



PEYTO

Exploration & Development Corp.

ANNUAL INFORMATION FORM

2014

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GLOSSARY OF TERMS

"**2003 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among PEDC, Peyto Acquisition Corp. and the Trust which was completed on July 1, 2003 and pursuant to which former holders of common shares of PEDC received Trust Units, and PEDC became an indirect subsidiary of the Trust;

"**2008 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among the Trust, its subsidiaries and Unitholders which was completed on January 1, 2008 pursuant to which the Internal Reorganization was completed;

"**2010 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among the Trust, POT, Peyto AdminCo, Peyto Partnership, PEDC, Peyto Exploration (2011) Ltd. and Unitholders which commenced on December 31, 2010 and was completed on January 1, 2011 and resulted in the reorganization of the Trust into a public, dividend paying, oil and natural gas exploration and development company that acquired all of the assets and assumed all of the liabilities of the Trust;

"**2012 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among Peyto, Open Range and the shareholders of Open Range which was completed on August 14, 2012 and resulted in Peyto acquiring all of the issued and outstanding common shares of Open Range;

"**2012 Amalgamation**" means the amalgamation of Peyto and Open Range, its wholly-owned subsidiary, effective December 31, 2012 pursuant to subsection 184(1) of the ABCA;

"**ABCA**" means the *Business Corporations Act (Alberta)*, R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**Common Shares**" means the common shares in the capital of Peyto;

"**Direct Royalties**" means royalty interests in petroleum and natural gas rights acquired by Peyto from time to time;

"**InSite**" means InSite Petroleum Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

"**InSite Report**" means the independent engineering evaluation of Peyto's oil, NGL and natural gas interests prepared by InSite dated February 18, 2015 and effective December 31, 2014, a summary of which is contained herein;

"**Internal Reorganization**" means the reorganization of the Trust's subsidiaries effective January 1, 2008, whereby all of the oil and natural gas assets and liabilities of the PEDC entities were transferred to the Peyto Partnership;

"**oil and natural gas properties**" means the working, royalty or other interests of Peyto from time to time in any petroleum and natural gas rights, tangibles and miscellaneous interests, including the properties in which Peyto has an interest as at the date hereof, and properties which may be acquired by Peyto at a future date, and including the Direct Royalties;

"**Open Range**" means Open Range Energy Corp., a corporation incorporated under the ABCA;

"**PEDC**" means Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA and a predecessor to Peyto;

"**Peyto**", the "**Corporation**" "**we**", "**us**" or "**our**" means, as the context requires, (i) Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA on December 31, 2012 pursuant to the 2012 Amalgamation; (ii) Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA on January 1, 2011 pursuant to the 2010 Arrangement; or (iii) the Trust, and its controlled entities on a consolidated basis, prior to the completion of the 2010 Arrangement;

"**Peyto AdminCo**" means Peyto Energy Administration Corp., a corporation incorporated under the ABCA;

"**Peyto Partnership**" or "**Partnership**" means Peyto Energy Limited Partnership, a limited partnership formed pursuant to the laws of the Province of Alberta;

"**POT**" means Peyto Operating Trust, a trust established under the laws of Alberta pursuant to the amended and restated trust indenture dated January 1, 2008 between Valiant Trust Company, the Trust and Peyto AdminCo;

"**Shareholders**" means holders of Common Shares;

"**Trust**" means Peyto Energy Trust, a trust established under the laws of Alberta and predecessor to Peyto. All references to the "Trust", unless the context otherwise requires, are references to Peyto Energy Trust and its controlled entities on a consolidated basis prior to completion of the 2010 Arrangement;

"**Trust Units**" means previously outstanding trust units of the Trust, each unit representing an equal undivided beneficial interest therein;

"**TSX**" means the Toronto Stock Exchange;

"**United States**" or "**U.S.**" means the United States of America; and

"**Unitholders**" means the former holders of the Trust Units.

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2014.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
bbls	barrels	Mcf	thousand cubic feet
Mbbls	thousand barrels	MMcf	million cubic feet
MMbbls	million barrels	Bcf	billion cubic feet
NGLs	natural gas liquids	Mcf/d	thousand cubic feet per day
stb	stock tank barrels of oil	MMcf/d	million cubic feet per day
Mstb	thousand stock tank barrels of oil	m ³	cubic metres
Mboe	thousand barrels of oil equivalent	MMbtu	million British Thermal Units
MMboe	million barrels of oil equivalent	GJ	Gigajoule
boe/d	barrels of oil equivalent per day		
bbls/d	barrels of oil per day		
Other			
BOE or boe	means barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one bbl of oil. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 bbl, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indication of value.		
McfGE	means thousand cubic feet of natural gas equivalent, using the conversion factor of one bbl of oil to 6 Mcf of natural gas. McfGEs may be misleading, particularly if used in isolation. An McfGE conversion ratio of 1 bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 1 bbl: 6 Mcf, utilizing a conversion on a 1 bbl: 6 Mcf basis may be misleading as an indication of value.		
WTI	means West Texas Intermediate.		
°API	means the measure of the density or gravity of liquid petroleum products derived from a specific gravity.		
psi	means pounds per square inch.		
M\$	means thousands of dollars.		
MM\$	means millions of dollars.		

CONVERSION

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
gigajoules	mmbtu	0.950

NOTICE TO READER

YOU SHOULD NOT RELY ON FORWARD-LOOKING STATEMENTS BECAUSE THEY ARE INHERENTLY UNCERTAIN.

Certain statements contained in this Annual Information Form constitute forward-looking statements or forward-looking information (collectively, "**forward-looking statements**"). These forward-looking statements relate to future events or Peyto's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These statements speak only as of the date of this Annual Information Form.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such forward-looking statements but which may prove to be incorrect. Although Peyto believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Peyto can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this Annual Information Form, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Peyto operates; the timely receipt of any required regulatory approvals; the ability of Peyto to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which Peyto has an interest in to operate the field in a safe, efficient and effective manner; the ability of Peyto to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisitions, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Peyto to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Peyto operates; and the ability of Peyto to successfully market its oil and natural gas products.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- the performance characteristics of the oil and natural gas assets of Peyto;
- oil and natural gas production levels;
- market prices for oil and natural gas;
- the size of Peyto's oil and natural gas reserves;
- projections of market prices and costs and the related sensitivities of dividends;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through exploration and development and, if applicable, acquisitions;
- treatment under governmental regulatory regimes;
- capital expenditures programs;
- the payment of dividends;
- the existence, operation and strategy of Peyto's commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed by Peyto;
- Peyto's future tax horizons;
- the impact of Canadian federal and provincial governmental regulation on Peyto; and
- the goal to grow or sustain production and reserves through prudent exploration, management and acquisitions.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- risks and uncertainties associated with Peyto's oil and natural gas exploration and development program;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;

- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- uncertainties associated with changes in legislation, including, but not limited to, changes in income tax laws and to oil and natural gas royalty frameworks; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on current estimates and assumptions, that the reserves described can be profitably produced in the future. The foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. Peyto does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by securities law.

PEYTO EXPLORATION & DEVELOPMENT CORP.

General

Peyto is a Calgary, Alberta based company founded in 1998. Peyto is a growth oriented, dividend paying publicly traded company engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada. The head and principal office of Peyto is located at Suite 1500, 250 - 2nd Street S.W., Calgary, Alberta T2P 0C1. The registered office of Peyto is located at Suite 2400, 525 - 8th Avenue S.W., Calgary, Alberta T2P 1G1.

The Common Shares trade on the TSX under the symbol "PEY".

Corporate History

2003 Reorganization to a Trust

The Trust was formed on May 22, 2003 and commenced operations on July 1, 2003 as a result of the completion of the 2003 Arrangement. Pursuant to the 2003 Arrangement, former holders of common shares of PEDC received Trust Units, and PEDC became an indirect subsidiary of the Trust.

2008 Internal Reorganization

On January 1, 2008, the Trust completed the 2008 Arrangement. As a result of the Internal Reorganization, all of the oil and natural gas assets of the Trust were held in the Peyto Partnership, Peyto AdminCo was the administrator of the Trust and POT and PEDC was the general partner of the Partnership prior to completion of the 2010 Arrangement. Certain subsidiaries of the Trust were amalgamated pursuant to the Internal Reorganization.

2010 Reorganization to a Corporation

On January 1, 2011, the Corporation completed the 2010 Arrangement pursuant to which Peyto, directly or indirectly, acquired all of the assets and assumed all of the liabilities of the Trust. Prior to completion of the 2010 Arrangement, the Trust was a reporting issuer in all provinces of Canada and the Trust Units were listed for trading on the TSX. Following completion of the 2010 Arrangement, the Common Shares were listed for trading on the TSX concurrent with the delisting of the Trust Units, the Trust ceased to be a reporting issuer and Peyto became a reporting issuer as successor to the Trust in those jurisdictions in which the Trust was previously a reporting issuer.

Pursuant to the terms of the 2010 Arrangement, Unitholders received one Common Share for each Trust Unit held. Unitholders received an aggregate of 131,875,382 Common Shares in exchange for all of the outstanding Trust Units.

2012 Amalgamation

On December 31, 2012, Peyto completed the 2012 Amalgamation pursuant to which Peyto amalgamated with Open Range, its wholly-owned subsidiary.

Inter-Corporate Relationships

Peyto does not have any subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

General

Peyto is a Calgary, Alberta based dividend paying energy company which has been engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada since it was founded in 1998. Peyto's strategy is to enhance Shareholder value through the exploration, discovery and low cost development of oil and natural gas in the Western Canadian sedimentary basin. Peyto's portfolio of assets includes exploration, exploitation and development opportunities located primarily

in the Deep Basin of Alberta. Management's current philosophy is to fund Peyto's growth and ongoing activities from a mix of internally generated cash flow, bank financing and equity financings.

Three Year History

The following is a summary of the development of Peyto's business for the periods shown.

2012

During 2012, Peyto drilled or participated in 86 gross (72 net) oil and natural gas wells. Of the 86 gross wells, 86 wells (76 net) reached total depth as at December 31, 2012. All of the wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2012 totalled \$618 million, including the acquisition of Open Range discussed below. The average production for the year was 44,527 boe/d and the exit rate was 48,996 boe/d.

On August 14, 2012, Peyto completed the acquisition of Open Range pursuant to the 2012 Arrangement. Pursuant to the 2012 Arrangement, Peyto acquired all of the issued and outstanding common shares of Open Range for an effective total capital cost of \$187.2 million, including the assumption of approximately \$75 million in net debt. Each Open Range common share was exchanged for 0.0723 of a Common Share, resulting in the issuance of an aggregate of approximately 5.4 million Common Shares. Integration of the Open Range asset base was concluded shortly after closing of the 2012 Arrangement and Peyto's drilling activity commenced on former Open Range lands on September 17, 2012.

On December 11, 2012, Peyto completed a public offering of 4,628,750 Common Shares at a price of \$24.85 per Common Share for gross proceeds of approximately \$115 million.

In 2012, Peyto paid total dividends to Shareholders of \$101.6 million.

2013

During 2013, Peyto drilled or participated in 99 gross (93 net) oil and natural gas wells. Of the 99 gross wells, 97 wells (91 net) reached total depth as at December 31, 2013. All of the wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2013 totalled \$578 million. The average production for the year was 59,313 boe/d and the exit rate was 75,205 boe/d.

In 2013, Peyto paid total dividends to Shareholders of \$130.9 million.

2014

During 2014, Peyto drilled or participated in 123 gross (114 net) oil and natural gas wells. Of the 123 gross wells, 123 wells (114 net) reached total depth as at December 31, 2014. All of the wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2014 totalled \$690.4 million. The average production for the year was 76,372 boe/d and the exit rate was 85,700 boe/d.

On February 5, 2014, Peyto completed a public offering of 4,720,000 Common Shares at a price of \$34.00 per Common Share for gross proceeds of approximately \$160 million.

In 2014, Peyto paid total dividends to Shareholders of \$174.8 million.

SIGNIFICANT ACQUISITIONS

There were no significant acquisitions completed by the Corporation during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations*.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Peyto is a growth oriented, dividend paying publicly traded company engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada.

Principal Properties

See "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties*".

Competitive Conditions

The oil and natural gas industry is competitive in all its phases. Peyto competes with numerous other entities in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Peyto's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Peyto. Peyto's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources. Peyto believes that it has a competitive advantage to that of other oil and natural gas issuers of similar size, involved in similar areas and at a similar stage of development as a result of Peyto's low cost development of its oil and natural gas properties.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the "**Statement**") is dated February 18, 2015. The effective date of the Statement is December 31, 2014 and the preparation date of the Statement is March 3, 2015. The Report of Management and Directors on Reserves Data and Other Information on Form 51-101F3 and the Report on Reserves Data by InSite on Form 51-101F2 are attached as Schedules A and B, respectively, to this Annual Information Form.

