NEWS RELEASE

NOVEMBER 12, 2014 **SYMBOL: PEY – TSX**

PEYTO REPORTS RECORD QUARTERLY RESULTS, 2015 CAPITAL BUDGET, AND DIVIDEND INCREASE

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the third quarter of the 2014 fiscal year. Record production and funds from operations were achieved in the quarter along with operating[1] and profit margins[2] of 79% and 33%, respectively. Additional highlights include:

- **Production per share up 33%.** Third quarter 2014 production increased 38% (33% per share) to 466 MMcfe/d (77,592 boe/d) from 338 MMcfe/d (56,343 boe/d) in Q3 2013.

- **Funds from operations per share up 63%.** Generated a record $167 million in funds from operations ("FFO") in Q3 2014 ($1.09/share), up 67% (63% per share) from $100 million in Q3 2013 ($0.67/share).

- **Cash costs of $1.02/Mcfe.** Total cash costs, including royalties, operating costs, transportation, G&A and interest, were $1.02/Mcfe ($6.11/boe) down 5% from $1.07/Mcfe in Q3 2013, despite higher year over year royalties. Excluding royalties, cash costs were 12% lower at $0.68/Mcfe ($4.07/boe). Higher revenues, combined with the reduction in total cash costs, resulted in a Q3 2014 cash netback of $3.90/Mcfe ($23.39/boe) and a record operating margin of 79%.

- **Capital investment of $180 million**. A total of 32 gross wells (29.3 net) were drilled in the third quarter. In total, new wells brought on production over the last 12 months accounted for 40,680 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $664 million, equates to an annualized capital efficiency of $16,330/boe/d.

- **Earnings of $0.45/share, dividends of $0.30/share.** Earnings of $69 million were generated in Q3 2014 while dividends of $46 million were paid to shareholders. Monthly dividends per share of $0.10 were up 25% from the $0.08/share in Q3 2013, while the payout ratio dropped from 36% to 28% of FFO.

- **Borrowing capacity increased to $1.32 billion.** On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes with a coupon rate of 3.79% and a July 3, 2022 maturity. Net debt at quarter end was $938 million, or 1.4 times annualized FFO, down from 2.2 times in Q3 2013.

- **Dividend Increase to $0.11/share.** The Board of Directors has approved a 10% monthly dividend increase of $0.01/share, starting in November 2014, to be paid on December 15, 2014 to shareholders of record November 30, 2014.

