

NEWS RELEASE

MAY 14, 2014

SYMBOL: PEY – TSX

PEYTO REPORTS Q1 2014 RESULTS AND ANOTHER DIVIDEND INCREASE

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the first quarter of the 2014 fiscal year. Production per share growth of 28%, combined with earnings per share growth of 64%, support a 25% dividend increase. First quarter 2014 highlights, including a 77% operating margin⁽¹⁾ and a 30% profit margin⁽²⁾, were as follows:

- **Production per share up 28%.** First quarter 2014 production increased 30% (28% per share) from 332 MMcfe/d (55,372 boe/d) in Q1 2013 to 433 MMcfe/d (72,209 boe/d) in Q1 2014.
- **Funds from operations per share up 54%.** Generated a Company record \$161 million in Funds from Operations ("FFO") in Q1 2014 up 56% (54% per share) from \$103 million in Q1 2013 due to increased production volumes and improved commodity prices.
- **Cash costs of \$1.25/Mcfe.** Total cash costs, including royalties, operating costs, transportation, G&A and interest, were up from \$1.02/Mcfe in Q1 2013 but still remain industry leading. This increase was primarily due to higher royalties, driven by higher commodity prices, and higher operating costs, due to front-end loaded chemical and maintenance costs. Higher revenues, combined with these cash costs, resulted in a cash netback of \$4.12/Mcfe (\$24.74/boe) or a 77% operating margin.
- **Capital investment of \$179 million.** A capital program of \$179 million was executed in the quarter resulting in production additions of 11,500 boe/d at quarter end. The annualized cost (trailing twelve months) to build this new production was \$17,140/boe/d. A total of 31 gross wells were drilled during the first quarter.
- **Earnings of \$0.41/share, dividends of \$0.24/share.** Earnings of \$62 million were generated in the quarter while dividends of \$37 million were paid to shareholders, representing a before tax payout ratio of 23% of FFO.
- **Dividend increase to \$0.10/share.** The Board of Directors has approved a monthly dividend increase of \$0.02/share, starting in May 2014, to be paid on June 13, 2014 to shareholders of record as of May 31, 2014.

First Quarter 2014 in Review

The first quarter of 2014 was another active period for the Company with 9 drilling rigs developing the many Deep Basin resource plays within Peyto's portfolio. Natural gas prices during the quarter were extremely volatile as cold winter weather reduced storage volumes to multi-year lows causing gas prices to increase dramatically. Peyto increased its pace of activity and accelerated 2014 spending plans in response to the increase in natural gas prices with an urgency to deploy more capital earlier in the year, before potential cost inflation could occur. Drilling through spring break-up became part of that plan, as did stockpiling chemicals and accelerating facility maintenance during unscheduled transportation outages. These efforts, combined with increased government and regulatory fees, resulted in higher per unit operating costs for the first quarter. At just over \$3/boe, Peyto's operating costs, inclusive of transportation, continue to lead the industry by a wide margin. Average first quarter production of 72,209 boe/d was up 7% sequentially from the fourth quarter 2013, while average realized prices were up 25%. These contributed to a record \$161 million in FFO, despite a \$30 million hedging loss. Progress on facility expansions continued in the quarter in anticipation of ongoing production growth later in 2014. The strong financial and operating performance delivered in the quarter resulted in an annualized 20% Return on Equity (ROE) and 15% 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 | | % |
|---|------------------------|-------------|--------|
| | 2014 | 2013 | Change |
| Operations | | | |
| Production | | | |
| Natural gas (mcf/d) | 389,002 | 297,191 | 31% |
| Oil & NGLs (bbl/d) | 7,375 | 5,840 | 26% |
| Thousand cubic feet equivalent (mcf/d @ 1:6) | 433,252 | 332,230 | 30% |
| Barrels of oil equivalent (boe/d @ 6:1) | 72,209 | 55,372 | 30% |
| Production per million common shares (boe/d)* | 476 | 372 | 28% |
| Product prices | | | |
| Natural gas (\$/mcf) | 4.45 | 3.49 | 28% |
| Oil & NGLs (\$/bbl) | 80.49 | 75.88 | 6% |
| Operating expenses (\$/mcf) | 0.39 | 0.31 | 26% |
| Transportation (\$/mcf) | 0.13 | 0.12 | 8% |
| Field netback (\$/mcf) | 4.39 | 3.67 | 20% |
| General & administrative expenses (\$/mcf) | 0.04 | 0.02 | 100% |
| Interest expense (\$/mcf) | 0.23 | 0.21 | 10% |
| Financial (\$000, except per share*) | | | |
| Revenue | 209,318 | 133,203 | 57% |
| Royalties | 17,861 | 10,591 | 69% |
| Funds from operations | 160,785 | 102,856 | 56% |
| Funds from operations per share | 1.06 | 0.69 | 54% |
| Total dividends | 36,505 | 26,766 | 36% |
| Total dividends per share | 0.24 | 0.18 | 33% |
| Payout ratio | 23 | 26 | (12)% |
| Earnings | 62,129 | 36,405 | 71% |
| Earnings per diluted share | 0.41 | 0.25 | 64% |
| Capital expenditures | 179,378 | 169,099 | 6% |
| Weighted average common shares outstanding | 151,826,431 | 148,672,664 | 2% |
| As at March 31 | | | |
| End of period shares outstanding | 153,690,808 | 148,758,923 | 3% |
| Net debt | 838,495 | 749,546 | 12% |
| Shareholders' equity | 1,344,704 | 1,197,254 | 12% |
| Total assets | 2,686,661 | 2,281,287 | 18% |

