

## Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Peyto Exploration & Development Corp. ("Peyto" or the "Company") for the years ended December 31, 2018 and 2017. The financial statements have been prepared in accordance with the International Accounting Standards Board's ("IASB") most current International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standards ("IAS").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 6, 2019. Additional information about Peyto, including the most recently filed annual information form is available at [www.sedar.com](http://www.sedar.com) and on Peyto's website at [www.peyto.com](http://www.peyto.com).

This MD&A contains certain forward-looking statements or information ("forward-looking statements") as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: the impact of economic conditions in North America and globally; industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the adequacy of the Company's critical accounting estimates; the availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: expected royalty rate, earnings, cash flow and revenue fluctuations; the Company's expectation that funds generated from operations, together with credit facility borrowings, are sufficient; the expectation that the majority of the Company's capital program will involve drilling, completing and tying-in of lower risk development gas wells; the Company's risk management; and the Company's critical accounting estimates.

The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Peyto's actual financial results, performance or achievement in future periods to differ materially from those expressed in, or implied by, these forward-looking statements, including but not limited to, risks associated with: imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; changes in general global economic conditions including, without limitations, the economic conditions in North America; increased competition; the lack of availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; environmental risks; changes in laws and regulations including, without limitation, the adoption of new environmental and tax laws and regulations and changes in how they are interpreted and enforced; the results of exploration and development drilling and related activities; the ability to access sufficient capital from internal and external sources; and stock market volatility. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2018 under the heading "Risk Factors" and herein under the heading "Risk Management".

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Peyto will derive there from. The forward-looking statements contained in this MD&A speak only as of the date hereof and Peyto does not assume any obligation to publicly update or revise them to reflect new information, future events or circumstances or otherwise, except as may be required pursuant to applicable securities laws.

All references are to Canadian dollars unless otherwise indicated. Natural gas liquids volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent (mcf) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl may be misleading as an indication of value.

## OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas and oil & natural gas liquids in Alberta's deep basin. As at December 31, 2018, the Company's total Proved plus Probable reserves were 4.8 trillion cubic feet equivalent (803 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 87 per cent to natural gas and 13 per cent to oil & natural gas liquids.

The Peyto model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects.
- Build an asset base which is made up of high quality natural gas reserves.
- Over time, balance dividends paid to shareholders with earnings and cash flow, and balance funding for the capital program with cash flow, equity and available bank lines.

Operating results over the last twenty years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2019		2018				2017	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue and realized hedging gains (losses) (net of royalties)	144,987	139,308	147,190	154,932	190,854	202,566	177,061	169,911
Funds from operations	103,078	99,635	109,549	115,571	148,986	161,672	139,257	133,487
Per share – basic and diluted	0.63	0.60	0.66	0.70	0.90	0.98	0.85	0.81
Earnings	24,970	21,458	29,506	30,397	47,749	51,547	44,818	39,957
Per share – basic and diluted	0.15	0.13	0.18	0.18	0.29	0.31	0.27	0.24
Dividends	9,893	29,677	29,677	29,677	29,677	54,408	54,408	54,408
Per share – basic and diluted	0.06	0.18	0.18	0.18	0.18	0.33	0.33	0.33

### Funds from Operations

"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance-based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

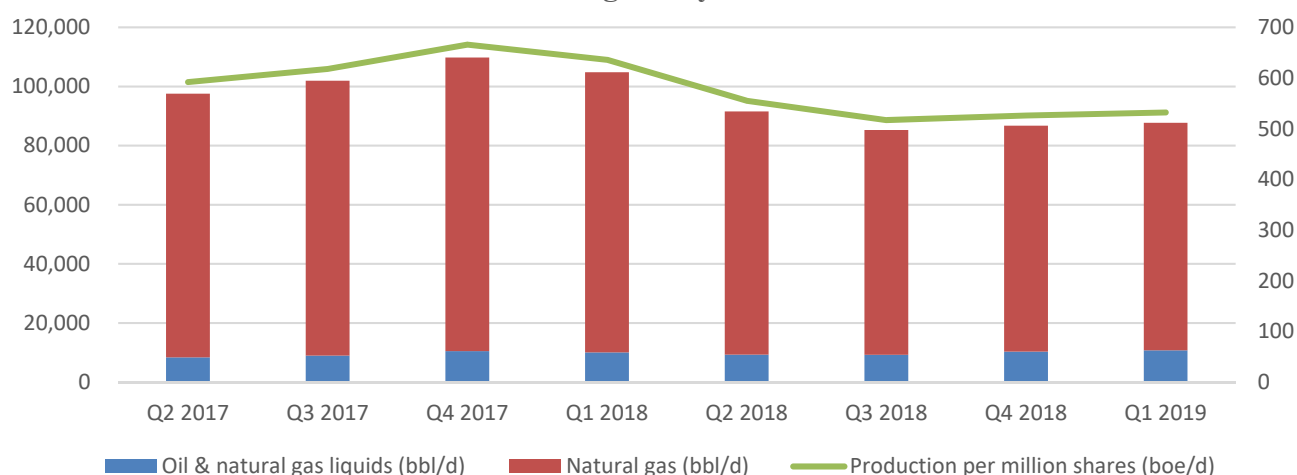
## RESULTS OF OPERATIONS

### Production

	Three Months ended March 31	
	2019	2018
Natural gas (mmcf/d)	<b>462.0</b>	568.5
Oil & natural gas liquids (bbl/d)	<b>10,703</b>	10,043
Barrels of oil equivalent (boe/d)	<b>87,703</b>	104,793
Thousand cubic feet equivalent (mmcfe/d)	<b>526.2</b>	628.8

Condensate and NGL yields increased from 17.7 bbl/mmcf in Q1 2018 to 23.2 bbl/mmcf in Q1 2019, due to continued deployment of capital in Peyto's liquids rich Cardium play. Total liquids production of 10,703 bbl/d in Q1 2019 was up 7% year over year, despite suspended deep cut operations during February and March. Natural gas production was down 19% to 462 mmcf/d as Peyto replaced declining dry gas with significantly higher liquids-rich gas. Total Q1 2019 production of 87,703 boe/d was up slightly from Q4 2018 of 86,738 boe/d and Q3 2018 of 85,242 boe/d. Total first quarter production decreased 16 per cent from 628.8 mmcfe/d to 526.2 mmcfe/d. Production decreases are attributable to Peyto's planned reduced capital program which did not offset natural production declines.