Third quarter 2014 in Review

Peyto continued to actively develop its Alberta Deep Basin resource plays in the quarter, with 9 drilling rigs accomplishing what 10 rigs did a year ago. Improvements in operational execution, combined with longer horizontal well laterals, have resulted in a 10% average productivity improvement over previous years. As this was accomplished for the same capital cost, the trailing twelve month capital efficiency has improved to $16,330/boe/d. More importantly, the risked full cycle returns generated on the 2014 capital program to date has also improved, providing justification for the increased 2014 capital budget. Peyto continued to expand its pipeline and gas processing facility capacity throughout the quarter in order to accommodate growing production volumes. A doubling of the Oldman North gas plant capacity to 80 MMcf/d, along with large pipeline projects at Oldman, Ansell and South Brazeau, ensured timely production additions were realized from ongoing drilling activity. Both oil and natural gas prices declined throughout the quarter resulting in 11% lower realized prices (before hedges) than in the previous quarter, however lower cash costs ensured cash netbacks of approximately $24/boe were effectively preserved. The strong financial and operating performance delivered in the quarter resulted in an annualized 20% Return on Equity (ROE) and 14% 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 September 30		%	9 Months Ended September 30		%
	2014	2013	Chang	**2014**	2013	Change
Operations						
Production						
Natural gas (mcf/d)	**420,538**	300,286	*40%*	**399,431**	302,711	*32%*
Oil & NGLs (bbl/d)	**7,502**	6,295	*19%*	**7,482**	6,172	*21%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**465,550**	338,058	*38%*	**444,323**	339,740	*31%*
Barrels of oil equivalent (boe/d @ 6:1)	**77,592**	56,343	*38%*	**74,054**	56,623	*31%*
Production per million common shares (boe/d)*	**505**	379	*33%*	**484**	381	*27%*
Product prices						
Natural gas ($/mcf)	**4.18**	3.35	*25%*	**4.33**	3.52	*23%*
Oil & NGLs ($/bbl)	**71.01**	70.91	-	**76.21**	71.40	*7%*
Operating expenses ($/mcfe)	**0.33**	0.37	*(11)%*	**0.36**	0.35	*3%*
Transportation ($/mcfe)	**0.13**	0.12	*8%*	**0.13**	0.12	*8%*
Field netback ($/mcfe)	**4.12**	3.49	*18%*	**4.27**	3.64	*17%*
General & administrative expenses ($/mcfe)	**0.02**	0.02	-	**0.03**	0.03	-
Interest expense ($/mcfe)	**0.20**	0.25	*(20)%*	**0.21**	0.24	*(13)%*
Financial ($000, except per share*)						
Revenue	**210,640**	133,573	*58%*	**627,476**	411,389	*53%*
Royalties	**14,578**	9,722	*50%*	**50,128**	30,162	*66%*
Funds from operations	**166,988**	99,736	*67%*	**489,351**	312,579	*57%*
Funds from operations per share	**1.09**	0.67	*63%*	**3.20**	2.10	*52%*
Total dividends	**46,107**	35,702	*29%*	**125,645**	95,197	*32%*
Total dividends per share	**0.30**	0.24	*25%*	**0.82**	0.64	*28%*
Payout ratio	**28**	36	*(22)%*	**26**	30	*(13)%*
Earnings	**68,893**	30,461	*126%*	**193,181**	104,638	*85%*
Earnings per diluted share	**0.45**	0.21	*114%*	**1.26**	0.71	*77%*
Capital expenditures	**180,024**	180,801	-	**510,692**	423,708	*21%*
Weighted average common shares outstanding	**153,690,808**	148,758,923	*3%*	**152,763,770**	148,730,485	*3%*
As at September 30						
End of period shares outstanding				**153,690,808**	148,758,923	*3%*
Net debt				**937,611**	862,864	*9%*
Shareholders' equity				**1,434,754**	1,218,362	*18%*
Total assets				**2,913,345**	2,429,125	*20%*

**all per share amounts using weighted average*

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2014**	2013	**2014**	2013
Cash flows from operating activities	**150,763**	101,361	**449,386**	290,343
Change in non-cash working capital	**12,330**	(4,404)	**22,853**	13,586
Change in provision for future compensation	**3,895**	2,779	**17,112**	8,650
Funds from operations	**166,988**	99,736	**489,351**	312,579
Funds from operations per share*	**1.09**	0.67	**3.20**	2.10

(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

Third quarter 2014 drilling activity focused predominantly on the deeper Cretaceous aged formations in the Greater Sundance core area, with the Middle Falher and Wilrich formations accounting for 75% of the drilling activity. In total, 32 wells were drilled across the land base, targeting the many prospective zones, as shown in the following table:

Zone	Field Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	Brazeau	Total Wells Drilled
Cardium				1				1
Notikewin	1		1					2
Falher	6	1		3				10
Wilrich	7	2	1	1			3	14
Bluesky	2	1		2				5
Total	16	4	2	7			3	32

Ongoing success in the Upper and Middle Falher formation has resulted in this zone becoming the second largest contributor to Peyto's total production base at approximately 18,500 boe/d or 24% of Q3 2014 production.

Capital Expenditures

During the third quarter, Peyto invested $82.5 million to drill 32 gross (29.3 net) wells and $45.9 million to complete 32 gross (29.5 net) wells with horizontal multi-stage fracture treatments. A total of 30 gross (27.5 net) wells were brought onstream with $11.1 million invested in wellsite equipment and gathering pipelines. As illustrated in the following table, less time is required, than in previous years, to drill, complete, and bring on production, wells with even longer horizontal sections, contributing to the improved capital efficiency and increased returns on invested capital.

	2011	2012	2013	2014 to Q3
Gross Spuds	70	86	99	**94**
Measured Depth (m)	3,903	4,017	4,179	**4,248**
HZ Length (m)	1,303	1,358	1,409	**1,467**
Average Drilling ($MM)	$2.823	$2.789	$2.720	**$2.623**
$ per MD meter	$723	$694	$651	**$618**
Spud-Onstream (days)	59	50	59	**43**

Facility capital investments of $40.3 million included the majority of the equipment for the Oldman North plant expansion, a sales pipeline in Oldman, and large gathering lines in Ansell and Brazeau River.