Disclosure of Reserves Data

The reserves data set forth below (the "**Reserves Data**") is based upon an evaluation by InSite with an effective date of December 31, 2014 contained in the InSite Report. The Reserves Data summarizes the oil, liquids and natural gas reserves of Peyto and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The Reserves Data conforms with the requirements of National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") and is in accordance with the COGE Handbook. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. Peyto engaged InSite to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of Peyto's reserves are in Canada and, specifically, in the provinces of Alberta and British Columbia.

Some values set forth below may not add due to rounding.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2014
FORECAST PRICES AND COSTS

Reserves Category	RESERVES									
	Light and Medium Oil		Solution Gas		Natural Gas		Natural Gas Liquids		Total BOE	
	Gross (Mbbbl)	Net (Mbbbl)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbbl)	Net (Mbbbl)	Gross (MBOE)	Net (MBOE)
Proved										
Developed Producing	57.6	53.2	286.1	262.8	1,058,527.2	980,312.8	23,541.5	15,814.1	200,068.0	179,296.5
Developed Non-Producing	-	-	-	-	13,166.1	11,770.4	418.2	264.0	2,612.5	2,225.7
Undeveloped	-	-	-	-	735,039.7	689,428.9	22,231.9	16,574.1	144,738.6	131,479.0
Total Proved	57.6	53.2	286.1	262.8	1,806,733.0	1,681,512.1	46,191.6	32,652.3	347,419.0	313,001.2
Probable	18.4	16.4	103.3	94.7	980,039.1	910,082.6	20,645.9	14,892.5	184,021.4	166,605.1
Total Proved Plus Probable	76.0	69.6	389.4	357.5	2,786,772.1	2,591,594.6	66,837.5	47,544.8	531,440.4	479,606.3

NET PRESENT VALUES OF FUTURE NET REVENUE

Reserves Category	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved										
Developed Producing	5,366,674.0	3,446,510.1	2,550,949.1	2,048,339.4	1,728,927.7	4,416,859.6	2,922,663.6	2,213,073.3	1,808,220.0	1,547,101.6
Developed Non-Producing	59,394.8	31,127.2	18,703.9	12,487.6	9,007.7	44,545.9	23,245.1	13,880.1	9,193.4	6,570.8
Undeveloped	2,747,274.1	1,374,615.4	718,649.5	360,272.3	145,209.1	2,059,839.5	989,156.5	472,269.4	188,168.2	17,427.2
Total Proved	8,173,342.9	4,852,252.7	3,288,302.5	2,421,099.3	1,883,144.5	6,521,244.9	3,935,065.2	2,699,222.9	2,005,581.6	1,571,099.6
Probable Additional	4,821,535.9	2,308,642.1	1,310,529.1	819,391.4	541,355.9	3,602,835.6	1,702,507.5	940,061.8	563,910.1	351,497.4
Total Proved Plus Probable	12,994,878.7	7,160,894.8	4,598,831.6	3,240,490.7	2,424,500.4	10,124,080.5	5,637,572.7	3,639,284.7	2,569,491.7	1,922,597.0

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) AS OF DECEMBER 31, 2014

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes (M\$)	Income Taxes (M\$)	Future Net Revenue After Income Taxes (M\$)
Proved Reserves	15,070,537.3	1,798,302.9	3,149,979.8	1,720,831.4	228,080.3	8,173,342.9	1,652,098.0	6,521,244.9
Proved Plus Probable Reserves	23,691,638.2	2,775,166.0	4,645,843.2	2,962,622.9	313,127.3	12,994,878.7	2,870,798.3	10,124,080.5

FUTURE NET REVENUE BY PRODUCTION GROUP AS OF DECEMBER 31, 2014

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (Discounted At 10%/Year)	
		(M\$)	(\$/bbl or \$/Mcf)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	2,660.5	50.03
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas and by-products from oil wells)	3,170,311.6	1.89
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	3,344.2	48.08
	Heavy Oil (including solution gas and other by-products)	-	-
	Natural Gas (including by-products but excluding solution gas from oil wells)	4,421,076.0	1.71

Note:

- (1) Net revenue does not include other income (i.e. processing income).

Definitions and Other Notes

In the tables set forth above in "Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data" and elsewhere in this Annual Information Form the following definitions and other notes are applicable:

2. **"Gross"** means:

- (a) in relation to Peyto's interest in production and reserves, its "Peyto gross reserves", which are Peyto's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of Peyto;
- (b) in relation to wells, the total number of wells in which Peyto has an interest; and
- (c) in relation to properties, the total area of properties in which Peyto has an interest.

3. **"Net"** means:

- (a) in relation to Peyto's interest in production and reserves, its "Peyto net reserves", which are Peyto's interest (operating and non-operating) share after deduction of royalties obligations, plus Peyto's royalty interest in production or reserves;
- (b) in relation to wells, the number of wells obtained by aggregating Peyto's working interest in each of its gross wells; and
- (c) in relation to Peyto's interest in a property, the total area in which Peyto has an interest multiplied by the working interest owned by Peyto.

4. Definitions used for reserve categories are as follows:

The following definitions apply to both estimates of individual reserves entities and the aggregate of reserves for multiple entities.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- (a) analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and

- (c) specified economic conditions (see the discussion of "*Economic Assumptions*" below).

Reserves are classified according to the degree of certainty associated with the estimates:

- (a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

"Economic Assumptions" will be the prices and costs used in the estimate, namely:

- (a) constant prices and costs as at the last day of Peyto's financial year; and
- (b) forecast prices and costs.

Development and Production Status

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing:
 - (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.
 - (ii) Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

5. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which Peyto is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table under "*Statement of Reserves Data and Other Oil and Gas Information – Pricing Assumptions*" identifies benchmark reference pricing that apply to Peyto.

6. Future income tax expenses estimate:

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes;
- (b) without deducting estimated future costs that are not deductible in computing taxable income;
- (c) taking into account estimated tax credits and allowances; and
- (d) applying to the future pre-tax net cash flows relating to Peyto's oil and gas activities the appropriate year-end statutory rates, taking into account future tax rates already legislated.

7. "**Development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
- (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
- (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
- (d) provide improved recovery systems.

8. "**Development well**" means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

9. "**Exploration costs**" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
- (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
- (c) dry hole contributions and bottom hole contributions;
- (d) costs of drilling and equipping exploratory wells; and
- (e) costs of drilling exploratory type stratigraphic test wells.

10. **"Exploration well"** means a well that is not a development well, a service well or a stratigraphic test well.

11. **"Service well"** means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

12. Numbers may not add due to rounding.

The estimates of future net revenue presented in the tables above do not represent fair market value.

Pricing Assumptions

The following sets forth the benchmark reference prices, as at December 31, 2014, reflected in the Reserves Data. These price assumptions were provided to Peyto by InSite, Peyto's independent qualified reserves evaluator.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS AS OF DECEMBER 31, 2014 FORECAST PRICES AND COSTS

Year	OIL				NATURAL GAS LIQUIDS					Inflation Rates ⁽¹⁾ %/Year	Exchange Rate ⁽²⁾ (\$US/\$Cdn)
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price 40° API (\$Cdn/bbl)	Hardisty Heavy 12° API (\$Cdn/bbl)	Cromer Medium 29.3° API (\$Cdn/bbl)	Natural Gas Aeco Gas Price (\$Cdn/MMBtu)	Condensate (\$Cdn/bbl)	Butane (\$Cdn/bbl)	Propane (\$Cdn/bbl)	Ethane (\$Cdn/bbl)		
Forecast											
2015	65.00	68.58	45.58	63.78	3.58	75.44	48.01	34.29	10.55	2.0	1.16
2016	75.00	80.07	56.81	74.46	4.15	86.47	56.05	40.03	12.33	2.0	1.16
2017	80.00	85.74	62.22	79.74	4.43	90.88	60.02	42.87	13.21	2.0	1.16
2018	85.00	91.41	67.61	85.01	4.71	96.89	63.99	45.70	14.08	2.0	1.16
2019	90.00	97.07	73.00	90.28	4.99	102.90	67.95	48.54	14.96	2.0	1.16
2020	95.00	102.74	78.38	95.54	5.27	108.90	71.92	51.37	15.83	2.0	1.16
2021	96.90	104.79	80.15	97.46	5.55	111.08	73.35	52.40	16.70	2.0	1.16
2022	98.84	106.89	81.95	99.41	5.67	113.30	74.82	53.44	17.05	2.0	1.16
2023	100.81	109.02	83.79	101.39	5.78	115.57	76.32	54.51	17.40	2.0	1.16
2024	102.83	111.21	85.67	103.42	5.89	117.88	77.84	55.60	17.76	2.0	1.16
Thereafter	2%	2%	2%	2%	2%	2%	2%	2%	2%	2.0	1.16

Notes:

- (1) Inflation rates for forecasting prices and costs.
- (2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized by Peyto for the year-ended December 31, 2014 were \$4.30/Mcf for natural gas and \$70.68/bbl for crude oil and natural gas liquids.

Reconciliations of Changes in Reserves and Future Revenue

RECONCILIATION OF PEYTO GROSS (WORKING INTEREST) RESERVES BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

Factors	Light and Medium Oil			Natural Gas			Natural Gas Liquids		
	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)
December 31, 2013	54.8	20.5	75.3	1,563,277.4	840,229.0	2,403,506.4	43,836.9	23,259.9	67,096.8
Extensions	-	-	-	247,405.4	221,485.8	468,891.2	3,877.8	3,303.0	7,180.8
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revision	10.5	(2.1)	8.4	(22,317.8)	(3,676.2)	(25,994.0)	(1,841.3)	(4,421.3)	(6,262.6)
Discoveries	-	-	-	168,861.2	(75,029.3)	93,831.9	1,526.7	56.5	1,583.2
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	(2,970.2)	(2,970.2)	-	(17.5)	(17.5)
Category Transfer	-	-	-	-	-	-	1,537.6	(1,537.6)	-
Production	(7.7)	-	(7.7)	(150,493.2)	-	(150,493.2)	(2,754.4)	-	(2,754.4)
December 31, 2014	57.6	18.4	76.0	1,806,733.0	980,039.1	2,786,772.1	46,183.3	20,643.0	66,826.3

Note:

- (1) Numbers may not add due to rounding.

RECONCILIATION OF PEYTO NET RESERVES (NET OF ROYALTIES) BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

Factors	Light and Medium Oil			Natural Gas			Natural Gas Liquids		
	Net Proved (Mbbbl)	Net Probable (Mbbbl)	Net Proved Plus Probable (Mbbbl)	Net Proved (MMcf)	Net Probable (MMcf)	Net Proved Plus Probable (MMcf)	Net Proved (Mbbbl)	Net Probable (Mbbbl)	Net Proved Plus Probable (Mbbbl)
December 31, 2013	50.7	18.6	69.3	1,452,535.2	780,841.3	2,233,376.5	30,924.1	16,911.8	47,835.9
Extensions	-	-	-	233,109.2	207,379.3	440,488.5	2,921.1	2,468.5	5,389.6
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revision	9.8	(2.2)	7.6	(29,825.4)	(4,207.8)	(34,033.3)	(1,516.3)	(3,350.4)	(4,866.7)
Discoveries	-	-	-	158,842.1	(71,114.9)	87,727.2	1,171.0	32.3	1,203.3
Acquisitions	-	-	-	-	-	-	-	-	-
Dispositions	-	-	-	-	(2,815.4)	(2,815.4)	-	(13.1)	(13.1)
Category Transfer	-	-	-	-	-	-	1,158.4	(1,158.4)	-
Production	(7.3)	-	(7.3)	(133,149.0)	-	(133,149.0)	(2,011.2)	-	(2,011.2)
December 31, 2014	53.2	16.4	69.6	1,681,512.1	910,082.5	2,591,594.6	32,647.1	14,890.7	47,537.8

Note:

- (1) Numbers may not add due to rounding.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to the Corporation in the most recent three financial years and, in the aggregate, before that time.

Proved Undeveloped Reserves

Peyto's proved undeveloped reserves are comprised mainly of wells that are budgeted and scheduled to be drilled in the next five years. Peyto also has proved undeveloped reserves behind pipe (mostly up-hole zones) which will be brought on production once the primary zones have been depleted. Where there is economical justification to accelerate production from secondary zones, Peyto will often proceed to re-complete the subject well bores or drill twin wells for secondary zones.