### Average Daily Production

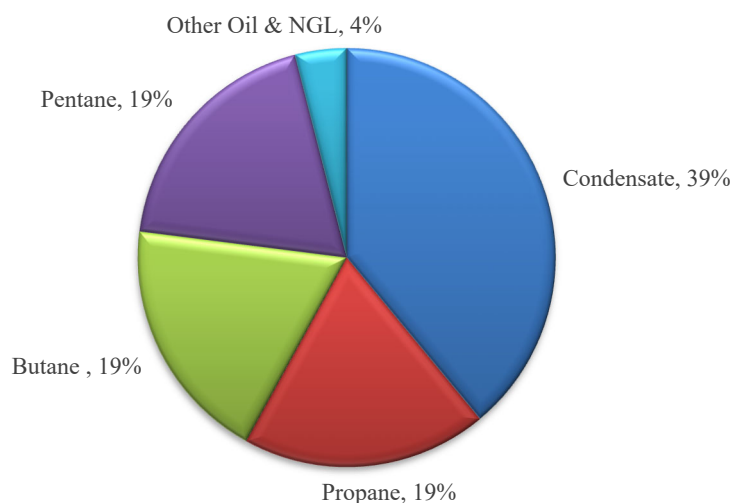


### Oil & Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2019	2018
Condensate (bbl/d)	<b>4,071</b>	3,869
Propane (bbl/d)	<b>2,035</b>	1,869
Butane (bbl/d)	<b>2,086</b>	2,096
Pentane (bbl/d)	<b>2,072</b>	2,077
Other Oil & NGL's (bbl/d)	<b>439</b>	132
Oil & Natural gas liquids (bbl/d)	<b>10,703</b>	10,043
Barrels per million cubic feet	<b>23.2</b>	17.7

The liquid production to sales gas ratio increased 31 per cent from 17.7 bbl/mmcf in Q1 2018 to 23.2 bbl/mmcf in Q1 2019. This increase was due to the addition of liquids rich production from new Cardium wells. During the first quarter plant operations were optimized to reject propane due to weak propane prices.

## Oil & NGL Production by Component



### Commodity Prices

	Three Months ended March 31	
	2019	2018
Oil & natural gas liquids (\$/bbl)	<b>46.85</b>	59.67
Hedging – Oil & NGL (\$/bbl)	<b>3.52</b>	-
Oil & NGL – after hedging (\$/bbl)	<b>50.37</b>	59.67
Natural gas (\$/mcf)	<b>2.36</b>	1.98
Hedging – gas (\$/mcf)	<b>0.12</b>	0.88
Natural gas – after hedging (\$/mcf)	<b>2.48</b>	2.86
Total Hedging (\$/mcf)	<b>0.18</b>	0.80
Total Hedging (\$/boe)	<b>1.08</b>	4.80

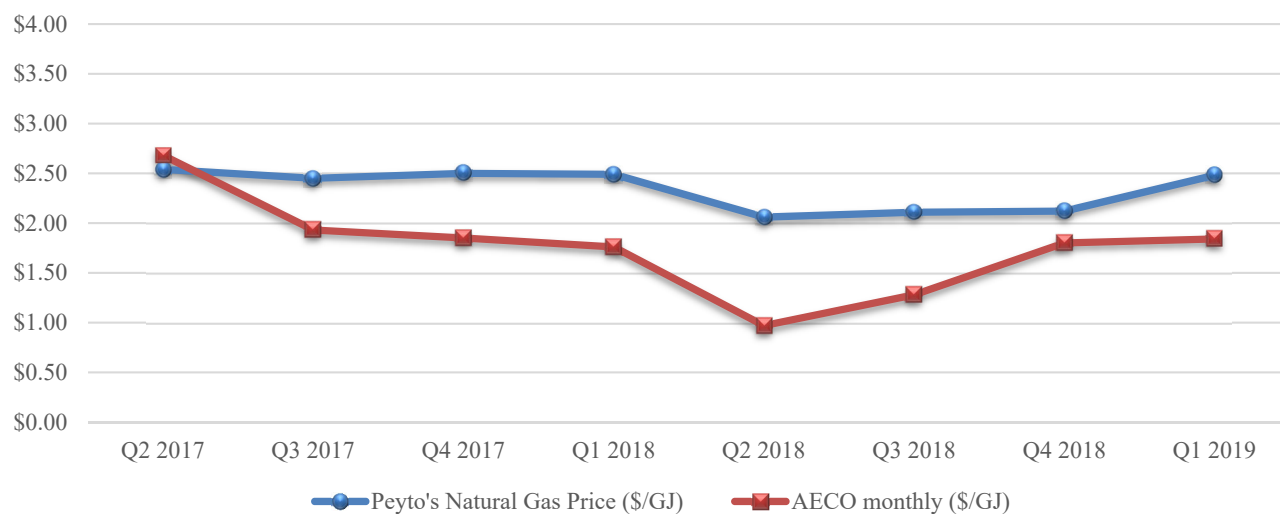
Peyto's natural gas price, before hedging, averaged \$2.36/mcf during the first quarter of 2019, an increase of 19 per cent from \$1.98/mcf for the equivalent period in 2018. Oil & natural gas liquids prices, before hedging, averaged \$46.85/bbl, a decrease of 21 per cent from \$59.67/bbl a year earlier.

### Commodity Prices by Component

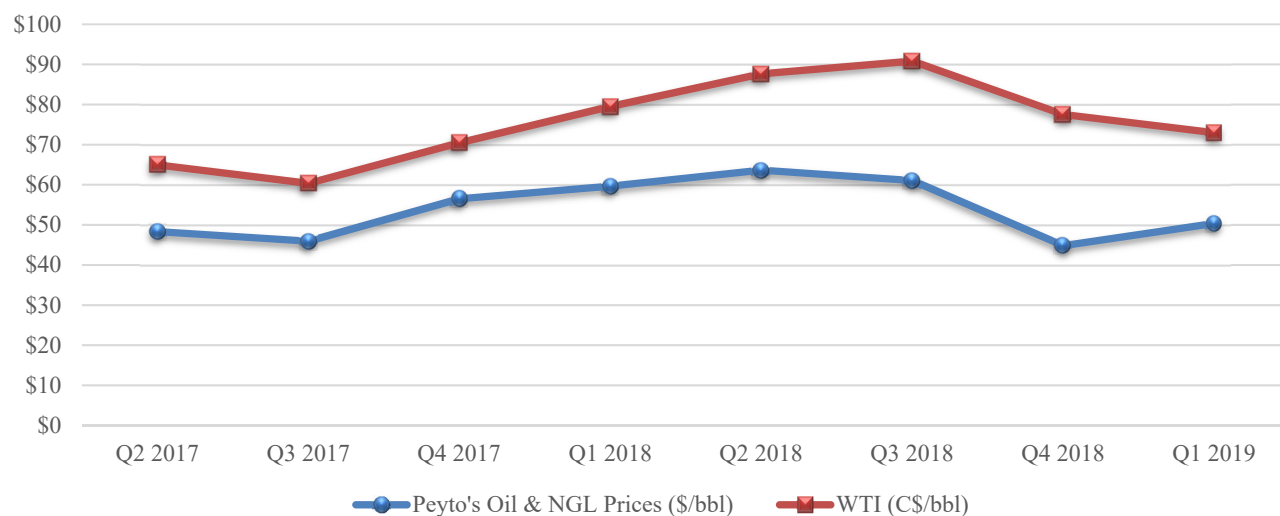
	Three Months ended March 31	
	2019	2018
Natural gas – after hedging (\$/mcf)	<b>2.48</b>	2.86
Natural gas – after hedging (\$/GJ)	<b>2.16</b>	2.49
AECO monthly (\$/GJ)	<b>1.84</b>	1.76
AECO daily (\$/GJ)	<b>2.49</b>	1.82
Natural gas liquids (\$/bbl)		
Condensate – after hedging (\$/bbl)	<b>71.23</b>	72.56
Propane (\$/bbl)	<b>16.99</b>	26.04
Butane (\$/bbl)	<b>26.69</b>	40.83
Pentane (\$/bbl)	<b>64.16</b>	79.26
Total natural gas liquids (\$/bbl)	<b>50.37</b>	59.67
Canadian WTI (\$/bbl)	<b>72.98</b>	79.53