Financial Results

Daily natural gas prices in Alberta (AECO) averaged $3.80/GJ in Q3 2014, while monthly AECO prices averaged $4.00/GJ. As Peyto had committed 85% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $3.93/GJ or $4.50/Mcf, prior to a $0.32/Mcf hedging loss.

Peyto realized a blended oil and natural gas liquids price of $71.27/bbl in Q3 2014, prior to a $0.26/bbl hedging loss, for its blend of condensate, pentane, butane and propane, which represented 73% of the $97.75/bbl average Canadian light sweet oil price.

Combining realized natural gas and liquids prices, Peyto's unhedged revenues totaled $5.21/Mcfe ($4.92/Mcfe including hedging losses), or 133% of the dry gas price, illustrating the benefit of high heat content, liquids rich natural gas production.

Royalties of $0.34/Mcfe, operating costs of $0.33/Mcfe, transportation costs of $0.13/Mcfe, G&A of $0.02/Mcfe and interest costs of $0.20/Mcfe, combined for total cash costs of $1.02/Mcfe ($6.11/boe). These industry leading total cash costs resulted in a cash netback of $3.90/Mcfe ($23.39/boe) or a 79% operating margin. This operating margin represents the highest ever achieved in the Company's sixteen year history and is significantly higher than the industry average.

Depletion, depreciation and amortization charges of $1.65/Mcfe, along with a provision for future tax and market based bonus payments reduced the cash netback to earnings of $1.61/Mcfe, or a 33% profit margin, from which dividends of $1.08/Mcfe were funded.

On July 3, 2014, Peyto issued CDN $50 million of senior unsecured notes pursuant to a note purchase agreement. The notes have a coupon rate of 3.79% and mature on July 3, 2022. As the notes rank equally with Peyto's obligations under its bank facility and existing senior unsecured notes, Peyto's aggregate borrowing capacity increased by $50 million to $1.32 billion.

Marketing

For the quarter, approximately 59% of Peyto's natural gas production received a fixed price of $3.49/GJ from hedges that were put in place over the previous 16 months, while the balance received the blended daily and monthly price of $3.93/GJ, resulting in an after-hedge price of $3.67/GJ or $4.18/Mcf.

Peyto continued throughout the quarter its practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in gas prices. The following table summarizes the remaining hedged volumes and prices for the upcoming years, as of November 12, 2014.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2014	16,055,000	13,960,870	3.88	4.46
2015	82,255,000	71,526,087	3.75	4.31
2016	14,425,000	12,543,478	3.65	4.20
Total	112,735,000	98,030,435	3.75	4.31

**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 effectively the same year over year but down 8% from the previous quarter.

	Three Months ended Sept 30		Q2
	2014	2013	2014
Condensate ($/bbl)	**90.58**	95.96	103.73
Propane ($/bbl) (includes hedging)	**24.82**	24.70	23.05
Butane ($/bbl) (includes hedging)	**56.50**	49.72	59.47
Pentane ($/bbl)	**93.13**	99.44	106.58
Total oil and natural gas liquids ($/bbl)	**71.01**	70.91	77.30
Canadian Light Sweet postings ($/bbl)	**97.75**	104.71	104.3

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

As a fixed offset to benchmark pricing can no longer be obtained for Propane and Butane prices, Peyto has discontinued the practice of forward selling these components of its natural gas liquids.

Activity Update

Activity has remained robust throughout October and early November with 2014 capital investment on track towards the revised budget of $690 million. Newly drilled wells continue to meet or exceed expectations on cost and production outcomes, providing a continuation of the Company's rapid production growth and value creation to date. Production is currently between 85,000 to 86,000 boe/d.

Peyto has nine contracted drilling rigs that have spud 17 gross (15.4 net) wells since quarter end. Two rigs are working in the emerging Brazeau River area, one rig is drilling key prospects in the Pedley area (South Wildhay), one rig is developing a prolific trend in the Ansell area and the remaining five rigs are drilling development opportunities in the heart of the Sundance area. A total of 20 gross (17.75 net) wells have been completed and 19 gross (16.75 net) wells have been brought on production since the end of Q3 2014.