*all per share amounts using weighted average common shares

| (\$000) | Three Months ended Mar. 31 | |
|--|----------------------------|---------|
| | 2014 | 2013 |
| Cash flows from operating activities | 146,452 | 92,543 |
| Change in non-cash working capital | 7,964 | 8,784 |
| Change in provision for performance based compensation | 6,369 | 1,529 |
| Funds from operations | 160,785 | 102,856 |
| Funds from operations per share* | 1.06 | 0.69 |

(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's first quarter 2014 activity continued to be diversified across the many stacked resource plays in the Alberta Deep Basin, with all zones yielding liquids rich, sweet natural gas. 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 | Brazeau | |
| Cardium | 1 | 1 | 1 | 1 | | | | 4 |
| Notikewin | | | 3 | | | | | 3 |
| Falher | 2 | 4 | | | | | 1 | 7 |
| Wilrich | 2 | 1 | 1 | 6 | 1 | | | 11 |
| Bluesky | 2 | 3 | | 1 | | | | 6 |
| Total | 7 | 9 | 5 | 8 | 1 | | 1 | 31 |

The majority of the activity in the quarter focused on the deeper Falher, Wilrich and Bluesky formations. These formations are yielding greater economic returns due to a combination of higher natural gas prices, greater deep gas drilling royalty incentives combined with higher productivity and reserve recoveries.

Both the average depth and lateral length of Peyto's horizontal wells continued to increase in Q1 2014, as the Company attempts to develop more resource with each wellbore. At the same time, the drilling cost per meter and time required to drill, complete, and bring a new well on production continues to fall as Peyto's infrastructure (roads, wellsites, pipelines, etc.) expands and drilling practices are refined. The following table illustrates the ongoing efficiency gains which should contribute to lower development costs and greater returns:

| | 2011 | 2012 | 2013 | 2014 Q1 |
|--------------------------------|---------|---------|---------|----------------|
| Gross Spuds | 70 | 86 | 99 | 31 |
| Measured Depth (m) | 3,903 | 4,017 | 4,179 | 4,236 |
| HZ Length (m) | 1,303 | 1,358 | 1,409 | 1,468 |
| Average Drilling (\$MM) | \$2.823 | \$2.789 | \$2.720 | \$2,767 |
| \$ per MD meter | \$723 | \$694 | \$651 | \$653 |
| Spud-Onstream (days) | 59 | 50 | 59 | 41 |

