NEWS RELEASE

MAY 10, 2016 **SYMBOL: PEY – TSX**

PEYTO EARNS $42 MILLION IN Q1 2016

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 2016 fiscal year. Continued cost reductions and record production combined for a 78% operating margin (1) and a 23% profit margin (2). Additional highlights included:

- **Production per share up 20%.** First quarter 2016 production increased 24%, 20% per share, from 490 MMcfe/d (81,588 boe/d) in Q1 2015 to 609 MMcfe/d (101,546 boe/d) in Q1 2016, setting a new Company record.

- **Funds from operations per share of $0.88.** Generated $140 million in Funds from Operations ("FFO") in Q1 2016 down 3% (6% per share) from $145 million in Q1 2015 due to a 23% reduction in realized commodity prices, largely offset by a 20% reduction in cash costs and a 24% increase in production volumes.

- **Record low cash costs of $0.71/Mcfe ($0.59/mcfe or $3.51/boe excluding royalties).** Total cash costs, including $0.13/mcfe royalties, $0.23/mcfe operating costs, $0.16/mcfe transportation, $0.03/mcfe G&A and $0.17/mcfe interest, were a new Company record. This 20% decrease from $0.89/mcfe in Q1 2015 was primarily due to a 28% decrease in operating costs and a 28% decrease in royalties. Lower realized commodity prices, offset by these lower cash costs, resulted in a cash netback of $2.52/Mcfe ($15.14/boe) or a 78% operating margin.

- **Capital investment of $176 million**. A total of 37 gross wells (35.5 net) were drilled in the first quarter. New wells brought on production over the last 12 months accounted for 48,600 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $631 million, equates to an annualized capital efficiency of $13,000/boe/d. In addition, approximately 3,200 boe/d of production was drilled, completed and tied in but was awaiting the $33 million Brazeau gas plant expansion which was substantially completed in March 2016.

- **Earnings of $0.26/share, dividends of $0.33/share.** Earnings of $42 million were generated in the quarter while dividends of $53 million were paid to shareholders, representing a before tax payout ratio of 38% of FFO.

First Quarter 2016 in Review

Peyto maintained the same level of activity at the start of the first quarter of 2016 as it had in the fourth quarter of 2015, with 10 drilling rigs actively developing its Deep Basin core areas. Two rigs were released by the end of the quarter as continued improvements in drilling execution meant 8 rigs could do the work of 10. Lower realized commodity prices were countered with lower capital and cash costs allowing Peyto to maintain its expected return on new investments. Average drilling and completion costs per horizontal well were $2.8 million in the first quarter 2016, down 28% from $3.9 million in Q1 2015 while total cash costs were down 20% from $0.89/mcfe to $0.71/mcfe. Peyto closed two small property acquisitions and one property swap in the quarter, totaling $28 million, which added more drilling locations to the Company's inventory of profitable Deep Basin opportunities. The Brazeau gas plant was expanded in the quarter, taking processing capacity from 60 MMcf/d to 120 MMcf/d, in order to accommodate expected volume additions this year. Despite the continued drop in commodity prices, the financial and operating performance delivered in the quarter resulted in an annualized 10% Return on Equity (ROE) and 8% Return on Capital Employed (ROCE).