Year	Light and Medium Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)	
	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾
Prior to 2009	-	-	29,973.6	105,977.3	525.9	2,283.5
2009	-	-	95,693.4	213,212.0	2,101.4	4,676.8
2010	-	-	120,072.3	323,576.3	1,488.8	6,194.6
2011	-	-	136,918.8	400,992.9	4,678.1	18,222.0
2012	-	-	207,263.1	528,431.1	2,840.6	16,853.1
2013	-	-	183,795.8	575,819.1	2,807.7	14,868.8
2014	-	-	233,109.2	689,428.9	2,921.1	16,574.1

Note:

- (1) Cumulative at Year-End = Residual Cumulative of Previous Year plus 1st Attributed.

Probable Undeveloped Reserves

Peyto's probable additional reserves are comprised of performance wedges from producing wells (approximately 18%), step out drilling locations and bypassed zones, which are deemed too probabilistic to be classified as proved. Peyto typically assigns probable reserves to undrilled locations that are scheduled to be drilled in the next 60 months. Peyto has historically been successful converting these probable assignments to proven producing entities.

Year	Light and Medium Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)	
	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾
Prior to 2009	-	-	19,096.7	95,346.6	384.7	1,916.7
2009	-	-	32,894.3	126,390.1	843.5	2,701.0
2010	-	-	150,243.4	261,774.3	1,633.9	3,917.9
2011	-	-	106,633.7	305,188.5	2,029.7	5,845.8
2012	-	-	107,240.0	344,374.4	1,313.2	6,365.3
2013	-	-	251,992.6	527,504.5	3,324.1	9,436.0
2014	-	-	231,695.7	601,455.4	2,761.7	8,904.5

Note:

- (1) Cumulative at Year-End = Residual Cumulative of Previous Year plus 1st Attributed.

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and natural gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

While we do not anticipate any significant economic factors or significant uncertainties will affect any particular components of the reserves data, the reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond our control. See "Risk Factors".

Future Development Costs

The following table sets forth development costs deducted in the estimation of Peyto's future net revenue attributable to the reserve categories noted below.

Year	Forecast Prices and Costs			
	Proved Reserves		Proved Plus Probable Reserves	
	0% (M\$)	10% (M\$)	0% (M\$)	10% (M\$)
2015	449,202.8	430,972.9	609,449.4	584,484.0
2016	483,394.2	422,140.8	648,439.6	566,472.7
2017	315,148.7	249,747.3	585,938.9	463,806.6
2018	305,543.7	218,900.2	594,797.4	426,129.8
Thereafter	167,542.0	97,211.8	523,997.6	322,217.1
Total	1,720,831.4	1,418,973.0	2,962,622.9	2,363,110.2
Change from 2013	314,503.6	258,729.2	412,879.1	291,458.7

Peyto anticipates that funding for the future development costs will include internally generated cash flow, debt and equity financing.

2014 Finding, Development and Acquisition Costs Company Interest Reserves (Forecast Prices and Costs)

Finding, Development and Acquisition Costs Including Changes in Future Development Capital ("FDC")	Proved Developed Producing Reserves	Proved Reserves	Proved Plus Probable Reserves
Exploration and Development Capital Expenditures (M\$)	690,389	690,389	690,389
Exploration and Development Change in FDC (M\$)	-	314,504	412,879
Exploration and Development Capital including Change in FDC (M\$)	690,389	1,004,893	1,103,268
Exploration and Development Reserve Additions including Revisions (Mboe) ⁽¹⁾	51,062	70,801	91,478
Finding and Development Cost (\$/BOE) ⁽¹⁾	13.52	14.19	12.06
Net Acquisition Capital (M\$)	-	-	-
Net Acquisition Reserve Additions (Mboe) ⁽¹⁾	-	-	-
Net Acquisition Cost (\$/BOE) ⁽¹⁾	-	-	-
Total Capital Expenditures including Net Acquisitions (M\$)	690,389	690,389	690,389
Total Changes in FDC (M\$)	-	314,504	412,879
Total Capital including Change in FDC (M\$)	690,389	1,004,893	1,103,268
Reserve Additions including Revisions and Net Acquisitions (Mboe) ⁽¹⁾	51,062	70,801	91,478
Finding, Development and Acquisition Cost including Change in FDC (\$/BOE) ⁽¹⁾	13.52	14.19	12.06

Note:

- (1) Natural gas has been converted to barrels of oil equivalent on the basis of 6 Mcf of natural gas being equal to one barrel of oil.

Three Year Historical Finding, Development and Acquisition Costs \$/BOE

Year	Proved Developed Producing	Total Proved	Total Proved Plus Probable
2012	13.34	12.24	10.07
2013	14.08	13.39	11.16
2014	13.52	14.19	12.06
Three Year Average	13.65	13.27	11.10

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. The use of boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 bbl, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indication of value.

Other Oil and Gas Information

Oil and Gas Properties

The following is a description of Peyto's principal oil and natural gas properties on production or under development as at December 31, 2014. The term "net", when used to describe Peyto's share of production, means the total of Peyto's working interest share before deduction of royalties owned by others. Reserve amounts are stated, before deduction of royalties, at December 31, 2014, based on escalating cost and price assumptions (gross) as evaluated in the InSite Report (see "*Statement of Reserves Data and Other Oil and Gas Information*"). Unless otherwise specified, gross and net acres and well count information are as at December 31, 2014. Information in respect of current production is average production, net to Peyto, for the month of March 2014, except where otherwise indicated. The estimate of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

General

Peyto operates in three core areas, namely the Greater Sundance, Northern Area and Brazeau River areas of Alberta. Within the Greater Sundance area there are four sub-areas, Sundance, Nosehill, Wildhay and Ansell, all of which have Peyto operated gas processing facilities that are interconnected. Total capital expenditures for 2014 were \$690.4 million. In total, Peyto anticipates investing \$560 to \$600 million, drilling approximately 123 to 137 gross wells, in 2015.

Greater Sundance Area

The Greater Sundance area is located 50 kilometers west of Edson, Alberta, from Township 50-56 and Range 19-24 west of the fifth meridian. Peyto began its operations in this area in the spring of 1999. This area now encompasses the Sundance, Wildhay, Nosehill and Ansell fields and is generally referred to as the "Greater Sundance area".

Peyto has an average 80.0% working interest in 238,720 gross (190,991 net) acres of land and operates 99% of its production in the area.

The geology of the area is characterized by multi-zone potential for liquids-rich natural gas. Peyto currently produces gas from the Belly River, Cardium, Viking, Notikewin, Falher, Wilrich, Bluesky and Cadomin formations.

During 2014, Peyto spent \$591 million in capital to drill, case, complete, equip and tie-in 101 new net wells in the Greater Sundance area. Included in this capital is Peyto's proportionate share of land and seismic acquisition costs as well as plant costs. Peyto is currently producing approximately 75,670 boe/d of natural gas and natural gas liquids from this area. The Greater Sundance area includes several properties that collectively accounted for:

- 86% of 2014 capital expenditures
- 92% of 2014 production volume
- 87% of proved and probable reserves at December 31, 2014
- 31% of undeveloped land holding at December 31, 2014

Peyto currently plans to invest approximately \$485 million of the 2015 capital program in this area. Peyto is planning to drill another 114 gross (105 net) wells in the Greater Sundance area over the 2015 calendar year. The majority of these wells are anticipated to be Cardium, Notikewin, Wilrich, Bluesky and Falher horizontal well producers.

Peyto owns and operates five 100% working interest gas processing plants and one joint plant (69% working interest) located in the Greater Sundance area. Two of the plants are located in Oldman (55-21W5), the third one is located in Wildhay (55-23W5), the fourth one is located in Nosehill (55-20W5) and the fifth and sixth plants are located in Ansell (53-20W5 and 53-19W5). The majority of Peyto's production is processed through these plants, with 1,030 gross (893 net) producing zones currently tied-in. Gross natural gas production at the facilities is approximately 460 MMcf/d, with gross natural gas liquids production being approximately 9,940 bbls/d.

Northern Area

The Northern Area includes producing properties in the following regions: Smoky, Kakwa, Chime, Kiskiu, Chicken and Cutbank and it encompasses Townships 57-64 and Ranges 2-7 west of the sixth meridian. The Kakwa gas plant, which services producing properties in Smoky, Kakwa, Chime and Kiskiu (together referred to as "**Greater Kakwa**") is located 40 km northeast of Grande Cache, Alberta. Peyto began operations in this area in the winter of 2002/2003.

Peyto has an average 93% working interest in 130,560 gross (121,952 net) acres of land and operates 98% of its production in the area.

The geology of the area indicates multi-zone potential for liquids-rich natural gas. Peyto currently produces gas from the Belly River, Dunvegan, Chinook and Cardium formations. The majority of Peyto's current production comes from the Cardium formation, which exists as a low permeability blanket sand.

In 2014, Peyto drilled and completed 0 gross (0 net) wells in the Northern Area. Peyto is currently producing approximately 3,724 boe/d of gross natural gas and natural gas liquids from this area. The Northern Area accounted for:

- 0% of 2014 capital expenditures
- 4% of 2014 production volume
- 5% of proved and probable reserves at December 31, 2014
- 33% of undeveloped land holding at December 31, 2014

Peyto currently plans to invest approximately \$11 million of the 2015 capital program in this area. Peyto is planning to drill 2 gross (2 net) wells over the 2015 calendar year.

Peyto owns a 100% working interest in and operates its gas processing plant in Smoky/Kakwa. The majority of Peyto's production from the area is processed through this plant with 65 producing zones currently tied in. Gross production from this facility is approximately 14.6 MMcf/d of natural gas with approximately 835 bbls/d of natural gas liquids.

Peyto owns a 100% working interest in and operates its gas processing plant in Cutbank. The majority of the production around the Cutbank area is processed through this plant with 21 producing zones currently tied in. Gross production from this facility is approximately 1.2 MMcf/d of natural gas with approximately 43 bbls/d of natural gas liquids.

Brazeau River

The Brazeau River area is located 180 km southwest of Edmonton, Alberta, from Township 41-44 and Range 12-13 west of the fifth meridian. Peyto began operations in this area in late 2013.

Peyto has an average 96% working interest in 72,640 gross (69,692 net) acres of land and operates 99% of its production in the area.

The geology of the area indicates multi-zone potential for liquids-rich natural gas. Peyto currently produces gas from the Belly River, Wilrich and Falher formations. The majority of Peyto's current production comes from the Wilrich formation, which exists as a low permeability blanket sand.

In 2014, Peyto drilled and completed 12 gross (11.7 net) wells in Brazeau. Peyto is currently producing approximately 4,440 boe/d of gross natural gas and natural gas liquids from this area. The Brazeau area accounted for:

- 2% of 2014 production volume
- 6% of proved and probable reserves at December 31, 2014
- 22% of undeveloped land holding at December 31, 2014

Peyto currently plans to invest approximately \$94 million of the 2015 capital program in this area. Peyto is planning to drill 19 gross (19 net) wells over the 2015 calendar year. The majority of these wells are anticipated to be Wilrich and Falher horizontal well producers.

Peyto owns a 100% working interest in and operates its gas processing plant in Brazeau. The majority of the production from the area is processed through this plant with 17 producing zones currently tied in. Gross production from this facility is approximately 27 MMcf/d of natural gas with approximately 227 bbls/d of natural gas liquids.

Miscellaneous

Peyto has a number of minor working interests in non-operated wells throughout Alberta. These properties account for less than 1% of Peyto's current production. The anticipated capital spending for these areas is minimal.

Oil and Gas Wells

The following table sets forth the number and status of wells in which Peyto had a working interest as at December 31, 2014.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing ⁽¹⁾	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	5.0	3.2	2.0	1.1	1,075.0	897.9	107.0	87.3
British Columbia	-	-	-	-	1.0	-	12.0	0.5
Total	5.0	3.2	2.0	1.1	1,076.0	897.9	119.0	87.8

Note:

- (1) The non-producing oil wells and natural gas wells capable of production but which are not currently producing will be re-evaluated with respect to future product prices, proximity to facility infrastructure, design of future exploration and development programs and access to capital.

Land Holdings

The following table sets out Peyto's developed and undeveloped land holdings as at December 31, 2014.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	172,061	134,068	340,480	303,951	512,541	438,019
British Columbia	4,793	265	4,483	182	9,275	447
Total	176,854	134,333	344,963	304,133	521,816	438,467

Note:

- (1) Numbers may not add due to rounding.

Peyto expects that rights to explore, develop and exploit 23,296 net acres of its undeveloped land holdings will expire by December 31, 2015.