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

### Natural Gas Price



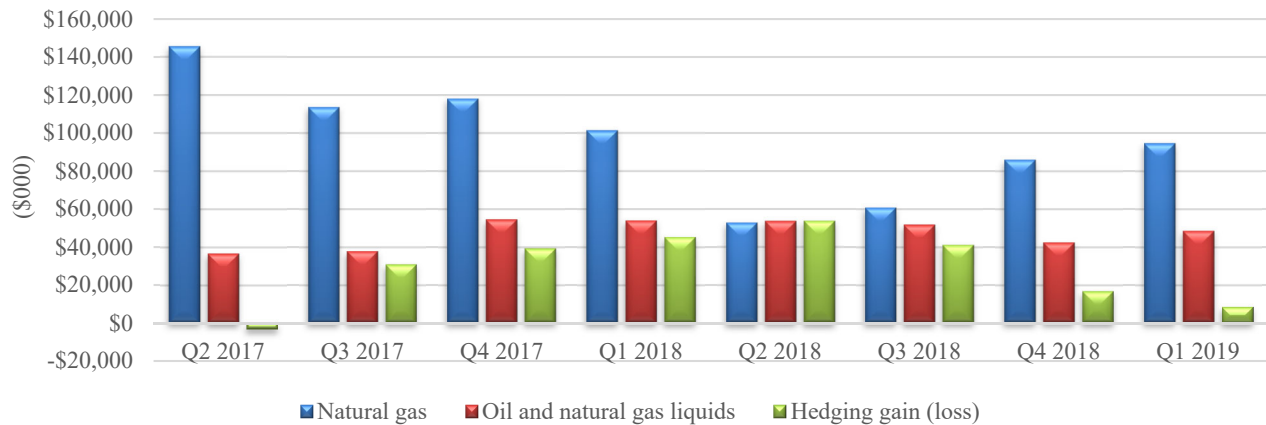
### Oil & NGL Prices



### Revenue and Realized Hedging Gains

(\$000)	Three Months ended March 31	
	2019	2018
Natural gas	94,604	101,231
Oil & natural gas liquids	48,520	53,937
Hedging gain	8,536	45,229
	<b>151,660</b>	<b>200,397</b>

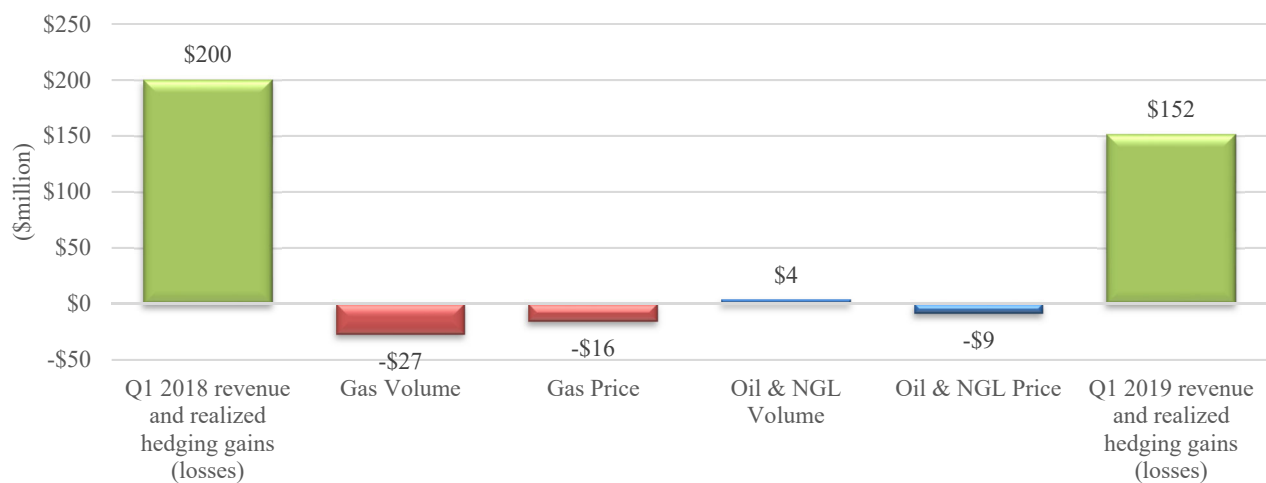
## Revenue and Realized Hedging Gains (Losses)



For the three months ended March 31, 2019, revenue and realized hedging gains (losses) decreased 24 per cent to \$151.7 million from \$200.4 million for the same period in 2018. The decrease in revenue and realized hedging gains (losses) for the quarter was a result of decreased natural gas production volumes and commodity prices partially offset by an increase in liquids production volumes, as detailed in the following table:

	Three Months ended March 31		
	2019	2018	\$million
Total Revenue, March 31, 2018			<b>200.4</b>
Revenue change due to:			
<b>Natural gas</b>			
Volume (mmcf)	41,580	51,165	<b>(27.4)</b>
Price (\$/mcf)	\$2.48	\$2.86	<b>(15.8)</b>
<b>Oil &amp; NGL</b>			
Volume (m bbl)	963	904	<b>3.5</b>
Price (\$/bbl)	\$50.37	\$59.67	<b>(9.0)</b>
Total Revenue, March 31, 2019			<b>151.7</b>

## Change in Revenue and Realized Hedging Gains (Losses)



## Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. All of Peyto's new natural gas wells qualify for the Crown incentive programs which have a 5 per cent initial royalty rate. The royalty rate expressed as a percentage of sales revenue will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices realized by Peyto and that hedging gains and losses are not subject to royalties.

	Three Months ended March 31	
	2019	2018
Royalties (\$000)	<b>6,673</b>	9,543
per cent of sales before hedging	<b>4.7</b>	6.2
per cent of sales after hedging	<b>4.4</b>	4.8
\$/mcf	<b>0.14</b>	0.17
\$/boe	<b>0.85</b>	1.01

For the first quarter of 2019, royalties averaged \$0.14/mcf or approximately 4.7 per cent of Peyto's total petroleum and natural gas sales excluding hedging gains.



In its 20 year history, Peyto has invested over \$6.0 billion in capital projects, found and developed 6.5 TCFe of natural gas reserves and paid over \$865 million in royalties.