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

	3 Months Ended March 31		%
	2016	2015	Change
Operations			
Production			
Natural gas (mcf/d)	**567,230**	444,794	*28%*
Oil & NGLs (bbl/d)	**7,008**	7,456	*-6%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**609,278**	489,528	*24%*
Barrels of oil equivalent (boe/d @ 6:1)	**101,546**	81,588	*24%*
Production per million common shares (boe/d)*	**638**	530	*20%*
Product prices			
Natural gas ($/mcf)	**3.06**	3.97	*-23%*
Oil & NGLs ($/bbl)	**33.60**	37.03	*-9%*
Operating expenses ($/mcfe)	**0.23**	0.32	*-28%*
Transportation ($/mcfe)	**0.16**	0.15	*7%*
Field netback ($/mcfe)	**2.72**	3.52	*-23%*
General & administrative expenses ($/mcfe)	**0.03**	0.04	*-25%*
Interest expense ($/mcfe)	**0.17**	0.20	*-15%*
Financial ($000, except per share*)			
Revenue	**179,351**	183,812	*-2%*
Royalties	**6,985**	7,992	*-13%*
Funds from operations	**139,907**	144,643	*-3%*
Funds from operations per share	**0.88**	0.94	*-6%*
Total dividends	**52,520**	50,781	*3%*
Total dividends per share	**0.33**	0.33	-
Payout ratio	**38**	35	*9%*
Earnings	**41,943**	44,513	*-6%*
Earnings per diluted share	**0.26**	0.29	*-10%*
Capital expenditures	**175,763**	138,077	*27%*
Weighted average common shares outstanding	**159,142,526**	153,852,570	*3%*
As at March 31			
End of period shares outstanding (includes shares to be issued)	**159,239,543**	153,921,273	*3%*
Net debt	**1,181,963**	1,064,491	*11%*
Shareholders' equity	**1,655,093**	1,528,959	*8%*
Total assets	**3,503,343**	3,163,162	*11%*

**all per share amounts using weighted average common shares* outstanding

	3 Months Ended March 31	
($000 except per share)	**2016**	2015
Cash flows from operating activities	**138,118**	126,134
Change in non-cash working capital	**(1,112)**	15,488
Change in provision for performance based compensation	**2,901**	9,369
Funds from operations	**139,907**	144,643
Funds from operations per share	**0.88**	0.94

(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

First quarter 2016 activity was focused in the Greater Sundance and Brazeau River areas on the Company's traditional, sweet, liquids rich, natural gas resource plays. Despite the deterioration in commodity prices for summer 2016, these locations still met Peyto's strict internal rate of return hurdles primarily due to lower costs and proximity to existing infrastructure. Two of the drilling rigs were active in the Brazeau area delineating a proven Wilrich trend, as well as testing a Notikewin trend characterized by high pressure channel sands with above average liquid yields. As well, Peyto drilled its first vertical well in the past five years into a faulted Cardium target at Brazeau with initial condensate liquid yields in excess of 60 bbls/mmcf. Several follow up locations in the Cardium now exist that may be pursued later in the year.

In total, 37 gross wells were drilled across the land base, similar to Q1 2015, as shown in the following table:

Zone	Field							Total Wells Drilled
	Sundance	Nosehill	Wildhay	Ansell	Berland	Kisku/ Kakwa	Brazeau	
Cardium							1	1
Notikewin		2	1	3			1	7
Falher	9			2				11
Wilrich	7	2	1	3			5	18
Bluesky								
Total	16	4	2	8			7	37

Drilling costs per meter were 10% lower while completion costs per meter were 23% lower than average 2015 costs as continued service cost reductions and efficiency gains were realized. The following table illustrates the ongoing efficiency gains which should contribute to lower overall development costs and ultimately greater returns:

	2010	2011	2012	2013	2014	2015	2016 Q1
Gross Hz Spuds	52	70	86	99	123	140	**36**
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,309	**4,231**
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	**1,460**
Drilling ($MM/well)	$2.763	$2.823	$2.789	$2.720	$2.660	$2.159	**$1.916**
$ per meter	$734	$723	$694	$651	$626	$501	**$453**
Completion ($MM/well)	$1.358	$1.676	$1.672	$1.625	$1.702	$1.212	**$0.910**
$ per meter	$361	$429	$416	$389	$400	$281	**$215**

Capital Expenditures

Capital investments in the first quarter of 2016 totalled $175.7 million, comprised of $95.8 million for drilling and completion, $11.6 million for wellsite equipment and well connections, $37 million for major pipelines and facilities, $27.9 million for acquisitions and land, and $3.4 million for new seismic data.

In total, 37 gross wells (35.5 net) were spud in the quarter and 36 gross wells (34.7 net) were completed and with 36 gross (34.3 net) wells placed on production.