Capital Expenditures

During the first quarter of 2014, Peyto spent \$80.2 million to drill 31 gross (28.4 net) horizontal wells and \$36.1 million completing 22 gross (21.5 net) wells. Wellsite equipment and tie-ins accounted for \$15.7 million, while a total of \$40.4 million was invested in pipelines and facilities. A 27 km, 8" pipeline was installed which connected a new growth area called Pedley to Peyto's Wildhay gas plant. This new pipeline corridor provides the necessary infrastructure for future wells and the ultimate expansion of the Wildhay gas plant later in the year. Additional compression was installed at Swanson and Oldman North gas plants, as well as two compressors and a refrigeration unit at the Brazeau River gas plant. New lands in Brazeau and Sundance were acquired for \$2.9 million, or \$246/acre, while new 3D seismic was acquired in Brazeau, Ansell and Sundance accounted for \$3.9 million.

By the end of the quarter, the 22 gross (21.6 net) wells that were brought onstream were contributing 11,500 boe/d to the quarter end exit rate of 72,000 boe/d.

Financial Results

Alberta (AECO) daily natural gas prices averaged \$5.36/GJ in Q1 2014, while AECO monthly prices averaged \$4.52/GJ. Typically, the monthly price exceeds the daily price but this was not the case in the first quarter. As Peyto had committed 88% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of \$4.57/GJ or \$5.23/mcf, prior to a \$0.78/mcf hedging loss.

Peyto realized a blended oil and natural gas liquids price of \$84.64/bbl in Q1 2014, prior to a \$4.15/bbl hedging loss, for its blend of condensate, pentane, butane and propane, which represented 85% of the \$99.81/bbl average Edmonton light oil price.

Combining realized natural gas and liquids prices, Peyto's unhedged revenues totaled \$6.14/mcfe (\$5.37/mcfe including hedging losses), or 134% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of \$0.46/mcfe, operating costs of \$0.39/mcfe, transportation costs of \$0.13/mcfe, G&A of \$0.04/mcfe and interest costs of \$0.23/mcfe, combined for total cash costs of \$1.25/mcfe (\$7.47/boe). These industry leading total cash costs resulted in a cash netback of \$4.12/mcfe or a 77% operating margin.

Depletion, depreciation and amortization charges of \$1.77/mcfe, along with a provision for future tax and market based bonus payments reduced the cash netback to earnings of \$1.59/mcfe, or a 30% profit margin, which funded dividends of \$0.94/mcfe.

Subsequent to the end of the first quarter, Peyto's \$1.0 billion covenant based unsecured credit facility was renewed and extended for an additional two years. This new revolver has more attractive pricing and the same covenants as the previous revolver (see the Management's Discussion & Analysis for a description of the covenants). Including the \$270 million of senior unsecured notes, Peyto's total borrowing capacity is \$1.27 billion, leaving over \$430 million of available capacity as at March 31, 2014.

Marketing

Significantly colder than normal winter weather across much of North America during the first quarter caused natural gas storage inventories to be drawn down to multi-year lows. This led to higher natural gas prices, especially in Alberta where AECO daily natural gas prices fluctuated from lows of \$3.66/GJ to highs of \$24.82/GJ. The average daily price over the 90 day period of \$5.36/GJ was 19% higher than the average monthly price at \$4.52/GJ.

For the quarter, approximately 57% of Peyto's natural gas production received a fixed price of \$3.38/GJ from hedges that were put in place over the previous 24 months, while the balance received the blended daily and monthly price of \$4.57/GJ, resulting in an after-hedge price of \$3.89/GJ or \$4.45/mcf.

Peyto's practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in gas prices, continued throughout the quarter. As at March 31, 2014 Peyto had committed to the future sale of 100,285,000 GJ of natural gas at an average price of \$3.58/GJ or \$4.12/mcf based on Peyto's historical heat content. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of May 14, 2014.

| | Future Sales | | Average Price (CAD) | |
|-------|--------------|------------|---------------------|--------|
| | GJ | Mcf | \$/GJ | \$/Mcf |
| 2014 | 65,095,000 | 56,604,348 | 3.58 | 4.12 |
| 2015 | 34,480,000 | 29,982,609 | 3.73 | 4.29 |
| 2016 | 1,820,000 | 1,582,609 | 3.97 | 4.57 |
| Total | 101,395,000 | 88,169,566 | 3.64 | 4.19 |