Forward Contracts

Peyto is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. Peyto enters into these contracts with well established counter-parties, all of which are members of its banking syndicate, for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices.

A summary of contracts outstanding, as at the date hereof, in respect of the hedging activities are as follows:

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
November 1, 2013 to March 31, 2015	Fixed Price	5,000 GJ	\$3.6025/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.82/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.44/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.52/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.4725/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.60/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.27/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.41/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.5575/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.465/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.43/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.54/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.50/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.25/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.25/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.23/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.23/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.23/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.31/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.3525/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.40/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.49/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.54/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.61/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.70/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.75/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.81/GJ
April 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.83/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.81/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.95/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.05/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.12/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.20/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.44/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.585/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.78/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.60/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.58/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.68/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.68/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.80/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.87/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.50/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.57/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.69/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.50/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.26/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.10/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.86/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.85/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.90/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.00/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.00/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.00/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.9025/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.05/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$4.01/GJ
November 1, 2014 to March 31, 2015	Fixed Price	5,000 GJ	\$3.94/GJ

Natural Gas Period Hedged	Type	Daily Volume	Price (CAD)
April 1, 2015 to March 31, 2016	Fixed Price	5,000 GJ	\$2.925/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.37/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.43/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.40/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.35/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.35/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.24/GJ
April 1, 2016 to October 31, 2016	Fixed Price	5,000 GJ	\$3.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.97/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.855/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.98/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.83/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$3.05/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.90/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
April 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ
November 1, 2015 to March 31, 2017	Fixed Price	5,000 GJ	\$2.975/GJ
November 1, 2016 to March 31, 2017	Fixed Price	5,000 GJ	\$2.95/GJ

Tax Horizon

No material cash income taxes were paid by Peyto for the year ended December 31, 2014. Within the context of current commodity prices and capital spending plans, Peyto does not expect to be taxable before 2016. This future tax horizon will also fluctuate depending on the ultimate nature and timing of Peyto's acquisitions and dispositions. If crude oil and natural gas prices were to strengthen beyond the levels anticipated by the current forward market, Peyto's tax pools would be utilized more quickly and it may experience higher than expected cash taxes or payment of such taxes in an earlier time period. However, it is difficult to give guidance on future taxability as Peyto operates within an industry that constantly changes given acquisitions, divestments, capital spending, dividends and overall commodity prices. See "*Risk Factors*".

Additional Information Concerning Abandonment and Reclamation Costs

Peyto bases its estimates for the costs of abandonment and reclamation of surface leases, wells, facilities and pipelines on previous experience of management with similar well sites and facility locations. As at December 31, 2014, management expected to incur such costs on 990 net wells. The total of such costs, net of estimated salvage value, expected to be incurred is \$214.1 million (undiscounted) and \$100.8 million (discounted at 2.33%). Future net revenue figures set forth in this report only include abandonment liabilities for wells that have been assigned reserves. Within the next three financial years, it is expected such costs will total approximately \$3.5 million (undiscounted) in aggregate.

Capital Expenditures

The following table summarizes capital expenditures (net of incentives and net of certain proceeds and including capitalized general and administrative expenses) related to Peyto's activities for the year-ended December 31, 2014:

Property acquisition costs			
Proved properties	MM	\$	0.3
Unproved properties			12.8
Exploration costs			34.7
Development costs			642.6
Total	MM	\$	<u>690.4</u>

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells in which Peyto participated during the year-ended December 31, 2014:

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Oil	-	-	-	-
Natural Gas	5.0	4.9	118.0	109.2
Service	-	-	-	-
Dry	-	-	-	-
Total:	5.0	4.9	118.0	109.2

For a description of Peyto's most important current and likely exploration and development activities, see "Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties".

Production Estimates

The following table sets out the volume of Peyto's production before royalties estimated for the year-ended December 31, 2015 which is reflected in the estimate of gross proved reserves and probable reserves disclosed in the tables contained under "Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data".

	Light and Medium Oil	Natural Gas	Natural Gas Liquids	BOE
	(bbls/d)	(MMcf/d)	(bbls/d)	(boe/d)
Proved				
Greater Sundance	7	375.6	6,550	69,152
Northern Area	11	11.4	601	2,504
Brazeau	-	24.5	353	4,427
Other	2	6.0	55	1,081
Total Proved 2015	20	417.5	7,559	77,164
Proved Plus Probable				
Greater Sundance	7	418.4	7,070	76,814
Northern Area	11	11.4	605	2,521
Brazeau	-	31.8	461	5,761
Other	2	7.2	100	1,305
Total Proved Plus Probable 2015	20	468.8	8,236	86,401

Note:

(1) Numbers may not add due to rounding.

Production History and Prices Received

The following table summarizes certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

	2014			
	Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Daily Production ⁽¹⁾				
Light and Medium Crude Oil (bbls/d) ⁽²⁾	-	-	-	-
Gas (Mcf/d)	451,044	420,538	388,407	389,002
NGLs (bbls/d)	8,077	7,502	7,568	7,375
Combined (boe/d)	83,251	77,592	72,302	72,209
Average Price Received				
Light and Medium Crude Oil (\$/bbl)	-	-	-	-
Gas (\$/Mcf)	4.22	4.18	4.37	4.45
NGLs (\$/bbl)	55.47	71.01	77.30	80.49
Combined (\$/McfGE)	4.71	4.92	5.26	5.37
Royalties Paid (\$/McfGE)	0.24	0.34	0.45	0.46
Production Costs including transportation (\$/McfGE)	0.44	0.46	0.49	0.52
Netback Received (\$/McfGE)	4.03	4.12	4.32	4.39

Notes:

- (1) Before deduction of royalties.
- (2) Light and Medium Crude Oil production is included in NGLs production.
- (3) Numbers may not add due to rounding.

The following table indicates Peyto's average daily production from its important fields, and in total, for the year-ended December 31, 2014.

	Light and Medium Crude Oil (bbls/d)	Gas (Mmcf/d)	NGLS (bbls/d)	BOE (boe/d)
Greater Sundance	8	379.1	6,762	69,951
Northern Area	11	12.5	666	2,758
Brazeau	-	10.3	143	1,854
Other Properties	1	10.5	40	1,808
Total Alberta	20	412.4	7,611	76,371
Total British Columbia	1	-	-	1
Total	21	412.4	7,611	76,372

Note:

- (1) Numbers may not add due to rounding.

DIVIDENDS

In conjunction with the completion of the 2010 Arrangement, the board of directors of the Corporation established a dividend policy of paying monthly dividends to the holders of Common Shares. The payment of dividends by the Corporation commenced with the first dividend declared to Shareholders of record on January 31, 2011 in the amount of \$0.06 per Common Share, made payable February 15, 2011. It is expected that cash dividends will continue to be made by the Corporation on approximately the 15th day of each month to holders of Common Shares of record on the immediately preceding dividend record date.

Peyto's policy is to balance dividends to shareholders with earnings and cash flow; and balance funding for the capital program with cash flow, equity and available bank lines. The board of directors of the Corporation is prepared to adjust the payout ratio levels (dividends declared divided by funds from operations) to achieve the desired dividends while maintaining an appropriate capital structure. See "*Risk Factors – Dividends*".

The Corporation's credit facility and the terms of its outstanding senior unsecured notes ("**Senior Notes**") of the Corporation provide that if the Corporation is in default under the credit facility or the Senior Notes, as applicable, the indebtedness may be accelerated by the lenders, and the ability to pay dividends to Shareholders may be restricted. Dividends are only permitted under the credit facility and the terms of the Senior Notes when no event of default under the credit facility or the Senior Notes, as applicable, has occurred and is continuing.

Dividend History

Following the 2010 Arrangement, the following dividends were paid by the Corporation to Shareholders for the periods indicated:

For the Year Ended	Aggregate Annual Dividend per Common Share
2011	\$0.72
2012	\$0.72
2013	\$0.88
2014	\$1.14

DESCRIPTION OF SHARE CAPITAL

Peyto is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per share at meetings of Shareholders, to receive dividends if, as and when declared by the board of directors of Peyto and to receive pro rata the remaining property and assets of Peyto upon its dissolution or winding-up, subject the rights of shares having priority over the Common Shares.

MARKET FOR SECURITIES

Common Shares

The Common Shares commenced trading on the TSX under the symbol "PEY" on January 7, 2011 following completion of the 2010 Arrangement. The following table sets forth the trading history of the Common Shares for the periods indicated as reported by the TSX:

	Price Range		Volume
	High (\$)	Low (\$)	
<u>2015</u>			
January	35.03	29.67	9,784,120
February	36.53	32.32	7,563,063
March (1 to 17)	36.13	32.32	4,051,121
<u>2014</u>			
January	34.66	32.06	9,537,215
February	36.76	31.25	13,732,458
March	37.87	34.31	7,361,257
April	40.70	37.22	7,532,468
May	40.70	36.46	9,474,106
June	41.95	38.00	6,483,912
July	40.87	36.45	9,547,847
August	38.70	34.60	10,545,674
September	38.68	33.72	11,104,705
October	35.92	30.69	10,413,556
November	37.41	30.50	10,109,999
December	36.33	30.77	15,540,540

ESCROWED SECURITIES

There are no securities of the Corporation currently held in escrow.

DIRECTORS AND OFFICERS OF PEYTO

The name, municipality of residence, principal occupation for the prior five years of each of the current directors and officers of Peyto are as follows:

Name and Municipality of Residence	Position with Peyto	Principal Occupation
Donald Gray Calgary, Alberta Canada	Co-founder and Director since 1998 and Chairman of the Board since 2009	Private Investor; Chairman of Gear Energy Corporation, a private oil and natural gas company, since January 2010; President of EIQ Capital Corp., a private capital management company, since May 2007; Chairman of the Board of Petrus Resources Ltd., a private oil and gas company, since 2010; prior thereto, Mr. Gray was the Chief Executive Officer of Peyto from August 2006 to January 2007; prior thereto, Mr. Gray was the President and Chief Executive Officer of Peyto from October 1998 to August 2006
Michael MacBean ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta Canada	Director since 2003 and Lead Independent Director since 2009	Senior Managing Director of TriWest Capital Partners since May 12, 2010; prior thereto, Chief Executive Officer of Diamond Energy Services LP, an oil services partnership, since October 1998
Brian Davis ⁽¹⁾⁽²⁾⁽³⁾ Houston, Texas United States	Director since 2006	Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994
Gregory Fletcher ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta Canada	Director since 2007	President of Sierra Energy Inc., a private oil and gas production company, since 1997
Darren Gee Calgary, Alberta Canada	President, Chief Executive Officer and Director since 2007	President and Chief Executive Officer of Peyto since January 2007 and President of Peyto since August 2006; prior thereto, Mr. Gee was the Vice-President, Engineering of Peyto from March 2001 to August 2006
Stephen J. Chetner Calgary, Alberta Canada	Corporate Secretary since 2000 and Director since 2009	Partner of Burnet, Duckworth & Palmer LLP
Scott Robinson Calgary, Alberta Canada	Executive Vice-President and Chief Operating Officer since 2006 and Director since May 2010	Executive Vice-President and Chief Operating Officer of Peyto since August 2006; prior thereto, Mr. Robinson was the Vice-President, Operations of Peyto from January 2004 to August 2006
Timothy Louie Calgary, Alberta Canada	Vice-President, Land	Vice-President, Land of Peyto since January 2012; prior thereto, Mr. Louie was Land Manager of Daylight Energy Ltd. from April 2005 to December 2011
Jean-Paul (JP) Lachance Calgary, Alberta Canada	Vice-President, Exploitation	Vice-President, Exploitation of Peyto since September 2011; prior thereto, Mr. Lachance was the Vice-President, Engineering of ProspEx Resources Ltd. from October 2004 to May 2011
Kathy Turgeon Calgary, Alberta Canada	Vice-President, Finance and Chief Financial Officer	Vice-President, Finance and Chief Financial Officer since November 30, 2007; prior thereto Vice-President, Finance of Peyto from January 2006 to November 2007; prior thereto, Ms. Turgeon was the Controller of Peyto from April 2004 to January 2006
David Thomas Calgary, Alberta Canada	Vice-President, Exploration	Vice-President, Exploration of Peyto since November 1, 2010; prior thereto, Senior Geologist with Peyto since 2005
Lee Curran Calgary, Alberta	Vice-President, Drilling and Completions	Vice-President, Drilling and Completions of Peyto since January 1, 2015; prior thereto, Engineer with Peyto since 2006

Name and Municipality of Residence	Position with Peyto	Principal Occupation
Canada		
Todd Burdick Calgary, Alberta Canada	Vice-President, Production	Vice-President, Production of Peyto since January 1, 2015; prior thereto, Engineer with Peyto since 2004

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation and Nominating Committee.
- (3) Member of the Reserves Committee.
- (4) Peyto does not have an executive committee.
- (5) Peyto directors shall hold office until the next annual general meeting of the Shareholders or until each director's successor is appointed or elected pursuant to the ABCA.
- (6) The period of time served as a director or officer of Peyto includes the period of time served as a director of Peyto AdminCo or an officer of PEDC, where and as applicable, prior to the completion of the 2010 Arrangement.

