,674)	(927)	(34,949)
Comprehensive income	**63,315**	(3,247)	**75,041**	31,003

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Six months ended June 30	
	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	74,179	45,069
Dividends *(Note 6)*	(59,494)	(49,839)
Retained earnings, end of period	**89,932**	78,119

Accumulated other comprehensive income, beginning of period	**6,979**	33,964
Other comprehensive income (loss)	862	(14,066)
Accumulated other comprehensive income (loss), end of period	**7,841**	19,898

Total equity	**1,227,842**	999,058

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2013	**2012**	**2013**	**2012**
Cash provided by (used in) operating activities				
Earnings	**37,773**	18,201	**74,179**	45,069
Items not requiring cash:				
Deferred income tax	12,000	6,083	23,919	15,035
Depletion and depreciation	53,287	39,101	104,912	78,774
Accretion of decommissioning provision	369	232	737	489
Change in non-cash working capital related to operating activities	(6,729)	10,934	(14,504)	(5,433)
	96,700	74,551	**189,243**	133,934
Financing activities				
Issuance of common shares	-	-	5,742	11,952
Issuance costs	-	-	(73)	(35)
Cash dividends paid	(29,752)	(24,297)	(56,504)	(49,808)
Increase (decrease) in bank debt	110,000	25,000	170,000	(75,000)
Issuance of long term notes	-	-	-	100,000
	80,248	73	**119,165**	(12,891)
Investing activities				
Additions to property, plant and equipment	**(161,437)**	(74,624)	**(292,897)**	(178,267)
Net increase (decrease) in cash	**15,511**	-	**15,511**	(57,224)
Cash, beginning of period	**-**	-	**-**	57,224
Cash, end of period	**15,511**	-	**15,511**	-

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

Cash interest paid	**6,646**	4,122	**14,514**	8,435
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.

Effective 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 August 12, 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	2,483,007
Additions	236,511
At June 30, 2013	2,719,518
Accumulated depreciation	
At December 31, 2012	(386,737)
Depletion and depreciation	(104,912)
At June 30, 2013	(491,649)
Carrying amount at December 31, 2012	**2,096,270**
Carrying amount at June 30, 2013	**2,227,869**

During the three and six month periods ended June 30, 2013, Peyto capitalized $1.5 million and $4.1 million (2012 - $0.8 million and $2.5 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	June 30, 2013	**December 31, 2012**
Bank credit facility	600,000	430,000
Senior unsecured notes	150,000	150,000
Balance, end of the period	**750,000**	580,000

As at June 30, 2013, the Company had a syndicated unsecured $1.0 billion extendible revolving credit facility with a stated term date of April 26, 2015. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. The facilities are available on a revolving basis for a two year period. Outstanding amounts on this facility will bear interest at rates ranging from prime plus 0.8% to prime plus 2.25% 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.

On January 3, 2012, Peyto issued CDN $100 million of senior unsecured 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 unsecured 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 unsecured 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, 2013.

Total interest expense for the three and six month periods ended June 30, 2013 was $8.0 million and $14.3 million (2012 - $5.0 million and $10.1 million) and the average borrowing rate for the period was 4.2% and 4.1% (2012 – 4.1% and 4.3%).

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	4,012
Accretion of decommissioning provision	737
Change in discount rate and estimates	(10,410)
Balance, June 30, 2013	**52,540**
Current	-
Non-current	52,540

Peyto has estimated the net present value of its total decommissioning provision to be $52.5 million as at June 30, 2013 ($58.2 million at December 31, 2012) based on a total future undiscounted liability of $137.5 million ($127.9 million at December 31, 2012). At June 30, 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 2.89 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, June 30, 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 three and six month periods ended June 30, 2013 of 148,758,923 and 148,716,032 (2012 – 138,485,956 and 138,399,017). There are no dilutive instruments outstanding.

Dividends

During the three and six month periods ended June 30, 2013, Peyto declared and paid dividends of $0.22 per common share ($0.06 per common share per month for April and $0.08 per common share per month for May and June) and $0.40 per common share, totaling $32.7 million and $59.5 million (2012 - $0.18 and $0.36 or $0.06 per share per month, $24.0 million and $49.9 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:

	June 30, 2013	June 30, 2012
Share price	$22.58 - $30.40	$18.83 - $24.75
Exercise price	$19.30 - $22.68	$12.06 - $24.55
Expected volatility	0% - 26%	0% - 36%
Option life	0.50 years	0.50 years
Dividend yield	0%	0%
Risk-free interest rate	1.25%	1.04%

8. Financial instruments

Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at June 30, 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 value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The Company's cash and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At June 30, 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 June 30, 2013:

Propane Period Hedged	Type	Monthly Volume	Price (USD)
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	$34.885/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 March 31, 2014	Fixed Price	4,000 bbl	$37.80/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	$35.485/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 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
November 1, 2013 to March 31, 2014	Fixed Price	5,000 GJ	$3.52/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
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
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.82/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.44/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.52/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.81/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.90/GJ

As at June 30, 2013, Peyto had committed to the future sale of 228,000 barrels of propane at an average price of $35.05 per barrel and 78,325,000 gigajoules (GJ) of natural gas at an average price of $3.31 per GJ. Had these contracts been closed on June 30, 2013, Peyto would have realized a gain in the amount of $8.9 million. Subsequent to June 30, 2013 Peyto entered into the following contracts:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (USD)**
October 1, 2013 to December 31, 2013	Fixed Price	4,000 bbl	$39.774/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$36.54/bbl
January 1, 2014 to March 31, 2014	Fixed Price	4,000 bbl	$39.354/bbl

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.4725/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	$3.60/GJ

9. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at June 30, 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	6,993	13,338	10,059	5,177	1,685	1,235
Operating leases	1,126	2,392	1,228	712	360	-
Total	11,534	22,560	18,117	12,719	8,875	170,020

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

(2) Fixed interest payments on senior unsecured notes

Officers

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President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Directors

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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Union Bank, Canada Branch
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