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

As illustrated in the following table, Peyto's realized natural gas liquids prices ⁽¹⁾ were up 6% year over year with all but Butane receiving greater prices.

| | Three Months ended March 31 | |
|--|-----------------------------|--------|
| | 2014 | 2013 |
| Condensate (\$/bbl) | 100.68 | 92.18 |
| Propane (\$/bbl) (includes hedging) | 36.65 | 25.52 |
| Butane (\$/bbl) | 55.98 | 58.57 |
| Pentane (\$/bbl) | 105.37 | 102.19 |
| Total oil and natural gas liquids (\$/bbl) | 80.49 | 75.88 |
| Edmonton par crude postings (\$/bbl) | 99.81 | 86.28 |

(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, 2014, Peyto had committed to the future sale of 204,000 bbls of propane at an average price of \$45.82 CAD/bbl or \$41.45USD/bbl.

Activity Update

Peyto has successfully maintained a high level of activity through April and into the beginning of May while most of the industry has shut down for spring break-up. Activity will continue provided that weather and surface access conditions remain acceptable. Peyto currently has 7 of its 9 rigs drilling and 3 completion spreads running. Since the end of the first quarter, an additional 11 gross (9.7 net) wells have been, or are in the process of being drilled and 12 more wells (11.2 net) have been completed and brought on production. New wells for 2014 are contributing 15,000 boe/d to the current total production of 73,000 boe/d.

Most recently, Peyto has drilled and completed the longest horizontal well so far in the Company's history. This Sundance horizontal Wilrich well was drilled with a 2,888 m horizontal lateral and completed with a 21 stage slickwater fracture stimulation. The Company expects that longer horizontal laterals will not be applicable to all zones, nor in all areas, and while it is still too early to determine with certainty, Peyto expects this well will achieve above average rates of return.

Facility and pipeline expansion work continues to progress in anticipation of production growth in the second half of the year. A twinning of the Wildhay sales pipeline is in the final stages of completion, as are fabrication of a second refrigeration package and compressor for the Oldman North plant expansion which is scheduled for a September startup.

Recent investment success has prompted renewed focus on the Wilrich and Falher formations in Ansell, the Bluesky play in North Sundance, the Falher and Notikewin in Central Sundance, and the Wilrich in Brazeau River.

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. Over the last year, production per share and Proved Developed Producing reserves per share have grown 28% and 12%, respectively, while earnings per share have increased 64%. Based on this profitable growth, and irrespective of the recent strength in natural gas prices, the Board of Directors of Peyto has approved a \$0.02/share increase to the monthly dividend starting in May 2014. This is the second dividend increase since Peyto converted to a dividend-paying, growth corporation at the end of 2010.

Outlook

Commodity prices for the balance of 2014 continue to look robust, and while higher commodity prices will drive higher funds from operations, Peyto will remain vigilant with respect to service cost inflation. Peyto is executing more of its 2014 capital program in the first half of the year in an attempt to mitigate this potential cost inflation and fully expects to meet its rate of return objectives. The Company remains committed to maximizing the returns on shareholder's capital by continuing to be one of the lowest cost, most efficient and most profitable energy companies in the industry.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2014 first quarter financial results on Thursday, May 15th, 2014, at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). To participate, please call 1-416-340-9432 (Toronto area) or 1-800-769-8320 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 9633376. The replay will be available at 11:00 a.m. MDT, 1:00 p.m. EDT Thursday, May 15th, 2014 until midnight EDT on Thursday, May 22nd, 2014. The conference call can also be accessed through the internet at <http://www.gowebcasting.com/5336>. After this time the conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

Shareholders are invited to attend Peyto's AGM at 3:00 p.m. on Tuesday, May 27, 2014 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/Q12014MDandA.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 14, 2014