The Brazeau plant was expanded from 60 MMcf/d capacity to 120 MMcf/d with the installation of a third refrigeration process train and 4 new compressors, taking the total compressor count at the plant to 10 machines. This expansion occurred over March and was commissioned in early April. In addition, the TCPL meter station fed by Peyto's Brazeau plant was expanded up to 120 MMcf/d of capacity to match the new facility limits. The estimated total cost for the plant expansion is $33 million with $25 million of the expenditure occurring in the first quarter.

Two small acquisitions and one property swap were closed in the first quarter totalling $27.9 million which included approximately 1,500 boe/d of production and 13 net sections of land on which Peyto has identified a significant number of new drilling locations. One of the acquisitions also included 20% working interest in Peyto's Galloway gas plant, increasing total ownership in that plant from 69% to 89%. All of the acquired lands are situated proximal to Peyto's existing infrastructure.

By the end of the quarter, the 36 gross (34.3 net) wells that were brought onstream were contributing 15,000 boe/d to the quarter end exit rate of 102,000 boe/d.

Commodity Prices

A strong El Nino weather influence that occurs every three to five years resulted in above-normal winter temperatures and reduced natural gas heating demand in North America in the first quarter of 2016. This was combined with record natural gas production and resulted in less gas being withdrawn from storage inventories during the heating season than in prior years. The reduced consumption, combined with increased supply, caused natural gas prices to fall. In Alberta, where local storage inventories remained high, AECO daily natural gas prices, which averaged $2.34/GJ during the fourth quarter of 2015, fell over 45% to $1.27/GJ by March 2016, or the end of the winter season.

The average first quarter 2016 Alberta (AECO) daily natural gas price was $1.75/GJ down 33% from $2.60/GJ in Q1 2015, while the average AECO monthly price was $2.00/GJ down 28% from $2.80/GJ a year prior. As Peyto had committed 84% of its production to the monthly price, Peyto realized a volume weighted average natural gas price of $1.93/GJ or $2.22/mcf, after the TCPL fuel charge and prior to a $0.84/mcf hedging gain.

As a result of the Company's hedging strategy, approximately 60% of Peyto's natural gas production received a fixed price of $3.21/GJ from hedges that were put in place over the previous 24 months, while the balance received the blended daily and monthly price of $1.93/GJ, resulting in an after-hedge price of $2.66/GJ or $3.06/mcf.

Peyto realized an oil and natural gas liquids price of $33.60/bbl in Q1 2016 for its blend of condensate, pentane, butane and propane, which represented 82% of the $40.83/bbl average Canadian Light Sweet posted price, as shown in the following table.

Commodity Prices by Component

	Three Months ended March 31	
	2016	2015
Natural gas – after hedging ($/mcf)	**3.06**	3.97
Natural gas – after hedging ($/GJ)	**2.66**	3.48
AECO monthly ($/GJ)	**2.00**	2.80
Oil and natural gas liquids ($/bbl)		
Condensate ($/bbl)	**37.86**	48.64
Propane ($/bbl)	**(7.70)**	3.96
Butane ($/bbl)	**16.58**	28.28
Pentane ($/bbl)	**41.30**	46.87
Total Oil and natural gas liquids ($/bbl)	**33.60**	37.03
Canadian Light Sweet postings ($/bbl)	**40.83**	52.72

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

Financial Results

Peyto's realized natural gas price combined with realized liquids prices, resulted in unhedged revenues totaling $2.46/mcfe ($3.24/mcfe including hedging gains). Royalties of $0.13/mcfe, operating costs of $0.23/mcfe, transportation costs of $0.16/mcfe, G&A of $0.03/mcfe and interest costs of $0.17/mcfe, all combined for total cash costs of $0.71/mcfe ($4.28/boe). This is the lowest total cash cost ever achieved in the Company's history and represents the eighth consecutive quarter where costs were reduced. Most significant of these reductions has been a 42% reduction in operating costs from $0.39/mcfe ($2.34/boe) in Q1 of 2014 to $0.23/mcfe ($1.36/boe) in Q1 2016. Lower royalties has also been a significant contributor to cost reductions. These total cash costs, when deducted from realized revenues, resulted in a cash netback of $2.52/mcfe or a 78% operating margin.