As at March 18, 2015, the directors and executive officers of Peyto, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 6.6 million Common Shares, or approximately 4.3% of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or officer of Peyto, or a shareholder holding a sufficient number of securities of Peyto to affect materially the control of Peyto is, as at the date hereof, or has been within the 10 years before the date hereof, a director, or executive officer of any company that: (i) while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) while such person was acting in that capacity or within a year of such person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or officer of Peyto, or a shareholder holding a sufficient number of securities of Peyto to affect materially the control of Peyto (or any personal holding company of such person), has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

No director or officer of Peyto, or a shareholder holding sufficient securities of Peyto to affect materially the control of Peyto, or a personal holding company of any such persons, has, within the 10 years preceding the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of Peyto will be subject in connection with the operations of Peyto. In particular, certain of the directors and officers of Peyto are involved in managerial or director positions with other oil and natural gas companies whose operations may, from time to time, be in direct competition with those of Peyto or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Peyto. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or

agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided in the ABCA. As at the date hereof, Peyto is not aware of any existing material conflicts of interest between Peyto and any director or officer of Peyto.

Personnel

As at December 31, 2014, Peyto, directly or indirectly, employed 48 head office employees. Contract operators are retained for all field operations.

Audit Committee

Members

The Audit Committee currently has three members, Michael MacBean (Chairman), Brian Davis and Gregory Fletcher, none of whom have a direct or indirect material relationship with Peyto and each of whom is financially literate, meaning the individual has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can be expected to be raised by Peyto's financial statements.

The following is a description of the education and experience of each member of the Audit Committee.

Michael MacBean

Mr. MacBean is the Chairman of the Audit Committee. Mr. MacBean is primarily engaged as a Senior Managing Director of TriWest Capital Partners and, prior thereto, Chief Executive Officer of Diamond Energy Services LP, a partnership engaged in the energy services sector. From 1995 through 1998, Mr. MacBean served as Controller and subsequently Senior Investment Analyst for ARC Financial Corporation. During this time Mr. MacBean also served as Vice-President, Finance for ARC Energy Trust. Prior to 1995, Mr. MacBean was the Manager of Financial Reporting and Taxation for Mannville Oil & Gas. Mr. MacBean received his Bachelor of Commerce Degree from the University of Saskatchewan in 1990. In 1993, Mr. MacBean received his C.A. designation from the Institute of Chartered Accountants of Alberta. In February 2007, Mr. MacBean received his Chartered Directors (C.Dir) designation from McMaster University.

Brian Davis

Mr. Davis is the Chairman of the Reserves Committee. Mr. Davis is primarily engaged as the Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994. Mr. Davis has acquired significant experience and exposure to accounting and financial issues. Mr. Davis holds a BSc in petroleum engineering from Texas A&M University.

Gregory Fletcher

Mr. Fletcher is the Chairman of the Compensation & Nominating Committee. Mr. Fletcher is primarily engaged as the President of Sierra Energy Inc., a private oil and gas production company that he founded in 1997. Mr. Fletcher is also a director of Calfrac Well Services Ltd., a public oilfield service company, a director of Total Energy Services Inc., a public oilfield service company, and a director of Whitecap Resources Inc., a public oil and gas company. In these roles, Mr. Fletcher has acquired significant experience and exposure to accounting and financial reporting issues. Mr. Fletcher holds a BSc in geology from the University of Calgary. In January 2009, Mr. Fletcher graduated from the Directors' Education Program sponsored by the Institute of Corporate Directors and the Haskayne School of Business.

Charter

The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities for financial matters. It performs this function by serving as an independent and objective party to monitor Peyto's financial reporting process and internal control system; reviewing and assessing audit efforts of Peyto's independent auditors; providing an avenue of open communication among Peyto's independent auditors, financial and senior management and board of directors; and reviewing the independence and performance of the independent auditor. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts and

other advisors as it determines appropriate to assist in the conduct of any investigation. Attached as Schedule C hereto is the complete text of the Audit Committee's Charter.

Audit Fees

The table below provides disclosure of the fees billed to Peyto by its external auditors in fiscal 2014 and fiscal 2013, dividing the services into the categories of work performed.

Type of Work	2014 Fees	2014 Percentage	2013 Fees	2013 Percentage
Audit Fees	\$170,000	69%	\$163,000	62%
Audit Related Fees				
Review of interim financial statements and MD&A, reviewing prospectus disclosures and IFRS related procedures	\$51,000	21%	\$56,600	22%
Tax Fees				
Tax compliance services, tax advice, tax planning and annual filings	\$24,940	10%	\$41,837	16%
Total	\$245,940		\$261,437	

All non-audit services are disclosed and approved by the Audit Committee.

INDUSTRY CONDITIONS

Companies operating in the oil and natural gas industry are subject to extensive regulation and control of operations (including land tenure, exploration, development, production, refining and upgrading, transportation, and marketing) as a result of legislation enacted by various levels of government with respect to the pricing and taxation of oil and natural gas through agreements among the governments of Canada, Alberta, British Columbia and Saskatchewan, all of which should be carefully considered by investors in the oil and gas industry. All current legislation is a matter of public record and Peyto is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry in Alberta, the province in which the vast majority of Peyto's oil and natural gas properties are located.

Pricing and Marketing

Oil

In Canada, the producers of oil are entitled to negotiate sales contracts directly with oil purchasers, which results in the market determining the price of oil. Worldwide supply and demand factors primarily determine oil prices; however, prices are also influenced by regional market and transportation issues. The specific price depends in part on oil quality, prices of competing fuels, distance to market, availability of transportation, value of refined products, the supply/demand balance and contractual terms of sale. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "**NEB**"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB. The NEB is currently undergoing a consultation process to update the regulations governing the issuance of export licences. The updating process is necessary to meet the criteria set out in the federal *Jobs, Growth and Long-term Prosperity Act* (Canada) (the "**Prosperity Act**") which received Royal Assent on June 29, 2012. In this transitory period, the NEB has issued, and is currently following an "Interim Memorandum of Guidance concerning Oil and Gas Export Applications and Gas Import Applications" under Part VI of the *National Energy Board Act* (Canada).

Natural Gas

Alberta's natural gas market has been deregulated since 1985. Supply and demand determine the price of natural gas and price is calculated at the sale point, being the wellhead, the outlet of a gas processing plant, on a gas transmission system such as the Alberta "NIT" (Nova Inventory Transfer), at a storage facility, at the inlet to a utility system or at the point of receipt by the consumer. Accordingly, the price for natural gas is dependent upon such producer's own arrangements (whether long or short

term contracts and the specific point of sale). As natural gas is also traded on trading platforms such as the Natural Gas Exchange (NGX), Intercontinental Exchange or the New York Mercantile Exchange (NYMEX) in the United States, spot and future prices can also be influenced by supply and demand fundamentals on these platforms. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m³/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or for a larger quantity requires an exporter to obtain an export licence from the NEB.

The North American Free Trade Agreement

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, the United States and Mexico came into force on January 1, 1994. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of the party maintaining the restriction as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply.

All three signatory countries are prohibited from imposing a minimum or maximum export price requirement in any circumstance where any other form of quantitative restriction is prohibited. The signatory countries are also prohibited from imposing a minimum or maximum import price requirement except as permitted in enforcement of countervailing and anti-dumping orders and undertakings. NAFTA requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes and to ensure that the application of those changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, all of which are important for Canadian oil and natural gas exports. NAFTA contemplates the reduction of Mexican restrictive trade practices in the energy sector and prohibits discriminatory border restrictions and export taxes.

Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations that govern royalties, production rates and other matters. The royalty regime in a given province is a significant factor in the profitability of oil sands projects, crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are carved out of the working interest owner's interest, from time to time, through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces, including Alberta, create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays or royalty tax credits and are generally introduced when commodity prices are low to encourage exploration and development activity by improving earnings and cash flow within the industry.

Alberta

Producers of oil and natural gas from Crown lands in Alberta are required to pay annual rental payments, currently at a rate of \$3.50 per hectare, and make monthly royalty payments in respect of oil and natural gas produced.

Royalties are currently paid pursuant to "The New Royalty Framework" (implemented by the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*) and the "Alberta Royalty Framework", which was implemented in 2010. Royalty rates for conventional oil are set by a single sliding rate formula, which is applied monthly and incorporates separate variables to account

for production rates and market prices. The maximum royalty payable under the royalty regime is 40%. Royalty rates for natural gas under the royalty regime are similarly determined using a single sliding rate formula with the maximum royalty payable under the royalty regime set at 36%

Oil sands projects are also subject to Alberta's royalty regime. Prior to payout of an oil sands project, the royalty is payable on gross revenues of an oil sands project. Gross revenue royalty rates range between 1% - 9% depending on the market price of oil, determined using the average monthly price, expressed in Canadian dollars, for WTI crude oil at Cushing, Oklahoma. Rates are 1% when the market price of oil is less than or equal to \$55 per barrel and increase for every dollar of market price of oil increase to a maximum of 9% when oil is priced at \$120 or higher. After payout, the royalty payable is the greater of the gross revenue royalty based on the gross revenue royalty rate of 1% - 9% and the net revenue royalty based on the net revenue royalty rate. Net revenue royalty rates start at 25% and increase for every dollar of market price of oil increase above \$55 up to 40% when oil is priced at \$120 or higher. In addition, concurrent with the implementation of The New Royalty Framework, the Government of Alberta renegotiated existing contracts with certain oil sands producers that were not compatible with the new royalty regime.

Producers of oil and natural gas from freehold lands in Alberta are required to pay freehold mineral tax. The freehold mineral tax is a tax levied by the Government of Alberta on the value of oil and natural gas production from non-Crown lands and is derived from the *Freehold Mineral Rights Tax Act* (Alberta). The freehold mineral tax is levied on an annual basis on calendar year production using a tax formula that takes into consideration, among other things, the amount of production, the hours of production, the value of each unit of production, the tax rate and the percentages that the owners hold in the title. The basic formula for the assessment of freehold mineral tax is: revenue less allocable costs equals net revenue divided by wellhead production equals the value based upon unit of production. If payors do not wish to file individual unit values, a default price is supplied by the Crown. On average, the tax levied is 4% of revenues reported from fee simple mineral title properties.

The Government of Alberta has from time to time implemented drilling credits, incentives or transitional royalty programs to encourage oil and gas development and new drilling. For example, the Innovative Energy Technologies Program (the "**IETP**") has the stated objectives of increasing recovery from oil and gas deposits, finding technical solutions to the gas over bitumen issue, improving the recovery of bitumen by in-situ and mining techniques and improving the recovery of natural gas from coal seams. The IETP provides royalty adjustments to specific pilot and demonstration projects that utilize new or innovative technologies to increase recovery from existing reserves.

In addition, the Government of Alberta has implemented certain initiatives intended to accelerate technological development and facilitate the development of unconventional resources (the "**Emerging Resource and Technologies Initiative**"). Specifically:

- Coalbed methane wells will receive a maximum royalty rate of 5% for 36 producing months on up to 750 MMcf of production, retroactive to wells that began producing on or after May 1, 2010;
- Shale gas wells will receive a maximum royalty rate of 5% for 36 producing months with no limitation on production volume, retroactive to wells that began producing on or after May 1, 2010;
- Horizontal gas wells will receive a maximum royalty rate of 5% for 18 producing months on up to 500 MMcf of production, retroactive to wells that commenced drilling on or after May 1, 2010; and
- Horizontal oil wells and horizontal non-project oil sands wells will receive a maximum royalty rate of 5% with volume and production month limits set according to the depth of the well (including the horizontal distance), retroactive to wells that commenced drilling on or after May 1, 2010.

Land Tenure

The respective provincial governments predominantly own the rights to crude oil and natural gas located in the western provinces. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Private ownership of oil and natural gas also exists in such provinces and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

The Province of Alberta has implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or license.

Alberta also has a policy of "shallow rights reversion" which provides for the reversion to the Crown of mineral rights to shallow, non-productive geological formations for all leases and licenses. For leases and licenses issued subsequent to January 1, 2009, shallow rights reversion will be applied at the conclusion of the primary term of the lease or license.