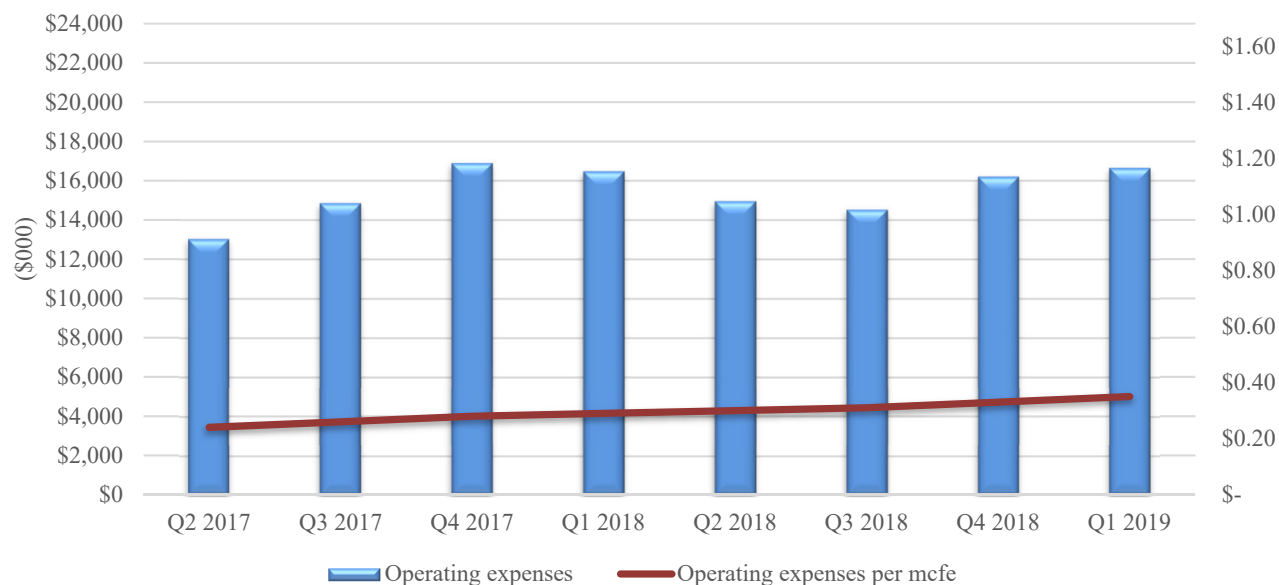
### Operating Costs & Transportation

Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended March 31	
	2019	2018
Operating costs (\$000)	<b>16,625</b>	16,454
\$/mcf	<b>0.35</b>	0.29
\$/boe	<b>2.11</b>	1.74
Transportation (\$000)	<b>8,961</b>	7,686
\$/mcf	<b>0.19</b>	0.13
\$/boe	<b>1.14</b>	0.81

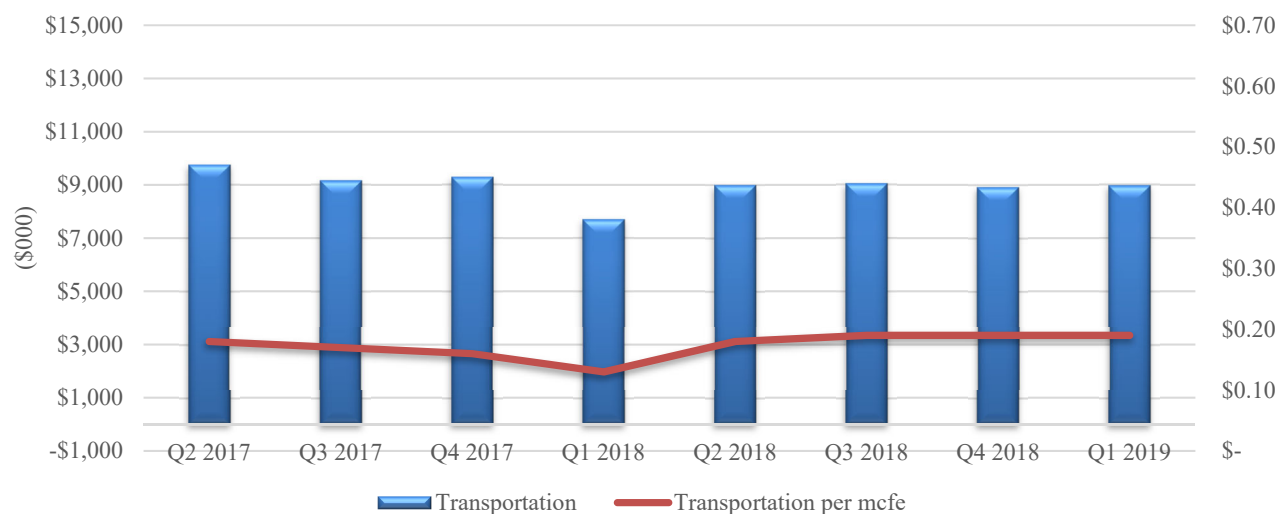
For the first quarter, operating expenses increased 1 per cent compared to the same quarter in 2018. On a unit-of-production basis, operating costs increased 21 per cent from \$0.29/mcf to \$0.35/mcf due to lower production volumes. Approximately 30% of operating expenses are related to government fees, taxes and levies. Peyto focuses on being the industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.

## Operating Expenses



Transportation expenses increased 46 per cent on a unit-of production basis from \$0.13/mcfe in the first quarter 2018 to \$0.19/mcfe in the first quarter 2019 due to the incremental cost of unutilized firm transportation.

## Transportation



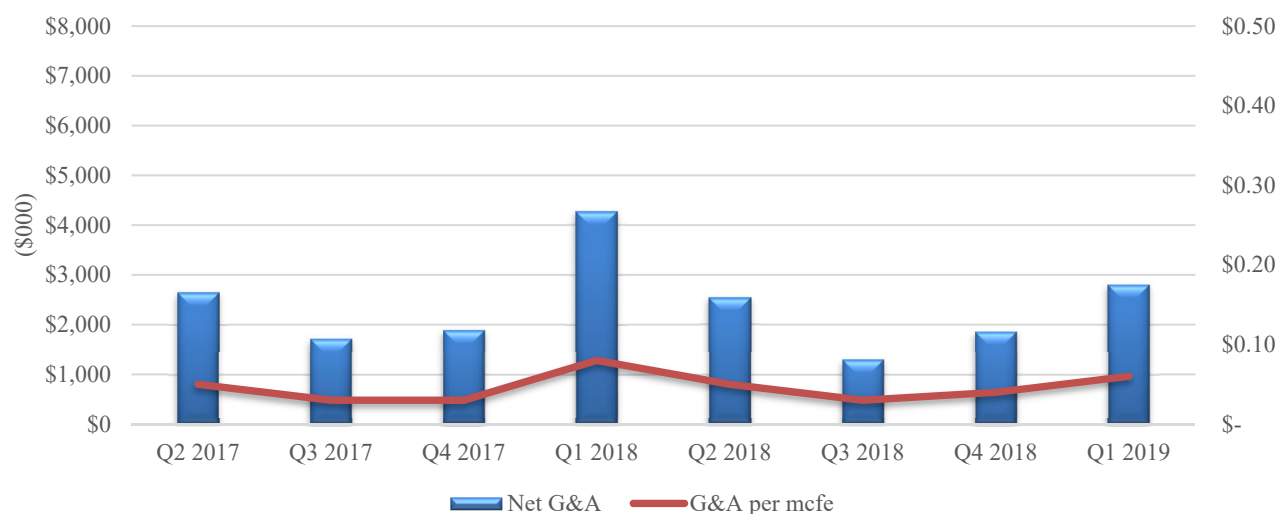
### General and Administrative Expenses

	Three Months ended March 31	
	2019	2018
G&A expenses (\$000)	4,526	4,985
Overhead recoveries (\$000)	(1,731)	(717)
Net G&A expenses (\$000)	2,795	4,268
\$/mcf	0.06	0.08
\$/boe	0.35	0.45