Production has grown continuously from 72,000 boe/d at the start of Q3 2014 to 80,000 boe/d by the end of the quarter. This trend has continued through October (81,600 boe/d) and is currently in the range of 85,000 to 86,000 boe/d. The recent start-up of the South Brazeau gathering line has contributed to this increase while additional facility projects at Oldman North, Brazeau and Swanson will lead to additional volume increases over the final six weeks of the year and into 2015.

2015 Budget

The Board of Directors of Peyto has approved a preliminary 2015 budget which includes a capital program expected to range from $700 to $750 million. This will be the sixth year in a row that the capital budget will have increased from the previous year and represents the largest capital program in the Company's history. The 2015 program involves drilling between 124 and 137 gross wells (117 and 130 net to Peyto's working interest) utilizing 9 to 10 drilling rigs with only minimal interruption expected during the traditional spring breakup.

The 2015 drilling locations will be selected from Peyto's current inventory of over 1,700 locations and are expected to add between 41,000 and 45,000 boe/d of new working interest production, for a cost of approximately $17,000/boe/d. While this level of capital efficiency is consistent with the past several years, more recently production has been added at $16,330/boe/d. A portion of this new production addition will offset an internally forecast 35% base decline, while a portion will grow overall 2015 production from an expected 2014 exit level of 85,000 boe/d to a forecast 2015 exit level between 96,000 boe/d and 100,000 boe/d.

Approximately 40 MMcf/d of additional processing capacity will be added to Peyto's Swanson and Brazeau gas plants, while approximately 20 MMcf/d will be added to Peyto's Oldman North and Wildhay gas plants, in order to accommodate the 2015 production growth. These facility investments, which represent 17% of the capital budget, have already been ordered to ensure that timely installation coincides with drilling results. By the end of 2015, Peyto expects to own and operate approximately 750 MMcf/d of processing capacity in the Alberta Deep Basin.

Alberta natural gas prices are currently forecast to average approximately $3.76/GJ in 2015, almost identical to the $3.73/GJ average price of Peyto's hedges for the year (which volume represents approximately 40% of forecast production). These prices, when adjusted for Peyto's historic NGL and heat content premiums of 135% and combined with the Company's industry leading cash costs of approximately $1/Mcfe ($6/boe), should yield cash netbacks of approximately $23/boe to $24/boe and give Peyto the ability to fund its dividend and the majority of the capital program from internally generated FFO. The remainder of the capital program can be funded from available bank lines and working capital, while maintaining a strong balance sheet.

Dividend Increase

The Peyto strategy of total return means that profitable growth in the Company's assets should yield growth in sustainable dividends for shareholders. Over the last year, production per share, funds from operations per share and earnings per share have increased 33%, 63% and 126%, respectively. In recognition of this profitable growth, the Board of Directors has approved a 10% increase to the monthly dividend to $0.11/month starting in November 2014. This represents the third dividend increase in the last two years.

Outlook

Peyto has consistently executed its business strategy in 2014, purposefully navigating infrastructure constraints and expanding its owned and operated processing capacity to ensure that successful drilling and resource development efforts are realized in a timely fashion. This proficiency in operational execution is critically important to maximize the returns for shareholders on what is now the largest pace of capital investment in the Company's history. This proficiency is also what sets Peyto apart from the rest of the industry and illustrates the strength and depth of the Peyto team.

The 20% drop in Canadian light oil prices over the last few months is expected to put strain on the Canadian energy industry as margins are squeezed on the many producers that have moved to oil or condensate rich plays. Alberta natural gas prices, however, are expected to be 30% higher in Q4 2014 than the year before. With sector leading low cash costs, record operating margins, and sixteen years of Deep Basin expertise, Peyto is well positioned to continue to deliver superior returns to investors in the near term and for years to come.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2014 third quarter on Thursday, November 13th, 2014, at 9:00 a.m. Mountain Standard Time (MST), or 11:00 a.m. Eastern Standard Time (EST). To participate, please call 1-416-340-8530 (Toronto area) or 1-800-766-6630 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 2212112. The replay will be available at 11:00 a.m. MST, 1:00 p.m. EST, Thursday, November 13th, 2014 until midnight EST on Thursday, November 20th, 2014. The conference call can also be accessed and replayed through the internet at http://www.gowebcasting.com/5956. 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 third quarter report is available on the Peyto website at http://www.peyto.com/news/Q32014MDandA.pdf. A complete copy of the third 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
November 12, 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)