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 2014 | December 31 2013 |
|--|------------------|---------------------|
| Assets | | |
| Current assets | | |
| Accounts receivable | 108,164 | 83,714 |
| Due from private placement (Note 6) | - | 6,245 |
| Prepaid expenses | 11,586 | 5,666 |
| | 119,750 | 95,625 |
| Property, plant and equipment, net (Note 3) | 2,566,911 | 2,459,531 |
| | 2,566,911 | 2,459,531 |
| | 2,686,661 | 2,555,156 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 185,950 | 155,265 |
| Dividends payable (Note 6) | 12,295 | 11,901 |
| Derivative financial instruments (Note 8) | 64,221 | 26,606 |
| Provision for future performance based compensation (Note 7) | 11,470 | 5,100 |
| | 273,936 | 198,872 |
| Long-term debt (Note 4) | 760,000 | 875,000 |
| Long-term derivative financial instruments (Note 8) | 17,735 | 5,180 |
| Provision for future performance based compensation (Note 7) | 5,426 | 3,200 |
| Decommissioning provision (Note 5) | 67,330 | 61,184 |
| Deferred income taxes | 217,530 | 211,082 |
| | 1,068,021 | 1,155,646 |
| Equity | | |
| Share capital (Note 6) | 1,292,384 | 1,130,069 |
| Shares to be issued (Note 6) | - | 6,245 |
| Retained earnings | 112,599 | 86,975 |
| Accumulated other comprehensive loss (Note 6) | (60,279) | (22,651) |
| | 1,344,704 | 1,200,638 |
| | 2,686,661 | 2,555,156 |

See accompanying notes to the financial statements.

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 | |
| | 2014 | 2013 |
| Revenue | | |
| Oil and gas sales | 239,421 | 128,424 |
| Realized (loss) gain on hedges (Note 8) | (30,103) | 4,779 |
| Royalties | (17,861) | (10,591) |
| Petroleum and natural gas sales, net | 191,457 | 122,612 |
| Expenses | | |
| Operating | 15,230 | 9,306 |
| Transportation | 5,145 | 3,659 |
| General and administrative | 1,556 | 481 |
| Future performance based compensation (Note 7) | 8,596 | 2,538 |
| Interest | 8,741 | 6,310 |
| Accretion of decommissioning provision (Note 5) | 498 | 368 |
| Depletion and depreciation (Note 3) | 68,851 | 51,625 |
| | 108,617 | 74,287 |
| Earnings before taxes | 82,840 | 48,325 |
| Income tax | | |
| Deferred income tax expense | 20,711 | 11,920 |
| Earnings for the period | 62,129 | 36,405 |
| Earnings per share (Note 6) | | |
| Basic and diluted | \$0.41 | \$ 0.25 |
| Weighted average number of common shares outstanding (Note 6) | | |
| Basic and diluted | 151,826,431 | 148,672,664 |

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in \$ thousands)

| | Three months ended | |
|---|---------------------------|-------------|
| | March 31 | |
| | 2014 | 2013 |
| Earnings for the period | 62,129 | 36,405 |
| Other comprehensive income | | |
| Change in unrealized loss on cash flow hedges | (80,273) | (28,128) |
| Deferred tax expense | 12,543 | 8,227 |
| Realized (gain) loss on cash flow hedges | 30,103 | (4,779) |
| Comprehensive income | 24,502 | 11,725 |

Peyto Exploration & Development Corp.
Condensed Statement of Changes in Equity *(unaudited)*
(Amount in \$ thousands)

| | Three months ended | |
|---|---------------------------|--------------------------|
| | 2014 | March 31 2013 |
| Share capital, beginning of period | 1,130,069 | 1,124,382 |
| Common shares issued by private placement | 6,997 | 5,742 |
| Equity offering | 160,480 | - |
| Common shares issuance costs (net of tax) | (5,162) | (55) |
| Share capital, end of period | 1,292,384 | 1,130,069 |
| Common shares to be issued, beginning of period | 6,245 | 3,459 |
| Common shares issued | (6,245) | (3,459) |
| Common shares to be issued, end of period | - | - |
| Retained earnings, beginning of period | 86,975 | 75,247 |
| Earnings for the period | 62,129 | 36,405 |
| Dividends <i>(Note 6)</i> | (36,505) | (26,766) |
| Retained earnings, end of period | 112,599 | 84,886 |
| Accumulated other comprehensive (loss) income, beginning of period | (22,651) | 6,979 |
| Other comprehensive loss | (37,628) | (24,680) |
| Accumulated other comprehensive loss, end of period | (60,279) | (17,701) |
| Total equity | 1,344,704 | 1,197,254 |