Depletion, depreciation and amortization charges of $1.62/mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of $0.76/mcfe, or a 23% profit margin. Dividends of $0.95/mcfe were paid to shareholders.

Subsequent to the end of the quarter, on April 28, 2016, Peyto entered into a bought deal for 4,687,500 common shares at a price of $32.00 per common share for net proceeds of $144 million. The Company has granted the underwriters an option, exercisable at any time until 30 days following the closing of the offering, to purchase up to an additional 15% (703,125 common shares) to cover over-allotments, if any. The offering is expected to close on May 18, 2016.

Natural Gas Marketing

Peyto's practice of layering in future sales in the form of fixed price swaps, and thus smoothing out the volatility in natural gas prices, continued throughout the quarter. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of May 10, 2016.

	Future Sales		Average Price (CAD)	
	GJ	Mcf	$/GJ	$/Mcf
2016 Q2 (May 10 – Jun 30)	20,880,000	18,156,522	2.71	3.12
2016 Q3	40,475,000	35,195,652	2.67	3.06
2016 Q4	41,550,000	36,130,435	2.64	3.04
2017	108,790,000	94,600,000	2.56	2.94
2018	37,260,000	32,400,000	2.44	2.81
Total	248,955,000	216,482,609	2.59	2.97

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

Activity Update

As of the end of April, the Company had two rigs drilling in the Greater Sundance area and 6 rigs racked at various wellsite locations ready to resume drilling at the conclusion of breakup in early June. Drilling over the breakup period is being limited to multi-well pads with the expectation of lower cost outcomes.

The recent decline of near term 2016 Alberta natural gas prices has prompted Peyto to adopt a summer producing strategy that effectively defers the production from newly drilled, high flush rate wells from the current low summer prices until the fall. This same strategy was successfully utilized in 2012 and 2013 in similar environments. The current future strip has AECO prices averaging $1.48/GJ over the six month period from May to October but improving over 70% to $2.53 for the 5 month winter period from November 2016 to March 2017. The economic return generated by new wells significantly improves by delaying their onstream date for those six months. Therefore, Peyto has elected to hold approximately 10,000 boe/d of new 2016 production additions offline from April to October to capture this improved return. In addition, the Company has received Board of Director approval to increase the pace of its near term hedging program, up to 85% of forecast volumes, in order to secure these winter prices for the 2016 new production additions. Should gas prices recover over the course of the summer, Peyto has the facility capacity and flexibility to respond quickly and bring the shut in volumes on stream.

While Peyto's operating cost are low enough to make positive operating income from these new wells, even at these low summer prices, the total return on the capital invested in these new wells is enhanced considerably through this proven deferral strategy. Peyto's strong infrastructure position and operating flexibility allows the Company to take this very adaptable approach to volatile natural gas prices.

Modernized Royalty Framework

On January 29, 2016 the Alberta Government released a report of its Royalty Review and Advisory Panel. The report sets forth a new Modernized Royalty Framework (MRF) that is scheduled to commence for wells drilled starting January 1, 2017. In general, the MRF looks to reward those companies who continuously innovate, strive to reduce their costs and their environmental footprints. Peyto is already an industry leader in this regard.

Most of the details on the quantitative aspects of the MRF were released on April 21, 2016. Additional details are scheduled to be released by the Department of Energy in the coming weeks. From the information available so far, Peyto concludes this latest MRF will not pose any significant additional burden to the Company's well investment economics over a reasonable commodity price range as expected in the foreseeable future.

Outlook

Peyto's primary goal is to maximize the return on invested capital. The Company accomplishes this goal in two ways. Firstly, the Company selectively and efficiently invests capital at periods in the commodity cycle when capital costs are at their lowest, using industry activity as a guide as to when these periods occur. Historically, there is a strong correlation between the commodity cycle and industry activity levels so that Peyto doesn't need to speculate on the future of commodity prices. Minimizing the risk in operational execution at these times is critical to ensure profits are not lost in failed operations. Secondly, the Company strives to achieve sustainably low cash costs to ensure investments generate a positive return for shareholders regardless of the commodity price outcome. Included in this is a systematic hedging strategy that smooths out the potential volatility in future commodity prices.