	September 30 2014	**December 31 2013**
Assets		
Current assets		
Cash	21,853	-
Accounts receivable	91,023	83,714
Due from private placement *(Note 6)*	-	6,245
Prepaid expenses	19,521	5,666
	132,397	95,625
Property, plant and equipment, net *(Note 3)*	2,780,948	2,459,531
	2,780,948	2,459,531
	2,913,345	2,555,156
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	169,638	155,265
Dividends payable *(Note 6)*	15,369	11,901
Derivative financial instruments *(Note 8)*	14,051	26,606
Provision for future performance based compensation *(Note 7)*	22,212	5,100
	221,270	198,872
Long-term debt *(Note 4)*	885,000	875,000
Long-term derivative financial instruments *(Note 8)*	3,720	5,180
Provision for future performance based compensation *(Note 7)*	8,318	3,200
Decommissioning provision *(Note 5)*	83,015	61,184
Deferred income taxes	277,268	211,082
	1,257,321	1,155,646
Equity		
Share capital *(Note 6)*	1,292,384	1,130,069
Shares to be issued *(Note 6)*	-	6,245
Retained earnings	154,511	86,975
Accumulated other comprehensive loss *(Note 6)*	(12,141)	(22,651)
	1,434,754	1,200,638
	2,913,345	2,555,156

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Revenue				
Oil and gas sales	223,123	124,248	693,538	401,137
Realized (loss) gain on hedges *(Note 8)*	(12,483)	9,325	(66,062)	10,252
Royalties	(14,578)	(9,722)	(50,128)	(30,162)
Petroleum and natural gas sales, net	**196,062**	123,851	**577,348**	381,227
Expenses				
Operating	13,905	11,656	43,195	32,204
Transportation	5,659	3,879	15,902	11,334
General and administrative	949	701	3,087	2,899
Future performance based compensation *(Note 7)*	3,831	4,451	22,231	13,548
Interest	8,560	7,880	25,812	22,212
Accretion of decommissioning provision *(Note 5)*	477	393	1,452	1,130
Depletion and depreciation *(Note 3)*	70,824	54,277	208,085	159,189
	104,205	83,237	**319,764**	242,516
Earnings before taxes	**91,857**	40,614	**257,584**	138,711
Income tax				
Deferred income tax expense	22,964	10,153	64,403	34,073
Earnings for the period	**68,893**	30,461	**193,181**	104,638
Earnings per share *(Note 6)*				
Basic and diluted	**$0.45**	$0.21	**$1.26**	$ 0.71

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Earnings for the period	**68,893**	30,461	**193,181**	104,638
Other comprehensive income				
Change in unrealized gain (loss) on cash flow hedges	12,923	3,676	(52,048)	5,752
Deferred tax (expense) recovery	(6,352)	1,412	(3,504)	1,125
Realized loss (gain) on cash flow hedges	12,483	(9,325)	66,062	(10,252)
Comprehensive income	**87,947**	26,224	**203,691**	101,263

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30	
	2014	**2013**
Share capital, beginning of period	**1,130,069**	1,124,382
Common shares issued by private placement	6,997	-
Equity offering	160,480	5,742
Common shares issuance costs (net of tax)	(5,162)	(55)
Share capital, end of period	**1,292,384**	1,130,069

Shares to be issued, beginning of period	**6,245**	3,459
Shares issued	(6,245)	(3,459)
Shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**86,975**	75,247
Earnings for the period	193,181	104,638
Dividends *(Note 6)*	(125,645)	(95,197)
Retained earnings, end of period	**154,511**	84,688

Accumulated other comprehensive (loss) income, beginning of period	**(22,651)**	6,979
Other comprehensive (loss) income	10,510	(3,374)
Accumulated other comprehensive (loss) income, end of period	**(12,141)**	3,605