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows (unaudited)

(Amount in \$ thousands)

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

| | Three months ended March 31 | |
|---|--------------------------------|------------------|
| | 2014 | 2013 |
| Cash provided by (used in) operating activities | | |
| Earnings | 62,129 | 36,405 |
| Items not requiring cash: | | |
| Deferred income tax | 20,711 | 11,920 |
| Depletion and depreciation | 68,851 | 51,625 |
| Accretion of decommissioning provision | 498 | 368 |
| Long term portion of future performance based compensation | 2,227 | 1,009 |
| Change in non-cash working capital related to operating activities | (7,964) | (8,784) |
| | 146,452 | 92,543 |
| Financing activities | | |
| Issuance of common shares | 167,477 | 5,742 |
| Issuance costs | (6,883) | (73) |
| Cash dividends paid | (36,110) | (26,752) |
| Increase (decrease) in bank debt | (115,000) | 60,000 |
| | 9,484 | 38,917 |
| Investing activities | | |
| Additions to property, plant and equipment | (179,378) | (169,099) |
| Change in prepaid capital | 8,795 | 3,714 |
| Change in non-cash working capital relating to investing activities | 14,647 | 33,925 |
| | (155,936) | (131,460) |
| Net increase (decrease) in cash | - | - |
| Cash, Beginning of Period | - | - |
| Cash, End of Period | - | - |
| Cash interest paid | 8,330 | 7,867 |
| Cash taxes paid | - | 1,890 |

Peyto Exploration & Development Corp.

Notes to Condensed Financial Statements *(unaudited)*

As at March 31, 2014 and 2013

(Amount in \$ thousands, except as otherwise noted)

1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 13, 2014.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2013 and 2012.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

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

Except as disclosed below, all accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2013 and 2012.

(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, 2014 or later periods. The affected standards are consistent with those disclosed in Peyto's financial statements as at and for the years ended December 31, 2013 and 2012.

Peyto adopted the following standards on January 1, 2014:

IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" are required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments will only impact Peyto's disclosures in the notes to the financial statements in periods when an impairment loss or impairment reversal is recognized.

IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with

the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Peyto's financial statements

Standards issued but not yet effective

IFRS 9, as issued, reflects part of the IASB's work on the replacement of IAS 39 "Financial Instruments: Recognition and Measurement" and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39 and hedging transactions. The standard has no effective date. In subsequent phases, the IASB will address impairment of financial assets. The adoption of IFRS 9 may have an effect on the classification and measurement of the company's financial assets and financial liabilities. The Company will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued with an effective date.

3. Property, plant and equipment, net

| Cost | |
|---|------------------|
| At December 31, 2013 | 3,071,245 |
| Additions | 179,378 |
| Decommissioning provision additions | 5,648 |
| Prepaid capital | (8,795) |
| At March 31, 2014 | 3,247,476 |
| Accumulated depletion and depreciation | |
| At December 31, 2013 | (611,714) |
| Depletion and depreciation | (68,851) |
| At March 31, 2014 | (680,565) |
| Carrying amount at December 31, 2013 | 2,459,531 |
| Carrying amount at March 31, 2014 | 2,566,911 |

During the period ended March 31, 2014, Peyto capitalized \$2.8 million (2013 - \$2.6 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

| | March 31, 2014 | December 31, 2013 |
|---------------------------------|-----------------------|--------------------------|
| Bank credit facility | 490,000 | 605,000 |
| Senior secured notes | 270,000 | 270,000 |
| Balance, end of the year | 760,000 | 875,000 |

As at March 31, 2014, the Company had a syndicated \$1 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. Borrowings under the facility bear interest at Canadian bank prime (3% at both December 31, 2013 and 2012) or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 80 basis points and 225 basis points on Canadian bank prime and US base rate borrowings and between 180 basis points and 325 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 40.5 to 73.13 basis points.