For the first quarter, general and administrative expenses before overhead recoveries was \$4.5 million compared to \$5.0 million for the same quarter of 2018. General and administrative expenses averaged \$0.10/mcfe before overhead recoveries of \$0.04/mcfe for net general and administrative expenses of \$0.06/mcfe in the first quarter of 2019 (\$0.09/mcfe before overhead recoveries of \$0.01/mcfe for net general and administrative expenses of \$0.08/mcfe in the first quarter of 2018).



## Net G&A Expense



### Performance Based Compensation

The Company awards performance based compensation to employees and key consultants annually. The performance based compensation is comprised of market and reserve value based components.

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of \$Nil was recorded for the first quarter of 2019.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

Based on the weighted average trading price of the common shares for the period ended March 31, 2019, compensation costs related to 2.5 million non-vested rights (1.5% of the total number of common shares outstanding), with an average grant price of \$7.23, are \$0.6 million for the first quarter of 2019. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 10 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative provision totals \$0.6 million (\$0.2 million current liability and \$0.4 million long term liability).

### Rights Outstanding Under Market Based Compensation Plan

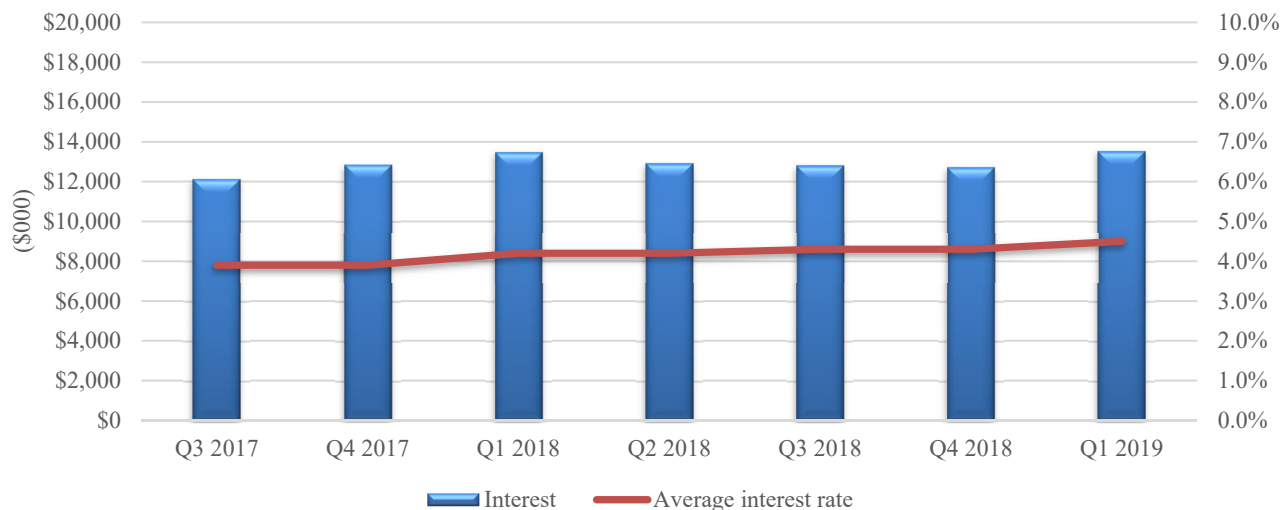
<u>Valuation and Vesting Date</u>	<u>Number of Rights</u>	<u>Average Grant Price</u>
December 31, 2019	825,000	\$ 7.23
December 31, 2020	825,000	\$ 7.23
December 31, 2021	825,000	\$ 7.23

## Interest Expense

	Three Months ended March 31	
	2019	2018
Interest expense (\$000)	13,527	13,460
\$/mcf	0.28	0.24
\$/boe	1.71	1.43
Average interest rate	4.5%	4.2%

First quarter 2019 interest expense was \$13.5 million or \$0.28/mcf compared to \$13.5 million or \$0.24/mcf for the first quarter 2018. The average interest rate for the first quarter of 2019 increased to 4.5 per cent from 4.2 per cent in the first quarter of 2018 due to Bank of Canada interest rate increases.

### Interest



## Netbacks

(\$/mcf)	Three Months ended March 31	
	2019	2018
Gross Sale Price	3.02	2.74
Hedging gain (loss)	0.18	0.80
Net Sale Price	3.20	3.54
Less: Royalties	0.14	0.17
Operating costs	0.35	0.29
Transportation	0.19	0.13
Field netback	2.52	2.95
General and administrative	0.06	0.08
Interest on long-term debt	0.28	0.24
Cash netback (\$/mcf)	2.18	2.63
Cash netback (\$/boe)	13.06	15.80

Netbacks are a non-GAAP measure that represent the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.

## Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2019 first quarter provision for depletion, depreciation and amortization totaled \$65.2 million (\$1.38/mcf) compared to \$81.6 million (\$1.44/mcf) in the first quarter 2018. As finding and development costs decrease, associated depletion and depreciation costs also decrease.

## Income Taxes

The current provision for deferred income tax expense is \$9.2 million compared to \$17.6 million in the first quarter of 2018. The corporate income tax rate in Alberta remained unchanged at 27 per cent. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

<b>Income Tax Pool type (\$ millions)</b>	<b>March 31, 2019</b>	<b>December 31, 2018</b>	<b>Annual deductibility</b>
Canadian Oil and Gas Property Expense	189.8	191.7	10% declining balance
Canadian Development Expense	686.8	698.1	30% declining balance
Canadian Exploration Expense	69.9	89.2	100%
Undepreciated Capital Cost	315.9	322.5	Primarily 25% declining balance
Other	20.1	21.5	Various, 7% to 20% declining balance
<b>Total Federal Tax Pools</b>	<b>1,282.5</b>	<b>1,323.0</b>	
Additional Alberta Tax Pools	46.3	46.3	Primarily 100%

## MARKETING

### Commodity Price Risk Management

#### Financial Derivative Instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the first quarter of 2019, a realized hedging gain of \$8.5 million was recorded as compared to a \$45.2 million gain for the equivalent period in 2018. A summary of contracts outstanding in respect of the hedging activities are as follows:

<b>Natural Gas Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume (GJ)</b>	<b>Average Price (AECO CAD/GJ)</b>
January 1, 2018 to December 31, 2020	Fixed Price	20,000	\$2.02
April 1, 2018 to March 31, 2020	Fixed Price	10,000	\$1.44
November 1, 2018 to March 31, 2020	Fixed Price	5,000	\$1.57
April 1, 2019 to October 31, 2019	Fixed Price	50,000	\$1.37
April 1, 2019 to March 31, 2020	Fixed Price	80,000	\$1.76
November 1, 2019 to March 31, 2020	Fixed Price	60,000	\$2.00
April 1, 2020 to October 31, 2020	Fixed Price	15,000	\$1.30
April 1, 2020 to March 31, 2021	Fixed Price	10,000	\$1.65
April 1, 2021 to October 31, 2021	Fixed Price	10,000	\$1.56

<b>Natural Gas Period Hedged - Daily Index</b>	<b>Type</b>	<b>Daily Volume (GJ)</b>	<b>Average Price (AECO CAD/GJ)</b>
April 1, 2019 to October 31, 2019	Fixed Price	30,000	\$1.27
November 1, 2019 to March 31, 2020	Fixed Price	10,000	\$1.97

<b>Crude Oil Period Hedged</b>	<b>Type</b>	<b>Daily Volume (bbl)</b>	<b>Average Price (WTI CAD/bbl)</b>
July 1, 2018 to June 30, 2019	Fixed Price	400	\$86.75
August 1, 2018 to July 31, 2019	Fixed Price	600	\$84.92
September 1, 2018 to August 31, 2019	Fixed Price	400	\$85.97
October 1, 2018 to September 30, 2019	Fixed Price	500	\$85.92
November 1, 2018 to October 31, 2019	Fixed Price	500	\$89.34
December 1, 2018 to November 30, 2019	Fixed Price	300	\$90.17

As at March 31, 2019, Peyto had committed to the future sale of 93,360,000 gigajoules (GJ) of natural gas at an average price of \$1.67 per GJ or \$1.92 per mcf and 445,500 barrels of crude at \$87.39 per bbl. Had these contracts closed on March 31, 2019, Peyto would have realized a net gain in the amount of \$23.3 million.

### Physical Volume Contracts

The Company is a party to certain physical delivery contracts. The Company enters into these contracts with well-established counterparties 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 at March 31, 2019 are as follows:

<b>Natural Gas - Fixed Price</b>	<b>Daily Volume (mmbtu)</b>	<b>Average Price (USD/mmbtu)</b>	<b>Average Price (CAD/mmbtu)*</b>
April 1, 2019 to October 31, 2019	180,000	\$1.35	\$1.80
November 1, 2019 to March 31, 2020	50,000	\$1.81	\$2.42

\*USD/CAD exchange rate at March 31, 2019 =1.3363

<b>Natural Gas - Henry Hub/AECO Basis</b>	<b>Daily Volume (mmbtu)</b>	<b>Fixed Basis (USD/mmbtu)</b>	<b>Fixed Basis (CAD/mmbtu)</b>
November 1, 2019 to March 31, 2020	117,500	\$1.32	\$1.76
April 1, 2020 to October 31, 2020	247,500	\$1.43	\$1.91
November 1, 2020 to March 31, 2021	182,500	\$1.32	\$1.76
April 1, 2021 to October 31, 2021	247,500	\$1.43	\$1.91
November 1, 2021 to March 31, 2022	87,500	\$1.41	\$1.88
April 1, 2022 to October 31, 2022	132,500	\$1.41	\$1.88

\*USD/CAD exchange rate at March 31, 2019 =1.3363

<b>Natural Gas - Henry Hub/Empress Basis</b>	<b>Daily Volume (mmbtu)</b>	<b>Average Price (USD/mmbtu)</b>	<b>Average Price (CAD/mmbtu)*</b>
November 1, 2021 to October 31, 2024	27,500	\$0.90	\$1.20

\*USD/CAD exchange rate at March 31, 2019 =1.3363

<b>Natural Gas - Export</b>	<b>Daily Volume (mmbtu)</b>	<b>Market</b>
April 1, 2019 to October 31, 2019	15,000	Emerson
April 1, 2019 to October 31, 2019	25,000	Dawn
November 1, 2019 to October 31, 2021	40,000	Emerson
November 1, 2019 to March 31, 2027	20,000	Ventura
November 1, 2021 to March 31, 2023	110,000	Emerson

Subsequent to March 31, 2019 Peyto entered into the following contracts:

<b>Natural Gas - Henry Hub/AECO Basis</b>	<b>Daily Volume (mmbtu)</b>	<b>Average Price (USD/mmbtu)</b>	<b>Average Price (CAD/mmbtu)*</b>
November 1, 2020 to October 31, 2024	5,000	\$1.25	\$1.67

\*USD/CAD exchange rate at March 31, 2019 =1.3363

### Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

### Currency Risk Management

The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of a commodity hedging strategy that is conducted in a Canadian dollar currency. Over the long term, the Canadian dollar tends to rise as commodity prices rise. There is a similar correlation between oil and gas prices. Currently Peyto has not entered into any agreements to further manage its currency risks.

### Interest Rate Risk Management

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At March 31 2019, the increase or decrease in earnings for each 100 bps (1 per cent) change in interest rate paid on the outstanding revolving demand loan amounts to approximately \$1.4 million per quarter. Average debt outstanding for the quarter was \$1.2 billion (including \$620 million fixed rate debt).

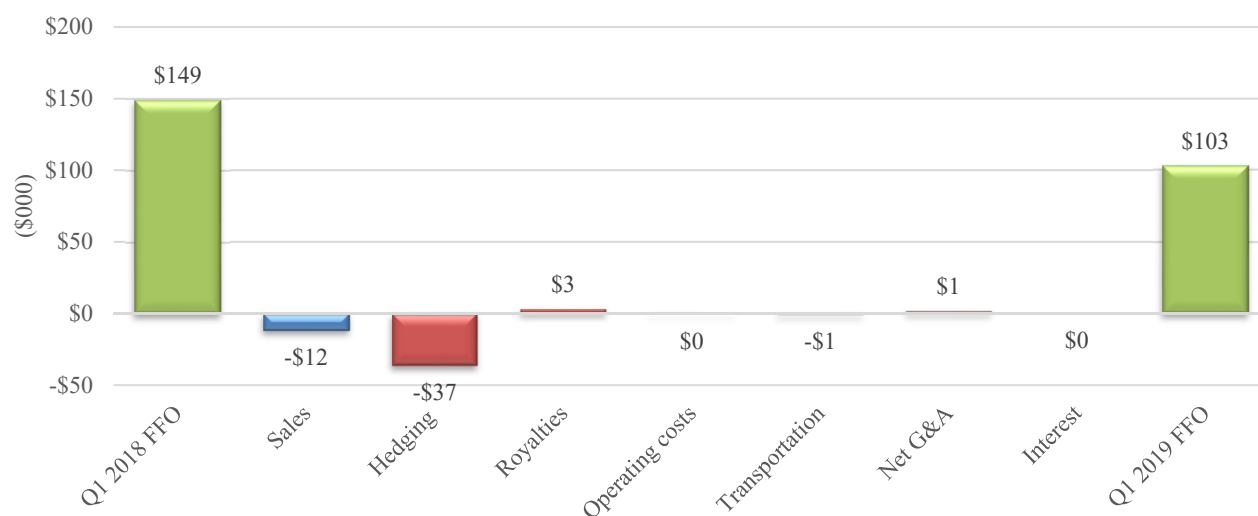
## LIQUIDITY AND CAPITAL RESOURCES

Funds from operations is reconciled to cash flows from operating activities below:

(\$000)	Three months ended March 31	
	2019	2018
Cash flows from operating activities	91,511	143,995
Change in non-cash working capital	9,061	3,913
Change in provision for performance based compensation	215	1,078
Performance based compensation	2,291	-
Funds from operations	103,078	148,986
Funds from operations per share	0.63	0.90

For the first quarter ended March 31, 2019, funds from operations totaled \$103.1 million or \$0.63 per share, compared to \$149.0 million or \$0.90 per share during the same quarter in 2018. The decrease in funds from operation on a quarterly was due to a decrease in production volumes and commodity prices.