Total equity	**1,434,754**	1,218,362

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	**2014**	2013
Cash provided by (used in)				
operating activities				
Earnings	68,893	30,461	193,181	104,638
Items not requiring cash:				
Deferred income tax	22,964	10,153	64,403	34,073
Depletion and depreciation	70,824	54,277	208,085	159,189
Accretion of decommissioning provision	477	393	1,452	1,130
Long term portion of future performance based compensation	(65)	1,673	5,118	4,899
Change in non-cash working capital related to operating activities	(12,330)	4,404	(22,853)	(13,586)
	150,763	101,361	**449,386**	290,343
Financing activities				
Issuance of common shares	-	-	167,477	5,742
Issuance costs	-	-	(6,883)	(73)
Cash dividends paid	(46,107)	(35,702)	(122,177)	(92,206)
Increase in bank debt	60,000	30,000	10,000	200,000
	13,893	(5,702)	**48,417**	113,463
Investing activities				
Additions to property, plant and equipment	(180,024)	(180,801)	(510,692)	(423,708)
Change in capital inventory	1,917	-	1,569	3,714
Change in non-cash working capital relating to investing activities	35,304	69,822	33,173	16,379
	(142,803)	(110,979)	**(475,950)**	(403,615)
Net increase (decrease) in cash	**21,853**	(15,320)	**21,853**	191
Cash, beginning of period	**-**	15,511	**-**	-
Cash, end of period	**21,853**	191	**21,853**	191
The following amounts are included in cash flows from operating activities:				
Cash interest paid	**11,165**	9,407	**24,625**	23,920
Cash taxes paid	**-**	-	**-**	1,890

See accompanying notes to the financial statements

1. Nature of operations

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 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 November 11, 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 consolidated 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.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2017 and the Company is currently evaluating the impact of the standard on Peyto's financial statements.

3. Property, plant and equipment, net

Cost	
At December 31, 2013	3,071,245
Additions	510,692
Decommissioning provision additions	20,379
Capital inventory	(1,569)
At September 30, 2014	3,600,747
Accumulated depletion and depreciation	
At December 31, 2013	(611,714)
Depletion and depreciation	(208,085)
At September 30, 2014	(819,799)
Carrying amount at December 31, 2013	2,459,531
Carrying amount at September 30, 2014	**2,780,948**

During the three and nine month periods ended September 30, 2014, Peyto capitalized $2.5 million and $7.3 million (2013 - $2.7 million and $6.4 million) of general and administrative expense directly attributable to exploration and development activities.

4. Long-term debt

	September 30, 2014	December 31, 2013
Bank credit facility	565,000	605,000
Senior unsecured notes	320,000	270,000
Balance, end of the period	**885,000**	875,000

As at September 30, 2014, the Company had a syndicated $1 billion extendible revolving credit facility with a stated term date of April 25, 2017. 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 three year period. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

On July 3, 2014, Peyto issued CDN $50 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 3.79% and mature on July 3, 2022. Interest is 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 shareholders' equity and long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items.

Peyto is in compliance with all financial covenants at September 30, 2014.

Total interest expense for the three and nine month periods ended September 30, 2014 was $8.6 million and $25.8 million (2013 - $7.9 million and $22.2 million) and the average borrowing rate for the period was 3.9% and 4.1% (2013 – 4.1% and 4.2%).

5. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2013	**61,184**
New or increased provisions	8,265
Accretion of decommissioning provision	1,452
Change in discount rate and estimates	12,114
Balance, September 30, 2014	**83,015**
Current	-
Non-current	83,015

Peyto has estimated the net present value of its total decommissioning provision to be $83.0 million as at September 30, 2014 ($61.2 million at December 31, 2013) based on a total future undiscounted liability of $200.5 million ($177.8 million at December 31, 2013). At September 30, 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 2.67 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, 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, September 30, 2014	**153,690,808**	**1,292,384**

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

	Three Months ended September 30		Nine Months ended September 30	
	2014	2013	**2014**	2013
Weighted average common shares basic and diluted	**153,690,808**	148,758,923	**153,076,178**	148,730,485

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).