On December 4, 2013, Peyto issued \$120 million of senior unsecured notes pursuant to a note purchase agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.50% and mature on December 4, 2020. Interest will be paid semi-annually in arrears.

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

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

Peyto is in compliance with all financial covenants at March 31, 2014.

Total interest expense for the period ended March 31, 2014 was \$8.7 million (2013 - \$6.3 million) and the average borrowing rate for the period was 4.4% (2013 – 4.0%).

Subsequent to March 31, 2014, Peyto's banking syndicate agreed to extend the stated term date of the credit facility to April 26, 2017. Borrowings under the amended facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

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, 2013 | 61,184 |
| New or increased provisions | 2,630 |
| Accretion of decommissioning provision | 498 |
| Change in discount rate and estimates | 3,018 |
| Balance, March 31, 2014 | 67,330 |
| Current | - |
| Non-current | 67,330 |

Peyto has estimated the net present value of its total decommissioning provision to be \$67.3 million as at March 31, 2014 (\$61.2 million at December 31, 2013) based on a total future undiscounted liability of \$178.5 million (\$177.8 million at December 31, 2013). At March 31, 2014 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2040 to 2063. The Bank of Canada's long term bond rate of 2.96 per cent (3.24 per cent at December 31, 2013) and an inflation rate of two per cent (two per cent at December 31, 2013) 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, 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, December 31, 2013 | 148,758,923 | 1,130,069 |
| Common shares issued by private placement | 211,885 | 6,997 |
| Equity offering | 4,720,000 | 160,480 |
| Common share issuance costs, (net of tax) | - | (5,162) |
| Balance, March 31, 2014 | 153,690,808 | 1,292,384 |

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).

On December 31, 2013, Peyto completed a private placement of 190,525 common shares to employees and consultants for net proceeds of \$6.2 million (\$32.78 per share). These common shares were issued January 8, 2014

On February 5, 2014, Peyto closed an offering for 4,720,000 common shares at a price of \$34.00 per common share, receiving net proceeds of \$153.6 million.

On March 17, 2014, Peyto completed a private placement of 21,360 common shares to employees and consultants for net proceeds of \$ 0.8 million (\$35.20 per common 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, 2014 of 151,826,431 (2013 – 148,672,664). There are no dilutive instruments outstanding.

Dividends

During the period ended March 31, 2014, Peyto declared and paid dividends of \$0.24 per common share or \$0.08 per common share per month, totaling \$36.5 million (2013 - \$0.18 or \$0.06 per common share per month, \$26.8 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 and losses

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, 2014 | March 31, 2013 |
|-------------------------|-------------------|-------------------|
| Share price | \$22.58 - \$37.72 | \$22.58 - \$26.94 |
| Exercise price | \$19.91 - \$32.03 | \$19.30 - \$22.58 |
| Expected volatility | 24% | 25% |
| Option life | 1 year | 1 year |
| Dividend yield | 0% | 0% |
| Risk-free interest rate | 1.07% | 1.02% |

8. Financial instruments and Capital management

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, 2014.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2013.

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 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, 2014, 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, 2014:

| Propane Period Hedged | Type | Monthly Volume | Price (USD) |
|--------------------------------------|-------------|---------------------------|------------------------|
| 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 | \$37.485/bbl |
| April 1, 2014 to September 30, 2014 | Fixed Price | 4,000 bbl | \$41.79/bbl |
| April 1, 2014 to September 30, 2014 | Fixed Price | 4,000 bbl | \$42.63/bbl |
| April 1, 2014 to September 30, 2014 | Fixed Price | 4,000 bbl | \$44.31/bbl |
| April 1, 2014 to September 30, 2014 | Fixed Price | 4,000 bbl | \$46.20/bbl |
| October 1, 2014 to December 31, 2014 | Fixed Price | 4,000 bbl | \$42.84/bbl |