### Change in Funds from Operations



Peyto's policy is to balance dividends to shareholders with earnings and cash flow, and to balance funding for the capital program with cash flow, equity and available bank lines. Earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

## Current and Long-Term Debt

(\$000)	March 31, 2019	December 31, 2018
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	620,000	520,000
Bank credit facility	570,000	530,000
<b>Balance, end of the period</b>	<b>1,190,000</b>	<b>1,150,000</b>

The Company has a syndicated \$1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2022. The bank facility is made up of a \$40 million working capital sub-tranche and a \$1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 25 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 125 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 25 to 63 basis points.

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

- Long-term debt plus bank overdraft and letters of credit not to exceed 3.25 times trailing twelve-month net income before non-cash items, interest and income taxes (covenant amended on March 1, 2019 from 3.0 times to 3.25 times to be consistent with industry peers);  
as at March 31, 2019 – 2.58:1.0
- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 4.0 times trailing twelve-month net income before non-cash items, interest and income taxes;  
as at March 31, 2019 – 2.58:1.0
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;  
as at March 31, 2019 – 8.8 times
- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 55% of shareholders' equity and long-term debt and subordinated debt plus bank overdraft and letters of credit.  
as at March 31, 2019 – 42%

Peyto is in compliance with all financial covenants and has no subordinated debt as at March 31, 2019.

Outstanding unsecured senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
\$120 million	December 4, 2013	4.50%	December 4, 2020
\$50 million	July 3, 2014	3.79%	July 3, 2022
\$50 million	September 6, 2012	4.88%	September 6, 2022
\$100 million	October 24, 2016	3.70%	October 24, 2023
\$100 million	May 1, 2015	4.26%	May 1, 2025
\$100 million	January 3, 2019	4.39%	January 3, 2026
\$100 million	January 2, 2018	3.95%	January 2, 2028

Peyto's total borrowing capacity after the issuance of the senior, unsecured notes on January 2, 2019 is \$1.92 billion of which the credit facility is \$1.3 billion.

Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of approximately \$150 to \$200 million for 2019. The total amount of capital invested in 2019 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long-term objectives of the Company. The majority of the capital

program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

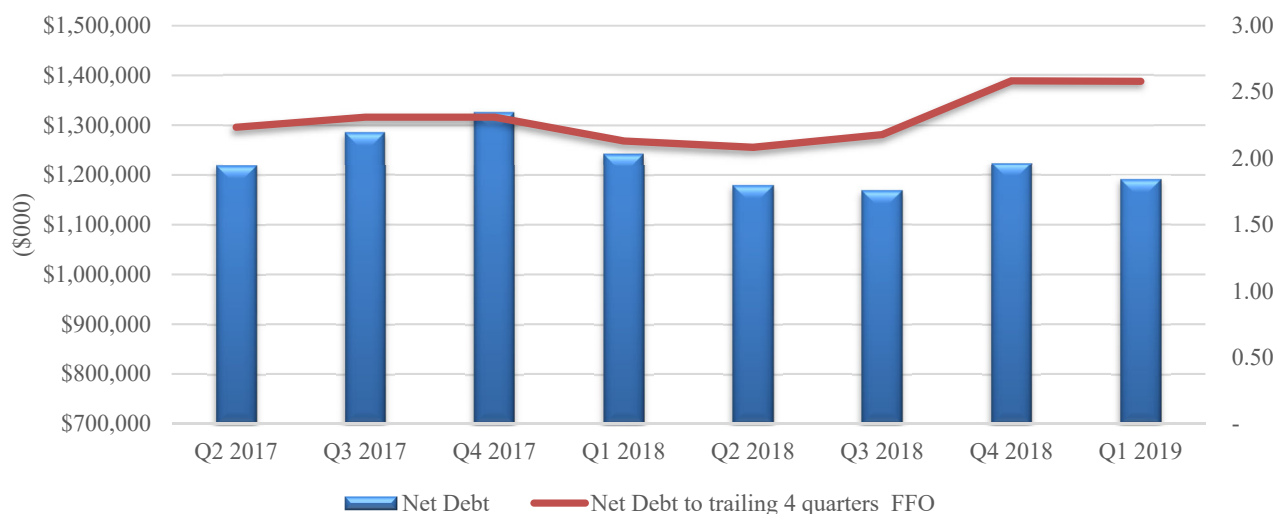
### Net Debt

"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance-based compensation. It is used by management to analyze the financial position and leverage of the Company. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

(\$000)	As at March 31, 2019	As at December 31, 2018	As at March 31, 2018
Bank credit facility - drawn	570,000	530,000	650,000
Senior unsecured notes	620,000	620,000	620,000
Current assets	(95,075)	(135,231)	(211,161)
Current liabilities	77,105	143,884	77,119
Financial derivative instruments	18,035	65,769	117,577
Current portion of lease obligation	(1,040)	-	-
Provision for future performance-based compensation	(215)	-	(10,244)
<b>Net debt</b>	<b>1,188,810</b>	<b>1,224,422</b>	<b>1,243,291</b>

Net debt has decreased 4 per cent from \$1.24 billion at March 31, 2018 to \$1.19 billion at March 31, 2019.