Dividends
During the three and nine month periods ended September 30, 2014, Peyto has declared dividends of $0.30 and $0.82 per common share ($0.08 per common share per month for January to April and $0.10 per common share for the months of May to September), totaling $46.1 million and $125.6 million respectively (2013 - $0.24 and $0.64 or $0.06 per share for the months of January to April and $0.08 for the months of May to September totaling, $35.7 million and $95.2 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:

	September 30, 2014	September 30, 2013
Share price	$22.58-$35.34	$22.58 - $30.44
Exercise price	$19.91-$31.60	$18.41 - $22.08
Expected volatility	0%-23%	0% - 23%
Option life	0.25 years	0.25 years
Dividend yield	0%	0%
Risk-free interest rate	1.12%	1.19%

8. Financial instruments

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

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

Fair values of financial assets and liabilities
The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At September 30, 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 September 30, 2014:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (USD)**
January 1, 2014 to December 31, 2014	Fixed Price	8,000 bbl	$35.70 to $37.485/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	45,000 GJ	$3.0575/GJ -$4.03 GJ
April 1, 2013 to October 31, 2014	Fixed Price	47,500 GJ	$3.1925- $3.33/GJ
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	$3.6025/GJ
November 1, 2013 to October 31, 2014	Fixed Price	20,000 GJ	$3.50- $4.10/GJ
April 1, 2014 to October 31, 2014	Fixed Price	70,000 GJ	$3.10- $4.55/GJ
April 1, 2014 to March 31, 2015	Fixed Price	140,000 GJ	$3.20- $3.83/GJ

November 1, 2014 to March 31, 2015	Fixed Price	100,000 GJ	$3.81- $4.87GJ
April 1, 2015 to October 31, 2015	Fixed Price	80,000 GJ	$3.285- $4.123/GJ
April 1, 2015 to March 31, 2016	Fixed Price	100,000 GJ	$3.56-$ 4.05/GJ

As at September 30, 2014, Peyto had committed to the future sale of 36,000 barrels of propane at an average price of $43.35 CAD ($38.68 USD) per barrel and 106,392,500 gigajoules (GJ) of natural gas at an average price of $3.77 per GJ or $4.34 per mcf. Had these contracts been closed on September 30, 2014, Peyto would have realized a net loss in the amount of $17.8 million. If the AECO gas price on September 30, 2014 were to increase by $1/GJ, the unrealized loss would increase by approximately $106.4 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to September 30, 2014 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
November 1, 2014 to March 31, 2015	Fixed Price	10,000 GJ	$3.57/GJ -$3.61/GJ
December 1, 2014 to March 31, 2015	Fixed Price	20,000 GJ	$3.63/GJ -$4.18/GJ
April 1, 2015 to March 31, 2016	Fixed Price	35,000 GJ	$3.41/GJ -$3.65/GJ
April 1, 2016 to October 31, 2016	Fixed Price	10,000 GJ	$3.37/GJ- $3.43/GJ

9. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at September 30, 2014:

	2014	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Interest payments [1]	2,700	14,125	14,125	14,125	14,125	30,335
Transportation commitments	4,550	19,741	19,436	15,691	11,988	15,819
Operating leases	609	2,396	1,863	1,654	1,295	10,356
Other	-	3,200	-	-	-	-
Total	7,859	39,462	35,424	31,470	27,408	56,510

(1) Fixed interest payments on senior unsecured notes

10. Related Party Transactions

An officer and director of Peyto is a partner of a law firm that provides legal services to Peyto. The fees charged are based on standard rates and time spent on matters pertaining to Peyto.

A director of Peyto is a senior managing director of a private equity firm which controls a private company with has a wholly-owned subsidiary that provides services to Peyto. Such services are provided in the normal course of business at market rates.

11. Contingencies

On October 31, 2013, Peyto was named as a co-defendant in a statement of claim filed by Poseidon Concepts Corp. ("Poseidon") with respect to transactions between Poseidon and Open Range Energy Corp. ("Open Range") that occurred prior to the Company's acquisition of Open Range. On July 3, 2014, two shareholders of Poseidon filed a lawsuit with the Alberta Court of Queen's Bench against KPMG LLP and Poseidon's former auditors, making allegations substantially similar to those in other claims against Poseidon and others. On July 29, 2014, KPMG LLP filed a statement of defense and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP. The allegations contained in these claims are based on factual matters that pre-existed Peyto's involvement with Open Range. 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

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Union Bank, Canada Branch
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
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