Historically, Peyto has been successful in accomplishing these two objectives and therefore maximizing the returns on invested capital for its shareholders. The goal today remains the same and the strategy to achieving that goal is well understood across the organization. Management remains confident future outcomes will mirror the same historical success.

Conference Call and Webcast

Disclosure rules for Canadian public corporations preclude the Company from certain activities and statements while in distribution. As a result, there will not be a 2016 first quarter results conference call.

Management's Discussion and Analysis

A copy of the first quarter report to shareholders, including the MD&A, audited financial statements and related notes, is available at http://www.peyto.com/news/Q12016MDandA.pdf and will be filed at SEDAR, www.sedar.com at a later date.

Annual General Meeting

Peyto's Annual General Meeting of shareholders will be held on Wednesday, May 18, 2016 at 3:00 pm in the Grand Lecture Theatre of the Metropolitan Conference Centre at 333 – 4th Avenue S.W. Calgary, Alberta T2P 0H9.

Darren Gee
President and CEO
May 10, 2016

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. To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). Peyto uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	March 31 2016	December 31 2015
Assets		
Current assets		
Cash	3,742	-
Accounts receivable	79,371	85,525
Due from private placement *(Note 6)*	-	3,769
Derivative financial instruments *(Note 8)*	117,599	65,169
Prepaid expenses	10,030	12,992
	210,742	167,455
Property, plant and equipment, net *(Note 3)*	3,292,601	3,190,059
	3,292,601	3,190,059
	3,503,343	3,357,514
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	117,590	144,402
Dividends payable *(Note 6)*	17,516	17,486
Provision for future performance based compensation *(Note 7)*	4,899	1,998
	140,005	163,886
Long-term debt *(Note 4)*	1,140,000	1,045,000
Long-term derivative financial instruments *(Note 8)*	2,323	2,299
Provision for future performance based compensation *(Note 7)*	1,654	-
Decommissioning provision *(Note 5)*	130,721	118,882
Deferred income taxes	433,547	403,890
	1,708,245	1,570,071
Equity		
Share capital *(Note 6)*	1,474,890	1,467,264
Shares to be issued *(Note 6)*	-	3,769
Retained earnings	92,762	103,339
Accumulated other comprehensive income *(Note 6)*	87,441	49,185
	1,655,093	1,623,557
	3,503,343	3,357,514

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	
	2016	**2015**
Revenue		
Oil and gas sales	136,202	151,226
Realized gain on hedges *(Note 8)*	43,149	32,586
Royalties	(6,985)	(7,992)
Petroleum and natural gas sales, net	**172,366**	175,820
Expenses		
Operating	12,540	13,890
Transportation	8,669	6,578
General and administrative	1,857	1,834
Future performance based compensation *(Note 7)*	4,555	4,099
Interest	9,393	8,876
Accretion of decommissioning provision *(Note 5)*	604	511
Depletion and depreciation *(Note 3)*	89,960	80,681
Gain on disposition of assets *(Note 3)*	(12,668)	-
	114,910	116,469
Earnings before taxes	**57,456**	59,351
Income tax		
Deferred income tax expense	15,513	14,838
Earnings for the period	**41,943**	44,513
Earnings per share *(Note 6)*		
Basic and diluted	**$0.26**	$0.29
Weighted average number of common shares outstanding *(Note 6)*		
Basic and diluted	**159,142,526**	153,852,570

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended March 31 2016	Three months ended March 31 2015
Earnings for the period	**41,943**	**44,513**
Other comprehensive income		
Change in unrealized gain (loss) on cash flow hedges	95,555	(25,037)
Deferred tax (expense) recovery	(14,150)	6,259
Realized (gain) on cash flow hedges	(43,149)	(32,586)
Comprehensive income (loss)	**80,199**	**(6,851)**

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2016	**2015**
Share capital, beginning of period	**1,467,264**	1,292,398
Common shares issued by private placement	7,644	7,732
Common shares issuance costs (net of tax)	(18)	(38)
Share capital, end of period	**1,474,890**	1,300,092