Production and Operation Regulations

The oil and natural gas industry in Canada is highly regulated and subject to significant control by provincial regulators. Regulatory approval is required for, among other things, the drilling of oil and natural gas wells, construction and operation of facilities, the storage, injection and disposal of substances and the abandonment and reclamation of well-sites. In order to conduct oil and gas operations and remain in good standing with the applicable provincial regulator, we must comply with applicable legislation, regulations, orders, directives and other directions (all of which are subject to governmental oversight, review and revision, from time to time). Compliance with such legislation, regulations, orders, directives or other directions can be costly and a breach of the same may result in fines or other sanctions.

Environmental Regulation

The oil and natural gas industry is currently subject to regulation pursuant to a variety of provincial and federal environmental legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability and the imposition of material fines and penalties.

Federal

Pursuant to the *Prosperity Act*, the Government of Canada amended or repealed several pieces of federal environmental legislation and in addition, created a new federal environment assessment regime that came in to force on July 6, 2012. The changes to the environmental legislation under the *Prosperity Act* are intended to provide for more efficient and timely environmental assessments of projects that previously had been subject to overlapping legislative jurisdiction.

Alberta

The regulatory landscape in Alberta has undergone a transformation from multiple regulatory bodies to a single regulator for upstream oil and gas, oil sands and coal development activity. On June 17, 2013, the Alberta Energy Regulator (the "**AER**") assumed the functions and responsibilities of the former Energy Resources Conservation Board, including those found under the *Oil and Gas Conservation Act* ("**ABOGCA**"). On November 30, 2013, the AER assumed the energy related functions and responsibilities of Alberta Environment and Sustainable Resource Development ("**AESRD**") in respect of the disposition and management of public lands under the *Public Lands Act*. On March 29, 2014, the AER assumed the energy related functions and responsibilities of AESRD in the areas of environment and water under the *Environmental Protection and Enhancement Act* and the *Water Act*, respectively. The AER's responsibilities exclude the functions of the Alberta Utilities Commission and the Surface Rights Board, as well as Alberta Energy's responsibility for mineral tenure. The objective behind the transformation to a single regulator is the creation of an enhanced regulatory regime that is efficient, attractive to business and investors, and effective in supporting public safety, environmental management and resource conservation while respecting the rights of landowners.

In December 2008, the Government of Alberta released a new land use policy for surface land in Alberta, the Alberta Land Use Framework (the "**ALUF**"). The ALUF sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of seven region-specific land use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans.

Proclaimed in force in Alberta on October 1, 2009, the *Alberta Land Stewardship Act* (the "**ALSA**") provides the legislative authority for the Government of Alberta to implement the policies contained in the ALUF. Regional plans established under the ALSA are deemed to be legislative instruments equivalent to regulations and will be binding on the Government of Alberta and provincial regulators, including those governing the oil and gas industry. In the event of a conflict or inconsistency between a regional plan and another regulation, regulatory instrument or statutory consent, the regional plan will prevail. Further, the ALSA

requires local governments, provincial departments, agencies and administrative bodies or tribunals to review their regulatory instruments and make any appropriate changes to ensure that they comply with an adopted regional plan. The ALSA also contemplates the amendment or extinguishment of previously issued statutory consents such as regulatory permits, licenses, registrations, approvals and authorizations for the purpose of achieving or maintaining an objective or policy resulting from the implementation of a regional plan. Among the measures to support the goals of the regional plans contained in the ALSA are conservation easements, which can be granted for the protection, conservation and enhancement of land; and conservation directives, which are explicit declarations contained in a regional plan to set aside specified lands in order to protect, conserve, manage and enhance the environment.

On August 22, 2012, the Government of Alberta approved the Lower Athabasca Regional Plan ("**LARP**") which came into force on September 1, 2012. The LARP is the first of seven regional plans developed under the ALUF. LARP covers a region in the northeastern corner of Alberta that is approximately 93,212 square kilometres in size. The region includes a substantial portion of the Athabasca oilsands area, which contains approximately 82% of the province's oilsands resources and much of the Cold Lake oilsands area.

LARP establishes six new conservation areas and nine new provincial recreation areas. In conservation and provincial recreation areas, conventional oil and gas companies with pre-existing tenure may continue to operate. Any new petroleum and gas tenure issued in conservation and provincial recreation areas will include a restriction that prohibits surface access. In contrast, oilsands companies' tenure has been (or will be) cancelled in conservation areas and no new oilsands tenure will be issued. While new oil sands tenure will be issued in provincial recreation areas, new and existing oil sands tenure will prohibit surface access.

In July 2014, the Government of Alberta approved the South Saskatchewan Regional Plan ("**SSRP**") which came into force on September 1, 2014. The SSRP is the second regional plan developed under the ALUF. The SSRP covers approximately 83,764 square kilometres and includes 44% of the provincial population.

The SSRP creates four new and four expanded conservation areas, and two new and six expanded provincial parks and recreational areas. Similar to LARP, the SSRP will honour existing petroleum and natural gas tenure in conservation and provincial recreational areas. However, any new petroleum and natural gas tenures sold in conservation areas, provincial parks, and recreational areas will prohibit surface access. However, oil and gas companies must minimize impacts of activities on the natural landscape, historic resources, wildlife, fish and vegetation when exploring, developing and extracting the resources. Freehold mineral rights will not be subject to this restriction.

With the implementation of the new Alberta regulatory structure under the AER, AESRD will remain responsible for development and implementation of regional plans. However, the AER will take on some responsibility for implementing regional plans in respect of energy related activities.

Liability Management Rating Programs

In Alberta, the AER implements the Licensee Liability Rating Program (the "**AB LLR Program**"). The AB LLR Program is a liability management program governing most conventional upstream oil and gas wells, facilities and pipelines. The ABOGCA establishes an orphan fund (the "**Orphan Fund**") to pay the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline included in the AB LLR Program if a licensee or working interest participant ("**WIP**") becomes defunct. The Orphan Fund is funded by licensees in the AB LLR Program through a levy administered by the AER. The AB LLR Program is designed to minimize the risk to the Orphan Fund posed by unfunded liability of licensees and prevent the taxpayers of Alberta from incurring costs to suspend, abandon, remediate and reclaim wells, facilities or pipelines. The AB LLR Program requires a licensee whose deemed liabilities exceed its deemed assets to provide the AER with a security deposit. The ratio of deemed liabilities to deemed assets is assessed once each month and failure to post the required security deposit may result in the initiation of enforcement action by the AER.

Effective May 1, 2013, the AER implemented important changes to the AB LLR Program that resulted in a significant increase in the number of oil and gas companies in Alberta that are required to post security. Some of the important changes include:

- a 25% increase to the prescribed average reclamation cost for each individual well or facility (which will increase a licensee's deemed liabilities);
- a \$7,000 increase to facility abandonment cost parameters for each well equivalent (which will increase a licensee's deemed liabilities);

- a decrease in the industry average netback from a five-year to a three-year average (which will affect the calculation of a licensee's deemed assets, as the reduction from five to three years means the average will be more sensitive to price changes); and
- a change to the present value and salvage factor, increasing to 1.0 for all active facilities from the current 0.75 for active wells and 0.50 for active facilities (which will increase a licensee's deemed liabilities).

These changes will be implemented over a three-year period. The first phase was implemented in May of 2013, the second phase was implemented in May of 2014 and the final phase will be implemented in May of 2015. The changes to the AB LLR Program stem from concern that the previous regime significantly underestimated the environmental liabilities of licensees.

On July 4, 2014, the AER introduced the inactive well compliance program (the "**IWCP**") to address the growing inventory of inactive wells in Alberta and to increase the AER's surveillance and compliance efforts under *Directive 013: Suspension Requirements for Wells* ("**Directive 013**"). The IWCP applies to all inactive wells that are noncompliant with Directive 013 as of April 1, 2015. The objective is to bring all inactive noncompliant wells under the IWCP into compliance with the requirements of Directive 013 within 5 years. As of April 1, 2015, each licensee will be required to bring 20% of its inactive wells into compliance every year, either by reactivating or suspending the wells in accordance with Directive 013 or by abandoning them in accordance with *Directive 020: Well Abandonment*.

Climate Change Regulation

Federal

Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the oil and natural gas industry in Canada. Such regulations, surveyed below, impose certain costs and risks on the industry.

The Government of Canada is a signatory to the *United Nations Framework Convention on Climate Change* (the "**UNFCCC**") and a participant to the Copenhagen Accord (a non-binding agreement created by the UNFCCC which represents a broad political consensus and reinforces commitments to reducing greenhouse gas ("**GHG**") emissions). On January 29, 2010, Canada inscribed in the Copenhagen Accord its 2020 economy-wide target of a 17% reduction of GHG emissions from 2005 levels. This target is aligned with the United States target. In a report dated October 2013, the Government stated that this target represents a significant challenge in light of strong economic growth (Canada's economy is projected to be approximately 31% larger in 2020 compared to 2005 levels).

On April 26, 2007, the Government of Canada released "Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution" (the "**Action Plan**") which set forth a plan for regulations to address both GHGs and air pollution. An update to the Action Plan, "Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions" was released on March 10, 2008 (the "**Updated Action Plan**"). The Updated Action Plan outlines emissions intensity-based targets, for application to regulated sectors on a facility-specific basis, sector-wide basis or company-by-company basis. Although the intention was for draft regulations aimed at implementing the Updated Action Plan to become binding on January 1, 2010, the only regulations being implemented are in the transportation and electricity sectors. The federal government indicates that it is taking a sector-by-sector regulatory approach to reducing GHG emissions and is working on regulations for other sectors. Representatives of the Government of Canada have indicated that the proposals contained in the Updated Action Plan will be modified to ensure consistency with the direction ultimately taken by the United States with respect to GHG emissions regulation. In June 2012, the second US-Canada Clean Energy Dialogue Action Plan was released. The plan renewed efforts to enhance bilateral collaboration on the development of clean energy technologies to reduce GHG emissions.

Alberta

As part of Alberta's 2008 Climate Change Strategy, the province committed to taking action on three themes: (a) conserving and using energy efficiently (reducing GHG emissions); (b) greening energy production; and (c) implementing carbon and capture storage.

As part of its efforts to reduce GHG emissions, Alberta introduced legislation to address GHG emissions: the *Climate Change and Emissions Management Act* (the "**CCEMA**") enacted on December 4, 2003 and amended through the *Climate Change and Emissions Management Amendment Act*, which received royal assent on November 4, 2008. The CCEMA is based on an

emissions intensity approach and aims for a 50% reduction from 1990 emissions relative to GDP by 2020. The accompanying regulations include the *Specified Gas Emitters Regulation* ("SGER"), which imposes GHG limits, and the *Specified Gas Reporting Regulation*, which imposes GHG emissions reporting requirements. Alberta facilities emitting more than 100,000 tonnes of GHGs a year are subject to compliance with the CCEMA. Alberta is the first jurisdiction in North America to impose regulations requiring large facilities in various sectors to reduce their GHG emissions.

The SGER, effective July 1, 2007, applies to facilities emitting more than 100,000 tonnes of GHGs in 2003 or any subsequent year, and requires reductions in GHG emissions intensity (e.g. the quantity of GHG emissions per unit of production) from emissions intensity baselines established in accordance with the SGER. The SGER distinguishes between "Established Facilities" and "New Facilities". Established Facilities are defined as facilities that completed their first year of commercial operation prior to January 1, 2000 or that have completed eight or more years of commercial operation. Established Facilities are required to reduce their emissions intensity by 12% of their baseline emissions intensity for 2008 and subsequent years. Generally, the baseline for an Established Facility reflects the average of emissions intensity in 2003, 2004 and 2005. New Facilities are defined as facilities that completed their first year of commercial operation on December 31, 2000, or a subsequent year, and have completed less than eight years of commercial operation, or are designated as New Facilities in accordance with the SGER. New Facilities are required to reduce their emissions intensity by 2% from their baseline in the fourth year of commercial operation, 4% of their baseline in the fifth year, 6% of their baseline in the sixth year, 8% of their baseline in the seventh year and 10% of their baseline in the eighth year. The CCEMA does not contain any provision for continuous annual improvements in emissions intensity reductions beyond those stated above.

The CCEMA provides that regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund at a rate of \$15 per tonne of CO₂ equivalent. The funds contributed by industry to the Climate Change and Emissions Management Fund will be used to drive innovation and test and implement new technologies for greening energy production. Emissions credits can also be purchased from regulated emitters that have reduced their emissions below the 100,000 tonne threshold or non-regulated emitters that have generated emissions offsets through activities that result in emissions reductions in accordance with established protocols published by the Government of Alberta.