### Net Debt



### Capital

**Authorized:** Unlimited number of voting common shares

### Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount (\$000)
Balance, December 31, 2018	164,874,175	1,649,537
Common shares issued	-	-
Common share issuance costs, (net of tax)	-	-
<b>Balance, March 31, 2019</b>	<b>164,874,175</b>	<b>1,649,537</b>

## Capital Expenditures

Net capital expenditures for the first quarter of 2019 totaled \$62.4 million. Exploration and development related activity represented \$44.4 million (71 per cent), while expenditures on facilities, gathering systems and equipment totaled \$14.0 million (23 per cent) and land, seismic, and acquisitions totaled \$4.0 million (6 per cent). The following table summarizes capital expenditures for the period:

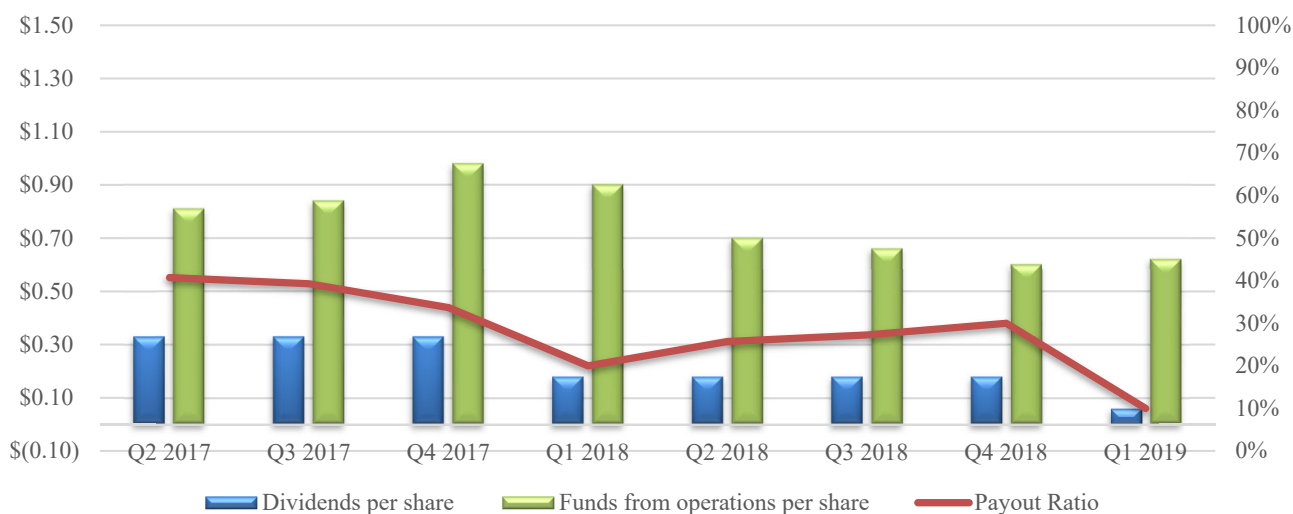
(\$000)	Three Months ended March 31	
	2019	2018
Land	1,928	650
Seismic	1,063	182
Drilling	24,155	14,236
Completions	20,187	16,901
Equipping & Tie-ins	5,157	3,818
Facilities & Pipelines	8,855	3,669
Acquisitions	1,050	-
Dispositions	-	(4,002)
<b>Total Capital Expenditures</b>	<b>62,395</b>	<b>35,454</b>

## Dividends

	Three Months ended March 31	
	2019	2018
Funds from operations (\$000)	103,078	148,986
Total dividends (\$000)	9,893	29,677
Total dividends per common share (\$)	0.06	0.18
Payout ratio (%)	10	20

Peyto's policy is to balance dividends to shareholders with earnings and cash flow; and funding for the capital program with cash flow, equity and available bank lines. The Board of Directors 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.

### Dividend Payout Ratio





## Contractual Obligations

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at March 31, 2019:

(\$000)	2019	2020	2021	2022	2023	Thereafter
Interest payments <sup>(1)</sup>	23,840	26,035	20,635	20,635	16,300	35,140
Transportation commitments	37,930	44,326	36,779	43,212	28,272	250,214
Operating lease	1,680	2,240	2,240	2,315	2,315	6,946
Methanol	2,040	-	-	-	-	-
Total	65,490	72,601	59,654	66,162	46,887	292,300

<sup>(1)</sup> Fixed interest payments on senior unsecured notes

## RELATED PARTY TRANSACTIONS

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

Expense (\$000)		Accounts Payable (\$000)	
Three Months ended March 31		As at March 31	
2019	2018	2019	2018
231.0	118.0	150.4	118.0

## RISK MANAGEMENT

Investors who purchase shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is dependent on current Alberta, Henry Hub and Dawn market prices and Canadian/US currency exchange rates. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

The value of Peyto's shares is based on among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost efficient counterparties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. Peyto operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations, and looks to both Alberta provincial authorities and Canada's federal authorities for direction and regulation regarding environmental and climate change legislation.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, Peyto must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

### **Internal Control over Financial Reporting**

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Reserve Estimates**

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by

governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2018 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

### **Depletion and Depreciation Estimate**

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis.

### **Impairment of Long-Lived Assets**

Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

### **Decommissioning Provision**

The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

### **Future Market Performance Based Compensation**

The provision for future market based compensation is estimated based on current market conditions, distribution history and on the assumption that all outstanding rights will be paid out according to the vesting schedule. The conditions at the time of vesting could vary significantly from the current conditions and may have a material effect on the calculation.

### **Reserve Value Performance Based Compensation**

The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2019. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

### **Income Taxes**

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

### **Accounting Changes**

Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

## **ADDITIONAL INFORMATION**

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.peyto.com](http://www.peyto.com).

## Quarterly information

	2019		2018		
	Q1	Q4	Q3	Q2	Q1
<b>Operations</b>					
Production					
Natural gas (mcf/d)	462,003	458,792	456,197	493,821	568,496
Oil & NGLs (bbl/d)	10,703	10,273	9,209	9,243	10,043
Barrels of oil equivalent (boe/d @ 6:1)	87,703	86,738	85,242	91,547	104,793
Thousand cubic feet equivalent (mcf/d @ 6:1)	526,220	520,430	511,453	549,281	628,755
Liquid to gas ratio (bbl per mmcf)	23.2	22.4	20.2	18.7	17.7
Average product prices					
Natural gas (\$/mcf)	2.48	2.43	2.43	2.37	2.86
Oil & natural gas liquids (\$/bbl)	50.37	44.83	61.04	63.64	59.67
\$/MCFE					
Average sale price (\$/mcf)	3.20	3.03	3.27	3.20	3.54
Average royalties paid (\$/mcf)	0.14	0.12	0.14	0.10	0.17
Average operating expenses (\$/mcf)	0.35	0.33	0.31	0.30	0.29
Average transportation costs (\$/mcf)	0.19	0.19	0.19	0.18	0.13
Field netback (\$/mcf)	2.52	2.39	2.63	2.62	2.95
General & administrative expense (\$/mcf)	0.06	0.04	0.03	0.05	0.08
Interest expense (\$/mcf)	0.28	0.27	0.27	0.26	0.24
Cash netback (\$/mcf)	2.18	2.08	2.33	2.31	2.63
<b>Financial (\$000 except per share)</b>					
Revenue and realized hedging gains (losses)	151,660	145,109	153,589	159,811	200,397
Royalties	6,673	5,801	6,399	4,879	9,543
Funds from operations	103,078	99,635	109,549	115,571	148,986
Funds from operations per share	0.63	0.60	0.66	0.70	0.90
Total dividends	9,893	29,677	29,677	29,677	29,677
Total dividends per share	0.06	0.18	0.18	0.18	0.18
Payout ratio	10%	30%	27%	26%	20%
Earnings	24,970	21,458	29,506	30,397	47,749
Earnings per share	0.15	0.13	0.18	0.18	0.29
Capital expenditures	62,395	112,215	69,716	14,978	35,454
Weighted average shares outstanding	164,874,175	164,874,175	164,874,175	164,874,175	164,874,175