Common shares to be issued, beginning of period	**3,769**	5,625
Common shares issued	(3,769)	(5,625)
Common shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**103,339**	173,927
Earnings for the period	41,943	44,513
Dividends *(Note 6)*	(52,520)	(50,781)
Retained earnings, end of period	**92,762**	167,659

Accumulated other comprehensive income, beginning of period	**49,185**	79,986
Other comprehensive loss (gain)	38,256	(18,778)
Accumulated other comprehensive income, end of period	**87,441**	61,208

Total equity	**1,655,093**	1,528,959

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2016	**2015**
Cash provided by (used in) operating activities		
Earnings	41,943	44,513
Items not requiring cash:		
Deferred income tax	15,513	14,838
Depletion and depreciation	89,960	80,681
Accretion of decommissioning provision	604	511
Gain on disposition of assets	(12,668)	-
Long term portion of future performance based compensation	1,654	1,079
Change in non-cash working capital related to operating activities	1,112	(15,488)
	138,118	**126,134**
Financing activities		
Issuance of common shares	7,637	7,732
Issuance costs	(18)	(38)
Cash dividends paid	(52,490)	(50,755)
Increase (decrease) in bank debt	95,000	90,000
	50,129	**46,939**
Investing activities		
Additions to property, plant and equipment	(175,763)	(138,077)
Change in prepaid capital	7,500	(12,624)
Change in non-cash working capital relating to investing activities	(16,242)	(22,372)
	(184,505)	**(173,073)**
Net increase (decrease) in cash	**3,742**	**-**
Cash, Beginning of Period	**-**	**-**
Cash, End of Period	**3,742**	**-**

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

Cash interest paid	**5,643**	9,459
Cash taxes paid	**-**	-

Peyto Exploration & Development Corp.

Notes to Condensed Financial Statements *(unaudited)*

As at March 31, 2016 and 2015

(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 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 9, 2016.

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, 2015 and 2014.

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.

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, 2015 and 2014.

(b) Recent Accounting Pronouncements

Standards issued but not yet effective

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

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 for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018 and the Company is currently evaluating the impact of the standard on Peyto's financial statements.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

3. Property, plant and equipment, net

Cost	
At December 31, 2015	4,416,643
Additions	187,588
Decommissioning provision additions	11,235
Prepaid capital	(7,500)
At March 31, 2016	4,607,966
Accumulated depletion and depreciation	
At December 31, 2015	(1,226,584)
Depletion and depreciation	(88,781)
At March 31, 2016	(1,315,365)
Carrying amount at December 31, 2015	3,190,059
Carrying amount at March 31, 2016	**3,292,601**

During the three month ended March 31, 2016, the Company closed an asset swap arrangement. For purposes of determining a gain on disposition, the estimated fair value was based on the fair value of the assets received. The Company recorded a gain of $12.7 million for the three months ended March 31, 2016.

During the period ended March 31, 2016, Peyto capitalized $2.2 million (2015 - $2.0 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

	March 31, 2016	**December 31, 2015**
Bank credit facility	720,000	625,000
Senior secured notes	420,000	420,000
Balance, end of the year	**1,140,000**	**1,045,000**

The Company has a syndicated $1.0 billion extendible unsecured revolving credit facility with a stated term date of December 4, 2019. An accordion provision has been added that allows for the pre-approved increase of the facility up to $1.3 billion, at the Company's request, subject to additional commitments by existing facility lenders or by adding new financial institutions to the syndicate. 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. 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.

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, 2016.

Total interest expense for the period ended March 31, 2016 was $9.4 million (2015 - $8.9 million) and the average borrowing rate for the period was 3.4% (2015 – 3.6%).