Alberta is also the first jurisdiction in North America to direct dedicated funding to implement carbon capture and storage technology across industrial sectors. Alberta will invest \$2 billion into demonstration projects that will begin commercializing the technology on the scale needed to be successful. On December 2, 2010, the Government of Alberta passed the *Carbon Capture and Storage Statutes Amendment Act, 2010*. It deemed the pore space underlying all land in Alberta to be, and to have always been, the property of the Crown and provided for the assumption of long-term liability for carbon sequestration projects by the Crown, subject to the satisfaction of certain conditions.

RISK FACTORS

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in Peyto's other public filings before making an investment decision. The risks set out below are not an exhaustive list, and should not be taken as a complete summary or description of all the risks associated with Peyto's business and the oil and natural gas business generally.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Peyto depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, Peyto's existing reserves, and the production from them, will decline over time as Peyto produces from such reserves. A future increase in Peyto's reserves will depend on both the ability of Peyto to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that Peyto will be able to continue to find satisfactory properties to acquire or participate in. Moreover, management of Peyto may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participations uneconomic. There is also no assurance that Peyto will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, and shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, Peyto may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Peyto.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

As is standard industry practice, Peyto is not fully insured against all risks, nor are all risks insurable. Although Peyto maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event Peyto could incur significant costs.

Global Financial Markets

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the American and European sovereign debt levels have caused significant volatility in commodity prices. These events and conditions have caused a decrease in confidence in the broader United States and global credit and financial markets and have created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. While there are signs of economic recovery, these factors have negatively impacted company valuations and are likely to continue to impact the performance of the global economy going forward. Petroleum prices have decreased significantly in recent months and are expected to remain volatile for the near future as a result of market uncertainties over the supply and demand of these commodities due to concerns of over supply, the current state of the world economies, actions taken by the Organization of the Petroleum Exporting Countries ("OPEC") and the ongoing global credit and liquidity concerns. This volatility may in the future affect the Corporation's ability to obtain equity or debt financing on acceptable terms.

Prices, Markets and Marketing

Numerous factors beyond the Corporation's control do, and will continue to affect the marketability and price of oil and natural gas acquired or discovered by the Corporation. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets or contract for the delivery of crude oil by rail. Deliverability uncertainties related to the distance the Corporation's reserves are from pipelines, railway lines, processing and storage facilities, operational problems affecting pipelines, railway lines and facilities as well as government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Corporation.

Prices for oil and natural gas are subject to large fluctuations in respect to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic conditions, in the United States, Canada and Europe, the actions of OPEC, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Prices for oil and natural gas are also subject to the availability of foreign markets and the Corporation's ability to access such markets. A material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change because of

lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes of the Corporation's reserves. The Corporation might also elect not to produce from certain wells at lower prices.

All these factors could result in a material decrease in the Corporation's expected net production revenue and a reduction in its oil and natural gas acquisition, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Oil and natural gas prices have decreased significantly in recent months and are expected to remain volatile for the near future because of market uncertainties over the supply and the demand of these commodities due to concerns of over supply, the current state of the world economies, OPEC actions, sanctions imposed on certain oil producing nations by other countries and ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

Market Price of Common Shares

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to Peyto's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices or current perceptions of the oil and gas market. Similarly, the market price of the Common Shares could be subject to significant fluctuations in response to variations in Peyto's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the Common Shares will trade cannot be accurately predicted.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

Peyto considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and Peyto's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Peyto. The integration of acquired businesses may require substantial management effort, time and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets may be periodically disposed of so Peyto can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of Peyto, if disposed of, may realize less than their carrying value on the financial statements of Peyto.

Operational Dependence

Other companies operate some of the assets in which Peyto has an interest. Peyto has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Peyto's financial performance. Peyto's return on assets operated by others depends upon a number of factors that may be outside of Peyto's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Project Risks

Peyto manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Peyto's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Peyto's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;

- the availability of, and the ability to acquire, water supplies needed for drilling and hydraulic fracturing, or Peyto's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Peyto could be unable to execute projects on time, on budget, or at all, and may be unable to market the oil and natural gas that it produces effectively.

Gathering and Processing Facilities, Pipeline Systems and Rail

Peyto delivers its products through gathering and processing facilities and pipeline systems some of which it does not own and by rail. The amount of oil and natural gas that Peyto can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities, pipeline systems and railway lines. The lack of availability of capacity in any of the gathering and processing facilities, pipeline systems and railway lines, and in particular the processing facilities, could result in Peyto's inability to realize the full economic potential of its production or in a reduction of the price offered for Peyto's production. Although pipeline expansions are ongoing, the lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Furthermore, producers are increasingly turning to rail as an alternative means of transportation. In recent years, the volume of crude oil shipped by rail in North America has increased dramatically and it is projected to continue in this upward trend. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays in constructing new infrastructure systems and facilities could harm Peyto's business and, in turn, Peyto's financial condition, results of operations and cash flows.

Following major accidents in Lac-Megantic, Quebec and North Dakota, the Transportation Safety Board of Canada and the U.S. National Transportation Board have recommended additional regulations for railway tank cars carrying crude oil. These recommendations include, among others, the imposition of higher standards for all DOT-111 tank cars carrying crude oil and the increased auditing of shippers to ensure they properly classify hazardous materials and have adequate safety plans in place. The increased regulation of rail transportation may reduce the ability of railway lines to alleviate pipeline capacity issues and add additional costs to the transportation of crude oil by rail.

A portion of Peyto's production may, from time to time, be processed through facilities owned by third parties and over which Peyto does not have control. From time to time these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on Peyto's ability to process its production and deliver the same for sale.

Competition

The petroleum industry is competitive in all of its phases. Peyto competes with numerous other entities in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Peyto's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Peyto. Peyto's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price, methods, and reliability of delivery and storage.

Cost of New Technologies

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before Peyto. There can be no assurance that Peyto will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. One or more of the technologies currently utilized by Peyto or implemented in the future may become obsolete. In such case, Peyto's business, financial condition and results of operations could be materially adversely affected. If Peyto is unable to utilize the most advanced commercially available technology, its business, financial condition and results of operations could also be adversely affected in a material way.

Alternatives to and Changing Demand for Petroleum Products

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil, natural gas and other liquid hydrocarbons. Peyto cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Peyto's business, financial condition, results of operations and cash flows.

Regulatory

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. See: "*Industry Conditions*". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase Peyto's costs, either of which may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. In order to conduct oil and natural gas operations, Peyto will require regulatory permits, licenses, registrations, approvals and authorizations from various governmental authorities. There can be no assurance that Peyto will be able to obtain all of the permits, licenses, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition to regulatory requirements pertaining to the production, marketing and sale of oil and natural gas mentioned above, Peyto's business and financial condition could be influenced by federal legislation affecting, in particular, foreign investment, through legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada).

Royalty Regimes

There can be no assurance that the federal government and the provincial governments of the western provinces will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of Peyto's projects. An increase in royalties would reduce Peyto's earnings and could make future capital investments, or Peyto's operations, less economic.

Hydraulic Fracturing

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase Peyto's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that Peyto is ultimately able to produce from its reserves.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain oil

and gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Peyto to incur costs to remedy such discharge. Although Peyto believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Liability Management

Alberta has developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licensee or permit holder becomes defunct. These programs generally involve an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Changes of the ratio of Peyto's deemed assets to deemed liabilities or changes to the requirements of liability management programs may result in significant increases to the security that must be posted. See: "*Industry Conditions*".

Climate Change

Peyto's exploration and production facilities and other operations and activities emit greenhouse gases which may require Peyto to comply with greenhouse gas ("GHG") emissions legislation at the provincial or federal level. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the *United Nations Framework Convention on Climate Change* (the "UNFCCC") and a participant to the Copenhagen Agreement (a non-binding agreement created by the UNFCCC), the Government of Canada announced on January 29, 2010 that it will seek a 17% reduction in GHG emissions from 2005 levels by 2020. These GHG emission reduction targets are not binding, however. Some of Peyto's significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. The direct or indirect costs of compliance with these regulations may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on Peyto and its operations and financial condition.

Variations in Foreign Exchange Rates and Interest Rates

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar will negatively affect Peyto's production revenues. Accordingly, Canadian/United States exchange rates could affect the future value of Peyto's reserves as determined by independent evaluators.

To the extent that Peyto engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Peyto may contract.

An increase in interest rates could result in a significant increase in the amount Peyto pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, the cash available for dividends and could negatively impact the market price of the Common Shares of Peyto.

Substantial Capital Requirements

Peyto anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, Peyto's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- Peyto's credit rating (if applicable);
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and Peyto's securities in particular.

Further, if Peyto's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Peyto. The inability of Peyto to access sufficient capital for its operations could have a material adverse effect on Peyto's business financial condition, results of operations and prospects.

Additional Funding Requirements

Peyto's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, Peyto may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. There is risk that if the economy and banking industry experienced unexpected and/or prolonged deterioration, Peyto's access to additional financing may be affected.

Because of global economic volatility, Peyto may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause Peyto to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If Peyto's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect Peyto's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable, or available on onerous terms, Peyto's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of Peyto's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Failure to obtain any financing necessary for Peyto's capital expenditure plans may result in a delay in development or production on Peyto's properties.

Credit Facility Arrangements

Peyto currently has a credit facility and the amount authorized thereunder is dependent on the borrowing base determined by its lenders. Peyto is required to comply with covenants under its credit facility and in the event that Peyto does not comply with these covenants, Peyto's access to capital could be restricted or repayment could be required. Events beyond Peyto's control may contribute to the failure of Peyto to comply with such covenants. A failure to comply with covenants could result in default under Peyto's credit facility, which could result in Peyto being required to repay amounts owing thereunder. Even if Peyto is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to Peyto. If Peyto is unable to repay amounts owing under credit facilities, the lenders under the credit facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of Peyto's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, Peyto's credit facility may impose operating and financial restrictions on Peyto that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to Peyto's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

Peyto's lenders use Peyto's reserves, commodity prices, applicable discount rate and other factors, to periodically determine Peyto's borrowing base. A material decline in commodity prices could reduce Peyto's borrowing base, reducing the funds available to Peyto under the credit facility. This could result in the requirement to repay a portion, or all, of Peyto's bank indebtedness.

Issuance of Debt

From time to time, Peyto may enter into transactions to acquire assets or shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase Peyto's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Peyto may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither Peyto's articles nor its by-laws limit the amount of indebtedness that Peyto may incur. The level of Peyto's indebtedness from time to time, could impair Peyto's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time, Peyto may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that Peyto engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, Peyto's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time Peyto may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar. However, if the Canadian dollar declines in value compared to the United States dollar, Peyto will not benefit from the fluctuating exchange rate.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Peyto and may delay exploration and development activities.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise. The actual interest of Peyto in properties may, accordingly, vary from Peyto's records. If a title defect does exist, it is possible that Peyto may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect Peyto's title, to the oil and natural gas properties Peyto controls that could impair Peyto's activities on them and result in a reduction of the revenue received by Peyto.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in this document are estimates only. Generally, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- historical production from the properties;
- production rates;

- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. Peyto's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves. Such variations could be material.

In accordance with applicable securities laws, Peyto's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from Peyto's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities Peyto intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in Peyto's reserves since that date.

Insurance

Peyto's involvement in the exploration for and development of oil and natural gas properties may result in Peyto becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although Peyto maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, Peyto may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Peyto. The occurrence of a significant event that Peyto is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Geopolitical Risks

Political events throughout the world that cause disruptions in the supply of oil continuously affect the marketability and price of oil and natural gas acquired or discovered by Peyto. Conflicts, or conversely peaceful developments, arising outside of Canada have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of Peyto's net production revenue.

In addition, Peyto's oil and natural gas properties, wells and facilities could be the subject of a terrorist attack. If any of Peyto's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Peyto does not have insurance to protect against the risk from terrorism.

Dilution

Peyto may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Peyto which may be dilutive.

Management of Growth

Peyto may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of Peyto to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Peyto to deal with this growth may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Expiration of Licences and Leases

Peyto's properties are held in the form of licences and leases and working interests in licences and leases. If Peyto or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of Peyto's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Dividends

The amount of future cash dividends paid by Peyto, if any, will be subject to the discretion of the Board of Directors of Peyto and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of Peyto, the dividend policy of Peyto from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

The market value of the Common Shares may deteriorate if cash dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by Peyto and potential legislative and regulatory changes. Dividends may be reduced during periods of lower funds from operations, which result from lower commodity prices and any decision by Peyto to finance capital expenditures using funds from operations.