| Natural Gas Period Hedged | Type | Daily Volume | Price (CAD) |
|--------------------------------------|-------------|-------------------------|------------------------|
| November 1, 2012 to October 31, 2014 | Fixed Price | 5,000 GJ | \$3.0575/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 |
| 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 October 31, 2014 | Fixed Price | 5,000 GJ | \$3.335/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$3.10/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$3.80/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$3.825/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$3.95/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$3.98/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$4.07/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$4.32/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$4.35/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$4.55/GJ |
| April 1, 2014 to October 31, 2014 | Fixed Price | 5,000 GJ | \$4.42/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 |
| 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 |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.27/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.41/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.5575/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.465/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.43/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.54/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.50/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.25/GJ |

| | | | |
|------------------------------------|-------------|----------|-------------|
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.25/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.23/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.23/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.23/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.31/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.3525/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.40/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.49/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.54/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.61/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.70/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.75/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.81/GJ |
| April 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$3.83/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 | \$3.95/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.05/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.12/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.20/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.44/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.585/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.78/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.60/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.58/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.68/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.285/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.30/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.35/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.40/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.47/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.48/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.52/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.70/GJ |
| April 1, 2015 to October 31, 2015 | Fixed Price | 5,000 GJ | \$3.75/GJ |

As at March 31, 2014, Peyto had committed to the future sale of 204,000 barrels of propane at an average price of \$45.82 CAD (\$41.45 USD) per barrel and 100,285,000 gigajoules (GJ) of natural gas at an average price of \$3.58 per GJ or \$4.12 per mcf. Had these contracts been closed on March 31, 2014, Peyto would have realized a loss in the amount of \$82.0 million. If the AECO gas price on March 31, 2014 were to increase by \$1/GJ, the unrealized loss would increase by approximately \$100.3 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2014 Peyto entered into the following contracts:

| Natural Gas | | Daily | Price |
|------------------------------------|-------------|---------------|--------------|
| Period Hedged | Type | Volume | (CAD) |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.68/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.80/GJ |
| November 1, 2014 to March 31, 2015 | Fixed Price | 5,000 GJ | \$4.87/GJ |
| April 1, 2015 to March 31, 2016 | Fixed Price | 5,000 GJ | \$3.9175/GJ |
| April 1, 2015 to March 31, 2016 | Fixed Price | 5,000 GJ | \$3.93/GJ |
| April 1, 2015 to March 31, 2016 | Fixed Price | 5,000 GJ | \$4.00/GJ |
| April 1, 2015 to March 31, 2016 | Fixed Price | 5,000 GJ | \$4.05/GJ |

9. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2014.

| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|----------------------------------|--------|--------|--------|--------|--------|------------|
| Note repayment ⁽¹⁾ | - | - | - | - | - | 270,000 |
| Interest payments ⁽²⁾ | 8,815 | 12,230 | 12,230 | 12,230 | 12,230 | 22,755 |
| Transportation commitments | 13,580 | 19,531 | 18,796 | 14,975 | 11,261 | 13,356 |
| Operating leases | 2,126 | 2,380 | 1,863 | 1,654 | 1,295 | 10,356 |
| Total | 24,521 | 34,141 | 32,889 | 28,859 | 24,786 | 316,467 |

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

⁽²⁾ Fixed interest payments on senior secured notes

10. contingencies

On October 31, 2013, Peyto was named as a party to a statement of claim received with respect to transactions between Poseidon Concepts Corp. and Open Range Energy Corp. The allegations contained in the claim are based on factual matters that pre-existed Peyto's involvement with New Open Range which makes them difficult to assess at this time. However, Peyto intends to aggressively protect its interests and the interests of its shareholders and will seek all available legal remedies in defending the action. Management continues to assess the nature of this claim, in conjunction with their legal advisors.

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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

Transfer Agent

Valiant Trust Company

Head Office

1500, 250 – 2nd Street SW
Calgary, AB
T2P 0C1

Phone: 403.261.6081

Fax: 403.451.4100

Web: www.peyto.com

Stock Listing Symbol: PEY.TO

Toronto Stock Exchange