5. Decommissioning provision

Peyto makes provision for the future cost of decommissioning wells 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 the Company's internal estimates on 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, 2015	**118,882**
New or increased provisions	6,361
Accretion of decommissioning provision	604
Change in discount rate and estimates	4,874
Balance, March 31, 2016	**130,721**
Current	-
Non-current	130,721

Peyto has estimated the net present value of its total decommissioning provision to be $130.7 million as at March 31, 2016 ($118.9 million at December 31, 2015) based on a total future undiscounted liability of $268.1 million ($239.0 million at December 31, 2015). At March 31, 2016 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 2064. The Bank of Canada's long term bond rate of 2.00 per cent (2.15 per cent at December 31, 2015) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2015) 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, 2015	**158,958,273**	**1,467,264**
Common shares issued by private placement	281,270	7,644
Common share issuance costs, (net of tax)	-	(18)
Balance, March 31, 2016	**159,239,543**	**1,474,890**

On December 31, 2015, Peyto completed a private placement of 149,030 common shares to employees and consultants for net proceeds of $3.8 million ($25.29 per share). These common shares were issued January 6, 2016.

On March 15, 2016, Peyto completed a private placement of 132,240 common shares to employees and consultants for net proceeds of $3.9 million ($29.30 per common share).

Per share amounts
Earnings per share have been calculated based upon the weighted average number of common shares outstanding for the period ended March 31, 2016 of 159,142,526 (2015 – 153,852,570). There are no dilutive instruments outstanding.

Dividends
During the period ended March 31, 2016, Peyto declared and paid dividends of $0.33 per common share or $0.11 per common share per month, totaling $52.5 million (2015 - $0.33 or $0.11 per common share per month, $50.8 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, 2016	March 31, 2015
Share price	$24.09 - $34.34	$32.27 - $34.34
Exercise price	$23.76 - $33.02	$21.70 - $34.01
Expected volatility	37.03%	31.5%
Option life	0.75 year	0.75 year
Dividend yield	0%	0%
Risk-free interest rate	0.5%	0.5%

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, 2016.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2015.

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, 2016 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, 2016:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2015 to October 31, 2016	Fixed Price	5,000 GJ	$2.885/GJ
April 1, 2015 to March 31, 2017	Fixed Price	50,000 GJ	$2.83/GJ to $3.05/GJ
May 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.82/GJ
November 1, 2015 to March 31, 2017	Fixed Price	40,000 GJ	$2.84/GJ to $2.975/GJ
December 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	$2.55/GJ
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.54/GJ
April 1, 2016 to October 31, 2016	Fixed Price	50,000 GJ	$2.40/GJ to $3.43/GJ
April 1, 2016 to March 31, 2017	Fixed Price	95,000 GJ	$2.58/GJ to $3.01/GJ
April 1, 2016 to March 31, 2018	Fixed Price	60,000 GJ	$2.42/GJ to $2.75/GJ

April 1, 2016 to October 31, 2018	Fixed Price	35,000 GJ	$2.10/GJ to $2.60/GJ
May 1, 2016 to October 31, 2017	Fixed Price	15,000 GJ	$2.11/GJ to $2.22/GJ
May 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.20/GJ to $2.35/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	$2.95/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.51/GJ
April 1, 2017 to October 31, 2017	Fixed Price	25,000 GJ	$2.40/GJ to $2.845/GJ
April 1, 2017 to March 31, 2018	Fixed Price	40,000 GJ	$2.825/GJ to $2.945/GJ

As at March 31, 2016, Peyto had committed to the future sale of 213,235,000, gigajoules (GJ) of natural gas at an average price of $2.66 per GJ or $3.06 per mcf. Had these contracts been closed on March 31, 2016, Peyto would have realized a gain in the amount of $115.3 million. If the AECO gas price on March 31, 2016 were to decrease by $1/GJ, the unrealized gain would increase by approximately $213.2 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2016 Peyto entered into the following contracts:

Natural Gas Period Hedged	**Type**	**Daily Volume**	**Price (CAD)**
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	$2.305/GJ
June 1, 2016 to October 31, 2016	Fixed Price	20,000 GJ	$1.52/GJ to $1.63/GJ
July 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.28/GJ to $2.45/GJ
August 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	$2.22/GJ
August 1, 2016 to October 31, 2018	Fixed Price	10,000 GJ	$2.3175/GJ to $2.45/GJ
November 1, 2016 to March 31, 2017	Fixed Price	75,000 GJ	$2.34/GJ to $2.5625/GJ
April 1, 2017 to October 31, 2017	Fixed Price	15,000 GJ	$2.23/GJ to $2.40/GJ

9. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in commercial transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. The dollar value of the transactions between Peyto and each of the related reporting entities is summarized below:

			March 31,			
			2016		2015	
Director	**Company**	**Description**	**Expense**	**Payable**	Expense	Payable
Don Gray	Petrus Resources Ltd.	Chairman of the Board	**(1.6)**	**(1.7)**	(4.4)	(4.5)
Michael MacBean	NCSG Hauling & Rigging Ltd. (subsidiary of NCSG Crane and Heavy Haul) (1)	Director, NCSG Crane and Heavy Haul	**213.8**	**140.1**	59.5	59.5
Stephen Chetner	Burnet Duckworth & Palmer LLP	Partner	**150.0**	**150.0**	115.0	115.0

10. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2016.

	2016	2017	2018	2019	2020	Thereafter
Interest payments[1]	14,023	18,385	18,385	16,190	13,995	27,840
Transportation commitments	22,305	29,573	38,186	32,659	47,673	79,703
Operating leases	1,699	2,353	1,994	1,994	1,295	11,963
Other	1,332	-	-	-	-	-
Total	39,359	50,311	58,565	50,843	62,963	119,506

(1) Fixed interest payments on senior unsecured notes

11. Contingencies

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Company, as a successor to new Open Range Energy Corp. ("New Open Range"). The proposed action contains various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not New Open Range), which claims are also alleged in class action lawsuits filed in Alberta, Ontario, and Quebec earlier in 2013 against Poseidon and certain of its current and former directors and officers, and underwriters involved in the public offering of common shares of Poseidon completed in February 2012. The proposed class action seeks various declarations and damages including compensatory damages which the Plaintiffs estimate at $651 million and punitive damages which the Plaintiffs estimate at $10 million, which damage amounts appear to be duplicative of damage amounts claimed in the class actions against Poseidon, certain of its current and former directors and officers, and underwriters.

New Open Range was incorporated on September 14, 2011 solely for purposes of participating in a plan of arrangement with Poseidon (formerly named Open Range Energy Corp. ("Old Open Range")), which was completed on November 1, 2011. Pursuant to such arrangement, Poseidon completed a corporate reorganization resulting in two separate publicly-traded companies: Poseidon, which continued to carry on the energy service and supply business; and New Open Range, which carried on Poseidon's former oil and gas exploration and production business. The Company acquired all of the issued and outstanding common shares of New Open Range on August 14, 2012. On April 9, 2013, Poseidon obtained creditor protection under the Companies' Creditor Protection Act.

On October 31, 2013, Poseidon filed a lawsuit with the Court naming the Company as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of Old Open Range and the former directors and officers of New Open Range. Poseidon claims, among other things, that the Company is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range.

On July 3, 2014, the Plaintiffs filed a lawsuit with the Court against KPMG LLP, Poseidon's and Old Open Range's former auditors, making allegations substantially similar to those in the other claims. 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 against New Open Range contained in the claims described above are based on factual matters that pre-existed the Company's acquisition of New Open Range. The Company has not yet been required to defend either of the actions. If it is required to defend the actions, the Company intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions. Although the outcome of this matter is not determinable at this time, the Company believes that this claim will not have a material adverse effect on the Company's financial position or results of operations as the Company believes the claims against it are unprecedented and are without merit.

12. Subsequent Events

On April 26, 2016, the amended and restated note purchase and private shelf agreement dated January 3, 2012 and restated as of April 26, 2013 was amended to increase the shelf facility from \$150 million to \$250 million. \$150 million has been drawn under this shelf facility.

On April 28, 2016, Peyto entered into an offering for 4,687,500 common shares at a price of \$32.00 per common share for net proceeds of \$144 million. The Company has granted the underwriters an option, exercisable at any time until 30 days following the closing of the offering, to purchase up to an additional 15% (703,125 common shares) of the offering to cover over-allotments, if any. The offering is expected to close on May 18, 2016.

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

Lee Curran
Vice President, Drilling and Completions

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Todd Burdick
Vice President, Production

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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