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, the ability of Peyto to make the necessary capital investments to maintain or expand petroleum and natural gas reserves and to invest in assets, as the case may be, will be impaired. To the extent that Peyto is required to use funds from operations to finance capital expenditures or property acquisitions, the cash available for dividends may be reduced.

Litigation

In the normal course of Peyto's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions, related to personal injuries, property damage, property tax, land rights, the environment and contract disputes. The outcome of outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to Peyto and as a result, could have a material adverse effect on Peyto's assets, liabilities, business, financial condition, results of operations and prospects. Also see "*Legal Proceedings and Regulatory Actions*".

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights in portions of western Canada. Peyto is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful such claim may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Breach of Confidentiality

While discussing potential business relationships or other transactions with third parties, Peyto may disclose confidential information relating to the business, operations or affairs of Peyto. Although confidentiality agreements are signed by third parties prior to the disclosure of any confidential information, a breach could put Peyto at competitive risk and may cause significant damage to its business. The harm to Peyto's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, Peyto will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Income Taxes

Peyto files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Peyto, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects Peyto. Furthermore, tax authorities having jurisdiction over Peyto may disagree with how Peyto calculates its income for tax purposes or could change administrative practices to Peyto's detriment.

Seasonality

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. In addition, certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in exploration and production activity and corresponding decreases in the demand for the goods and services of Peyto as the demand for natural gas rises during cold winter months and hot summer months.

Third Party Credit Risk

Peyto may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In the event such entities fail to meet their contractual obligations to Peyto, such failures may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in Peyto's ongoing capital program, potentially delaying the program and the results of such program until Peyto finds a suitable alternative partner.

Conflicts of Interest

Certain directors or officers of Peyto may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with Peyto to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. See "*Directors and Officers of Peyto – Conflicts of Interest*".

Reliance on Key Personnel

Peyto's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Peyto does not have any key person insurance in effect for Peyto. The contributions of the existing management team to the immediate and near term operations of Peyto are likely to be of central importance. In addition, the competition for qualified personnel in the oil and

natural gas industry is intense and there can be no assurance that Peyto will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Peyto.

Expansion into New Activities

The operations and expertise of Peyto's management are currently focused primarily on oil and gas production, exploration and development in the Western Canada Sedimentary Basin. In the future Peyto may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase Peyto's exposure to one or more existing risk factors, which could have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on Peyto's forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risk and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumption and uncertainties are found under the heading "Notice to Reader" in this Annual Information Form.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Other than as described below, during the financial year-ended December 31, 2014, Peyto was not a party to any legal proceeding, nor was it a party to, nor is or was any of its property the subject of any legal proceeding, involving claims for damages where the amount involved, exclusive of interest and costs, is in excess of ten percent (10%) of the current assets of Peyto, nor are there any such proceedings known to be contemplated.

During the financial year-ended December 31, 2014, there were no (i) penalties or sanctions imposed against Peyto by a court relating to securities legislation or by a securities regulatory authority; (ii) penalties or sanctions imposed by a court or regulatory body against Peyto that would likely be considered important to a reasonable investor in making an investment decision, or (iii) settlement agreements Peyto entered into before a court relating to securities legislation or with a securities regulatory authority.

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 Corporation, as a successor to Open Range. The proposed action contains various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not 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.

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 Open Range, which carried on Poseidon's former oil and gas exploration and production business. The Corporation acquired all of the issued and outstanding common shares of Open Range on August 14, 2012 pursuant to the 2012 Arrangement. 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 Corporation 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 Open Range. Poseidon claims, among other things, that the Corporation is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of 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 third party claim against Poseidon, the Corporation 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 judgement awarded against KPMG LLP.

The allegations against Open Range contained in the claims described above are based on factual matters that pre-existed the Corporation's acquisition of Open Range which makes them difficult to assess at this time. However, the Corporation intends to aggressively protect its interests and the interests of the Shareholders and will seek all available legal remedies in defending the actions.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors or executive officers of Peyto, any securityholder who directly or indirectly beneficially owns, or exercises control or direction over, more than 10% of the outstanding voting securities of Peyto or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or will materially affect Peyto.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Deloitte LLP, Chartered Accountants, the auditor of Peyto, is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

Valiant Trust Company, at its principal offices in Calgary, Alberta and Toronto, Ontario is the transfer agent and registrar for the Common Shares.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, Peyto has not entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year which are still in effect.

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a report, valuation statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Peyto during, or related to, Peyto's most recently completed financial year other than InSite, Peyto's independent engineering evaluators, and Deloitte LLP, Chartered Accountants, the auditor of Peyto. To the knowledge of Peyto, none of the designated professionals of InSite, had any registered or beneficial interests, direct or indirect, in any securities or other property of Peyto or of Peyto's associates or affiliates either at the time they prepared the statement, report or valuation prepared by them, at any time thereafter or to be received by them. Deloitte LLP, Chartered Accountants, is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Peyto or of any associate or affiliate of Peyto, except for Stephen J. Chetner, the Corporate Secretary and a Director of Peyto, who is a partner of Burnet, Duckworth & Palmer LLP, which law firm renders legal services to Peyto.

ADDITIONAL INFORMATION

Additional information relating to Peyto may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Peyto's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the information circular of Peyto for its most recent annual meeting of securityholders that involved the election of directors. Additional financial information is contained in Peyto's audited consolidated financial statements and management's discussion and analysis for the year-ended December 31, 2014.

**SCHEDULE A – FORM 51-101F3
REPORT ON MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION**

Management of Peyto is responsible for the preparation and disclosure of information with respect to the oil and gas activities of Peyto in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2014, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated Peyto's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors of Peyto, on behalf of Peyto, has

- (a) reviewed Peyto's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors of Peyto has reviewed Peyto's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserve Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "*Darren Gee*"
Darren Gee
President and Chief Executive Officer

(signed) "*Scott Robinson*"
Scott Robinson
Executive Vice-President and Chief Operating Officer

(signed) "*Brian Davis*"
Brian Davis
Director and Chairman of the Reserves Committee

(signed) "*Michael MacBean*"
Michael MacBean
Director and Member of the Reserves Committee

March 18, 2015

**SCHEDULE B – FORM 51-101F2
REPORT ON RESERVES DATA**

To the Board of Directors of Peyto Exploration & Development Corp. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2014. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2014, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2014 and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (\$ thousands CDN - before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
InSite Petroleum Consultants Ltd.	Evaluation of Oil & Gas Properties of Peyto Exploration & Development Corp. as at December 31, 2014, prepared February 18, 2015	Canada	-	4,598,831.6	-	4,598,831.6

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation date.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

INSITE PETROLEUM CONSULTANTS LTD.

Calgary, Alberta, Canada

Execution Date: March 3, 2015

(signed) "*Peter P. Hadala*"

Peter P. Hadala, P.Eng.

Managing Director

SCHEDULE C – AUDIT COMMITTEE CHARTER

PEYTO EXPLORATION & DEVELOPMENT CORP.

AUDIT COMMITTEE

AUDIT COMMITTEE CHARTER

This charter governs the operations of the audit committee (the "**Committee**") of Peyto Exploration & Development Corp. ("**Peyto**"). The Committee shall report to the board of directors (the "**Board**") of Peyto.

I. PURPOSE

- (a) The primary function of the Committee is to assist the Board in fulfilling its responsibilities regarding the integrity of Peyto's financial statements including the financial reporting process and systems of internal controls, the compliance by Peyto with legal and regulatory requirements and the qualifications, performance and independence of Peyto's external auditor by reviewing:
 - (i) the financial information that will be provided to the shareholders, regulatory authorities and others;
 - (ii) the systems of internal controls management has established;
 - (iii) all audit processes;
 - (iv) all reporting from the external auditors.
- (b) Primary responsibility for the financial reporting, information systems, risk management and internal controls of Peyto is vested in management and is overseen by the Board. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that Peyto's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. These are the responsibilities of management and the external auditor. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the external auditor or to assure compliance with laws and regulations.

II. COMPOSITION AND OPERATIONS

- (a) The Committee shall be composed of not fewer than three directors, none of whom shall be officers, employees or consultants to Peyto or any of its related legal entities. The Committee shall only be comprised of unrelated directors. An unrelated director is a director who is independent of management and is free from any interest or other relationship which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of Peyto, other than interests and relationships arising from shareholding.
- (b) The Committee shall review and reassess this Charter annually.
- (c) All Committee members shall be financially literate (as defined by the TSX or other regulatory authority), or shall become financially literate within a reasonable period of time after appointment to the Committee, and at least one member shall have appropriate financial management experience or expertise.
- (d) Peyto's auditors shall be advised of the names of the Committee members and when appropriate will receive notice of and be invited to attend meetings of the Committee and to be heard at those meetings on matters relating to the auditor's duties.
- (e) The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or shareholders.

- (f) The Committee shall meet at least four times each year.
- (g) The Committee shall have access to Peyto's senior management and documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.
- (h) The Committee shall provide open avenues of communication among management, employees, external auditors and the Board.
- (i) The secretary to the Committee shall be the Corporate Secretary or an appointee of the Corporate Secretary.
- (j) Notice of the time and place of every meeting shall be given to each Committee member at least 48 hours prior to the meeting.
- (k) A majority of the voting membership of the Committee present in person or by telephone or other electronic telecommunication device shall constitute a quorum.
- (l) The Chief Executive Officer, Vice-President, Finance and Chief Financial Officer and external auditor would be expected to be available to attend meetings or portions thereof. The external auditors would meet at least twice annually with the Committee. Others may or may not attend the meetings at the sole discretion of the Committee.
- (m) Minutes of Committee meetings shall be approved by the Committee and sent to all directors of the Board.

III. DUTIES AND RESPONSIBILITIES

(a) Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

- (i) Peyto's annual and quarterly financial statements;
- (ii) Peyto's press releases and reports as they relate to the finances of Peyto;
- (iii) the Management Discussion and Analysis;
- (iv) the financial content of the Annual Report;
- (v) the Annual Information Form and any Prospectus or Private Placement Memorandums; and
- (vi) any reports required by regulatory or government authorities as they relate to the finances of Peyto.

The Committee will review and discuss:

- (i) the appropriateness of accounting policies and financial reporting practices to be adopted by Peyto;
- (ii) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by Peyto;
- (iii) any new or pending developments in accounting and reporting standards that may affect Peyto;
- (iv) ascertain compliance with the covenants under loan agreements;
- (v) management's key estimates and judgments that may be material to financial reporting; and

- (vi) any other matters required to be reviewed under applicable legal, regulatory or stock exchange requirements.

(b) Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- (i) review Peyto's risk management controls and policies;
- (ii) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management and the external auditor;
- (iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies;
- (iv) review adequacy of security of information, information systems and recovery plans;
- (v) monitor compliance with statutory and regulatory obligations;
- (vi) review the appointment of the Vice-President, Finance and Chief Financial Officer; and
- (vii) review the adequacy of accounting and finance resources.

(c) External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- (i) review and recommend to the Board, for shareholder approval, engagement of the external auditor including, as part of such review and recommendation, an evaluation of the external auditors qualifications, independence and performance;
- (ii) review and recommend to the Board the annual external audit plan, including but not limited to the following:
 - 1. engagement letter;
 - 2. objectives and scope of the external audit work;
 - 3. procedures for quarterly review of financial statements;
 - 4. materiality limit;
 - 5. areas of audit risk;
 - 6. staffing;
 - 7. timetable; and
 - 8. proposed fees.
- (iii) meet with the external auditor to discuss Peyto's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;
- (iv) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - 1. any difficulties encountered, or restrictions imposed by management during the annual audit;

2. any significant accounting or financial reporting issue including the resolution of any disagreement between management and the external auditors;
 3. the auditor's evaluation of Peyto's system of internal controls, procedures and documentation;
 4. the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weakness;
 5. assess the performance and consider the annual appointment of external auditors for recommendation to the Board.
- (v) review and receive assurances on the independence of the external auditor;
- (vi) review the non-audit services to be provided by the external auditor's firm and consider the impact on the independence of the external audit; and
- (vii) meet periodically with the external auditor without management present.
- (d) Other
- (i) review material litigation and its impact on financial reporting; and
 - (ii) establish procedures for the receipt, retention and treatment of complaints received by Peyto regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by distributing the minutes of its meetings and where appropriate, by oral report at the next Board meeting.

V. STANDARDS OF LIABILITY

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory, regulatory or other legal requirements for the Board or members of the Committee. The purposes and responsibilities outlined in these terms of reference are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.