

PEYTO

Exploration & Development Corp.

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*Annual Report
for the three and twelve months ended December 31, 2019*

HIGHLIGHTS

	Three Months Ended Dec 31			Twelve Months Ended Dec 31		
	2019	2018	% Change	2019	2018	% Change
Operations						
Production						
Natural gas (mcf/d)	397,419	458,792	-13%	419,281	493,921	-15%
Oil & NGLs (bbl/d)	11,221	10,273	9%	10,922	9,692	13%
Thousand cubic feet equivalent (mcf/d @ 1:6)	464,745	520,430	-11%	484,810	552,070	-12%
Barrels of oil equivalent (boe/d @ 6:1)	77,457	86,738	-11%	80,802	92,012	-12%
Production per million common shares (boe/d)	470	526	-11%	490	558	-12%
Product prices						
Natural gas (\$/mcf)	1.96	2.43	-19%	2.04	2.54	-20%
Oil & NGLs (\$/bbl)	43.85	44.83	-2%	44.61	56.98	-22%
Operating expenses (\$/mcf)	0.34	0.33	3%	0.34	0.31	10%
Transportation (\$/mcf)	0.19	0.19	-	0.19	0.17	12%
Field netback (\$/mcf)	2.11	2.39	-12%	2.17	2.66	-18%
General & administrative expenses (\$/mcf)	0.02	0.04	-50%	0.04	0.05	-20%
Interest expense (\$/mcf)	0.31	0.27	15%	0.30	0.26	15%
Financial (\$000, except per share*)						
Revenue and realized hedging gains (losses) ¹	116,691	145,109	-20%	489,822	658,906	-26%
Royalties	5,303	5,801	-9%	13,653	26,622	-49%
Funds from operations	75,974	99,635	-24%	323,131	473,740	-32%
Funds from operations per share	0.46	0.61	-25%	1.96	2.87	-32%
Total dividends	9,892	29,677	-67%	39,570	118,709	-67%
Total dividends per share	0.06	0.18	-67%	0.24	0.72	-67%
Payout ratio	13	30	-57%	12	25	-52%
Earnings	3,492	21,458	-84%	133,495	129,110	3%
Earnings per diluted share	0.02	0.13	-85%	0.81	0.78	4%
Capital expenditures	73,351	112,215	-35%	206,431	232,363	-11%
Weighted average common shares outstanding	164,874,175	164,874,175	-	164,874,175	164,874,175	-
As at December 31						
Net debt				1,146,659	1,224,422	-6%
Shareholders' equity				1,713,917	1,680,462	2%
Total assets				3,597,180	3,688,852	-2%

¹excludes revenue from sale of third-party volumes

	Three Months Ended Dec 31		Twelve Months Ended Dec 31	
	2019	2018	2019	2018
(\$000 except per share)				
Cash flows from operating activities	74,943	102,559	316,936	486,478
Change in non-cash working capital	1,031	(3,955)	3,904	(17,131)
Change in provision for performance-based compensation	-	(12,527)	-	(9,165)
Performance based compensation	-	13,558	2,291	13,558
Funds from operations	75,974	99,635	323,131	473,740
Funds from operations per share	0.46	0.60	1.96	2.87

(1) Funds from operations ("FFO") - Management uses FFO to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, FFO is defined throughout this report as earnings before performance-based compensation, non-cash and non-recurring expenses. Management believes that FFO is an important parameter to measure the value of an asset when combined with reserve life. FFO is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, FFO, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that FFO should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. FFO cannot be assured and future dividends may vary.

Peyto Exploration & Development Corp. (“Peyto” or the “Company”) is pleased to report operating and financial results for the fourth quarter and 2019 fiscal year. A 66% operating margin¹ and 27% profit margin² was achieved in 2019, allowing Peyto to deliver a 4% return on capital employed (“ROCE”) and an 8% return on equity (“ROE”) in the year.

PROFITABILITY = SUSTAINABILITY

- **Free Cashflow** – Generated \$117 million in free cashflow in 2019 and continued to strengthen the balance sheet with \$78 million in net debt reduction.
- **Long Life, Low Decline** – The PDP Reserve life index (“RLI”) increased 8% year-over-year to 9.4 years and the base production decline for 2020 is forecast in the independent reserve report at 23%.
- **Annual Earnings per share of \$0.81** – 2019 was the 20th consecutive year of profits with annual earnings of \$134 million or 27% of revenue. Over the past 21 years, Peyto has invested \$6.2 billion of total capital, resulting in \$6.3 billion in total Funds from Operations and \$2.6 billion in cumulative earnings. The Company has never incurred a write down nor recorded an impairment of its assets.
- **Low Cash Costs of \$0.95/Mcfe (\$5.69/boe)** – Cash costs of \$0.87/Mcfe, before royalties of \$0.08/Mcfe, included operating costs of \$0.34/Mcfe, transportation of \$0.19/Mcfe, G&A of \$0.04/Mcfe and interest expense of \$0.30/Mcfe. Total 2019 cash costs continue to be the lowest in the industry and when combined with a realized price of \$2.78/Mcfe (\$16.65/boe), resulted in a cash netback of \$1.83/Mcfe (\$10.96/boe) or a 66% operating margin.
- **Annual capital investments were 64% of FFO** – Of the total of \$323 million of FFO (\$1.96/share), \$206 million was invested in the drilling of 61 gross (53 net) wells. The new wells contributed 75 mmcf/d of natural gas and 4,700 bbl/d of NGLs (66% pentanes and condensate) by year end at a cost of \$12,000/boe/d. While this cost for new production was up from \$9,800/boe/d in the previous year, it built a more liquids-rich barrel that captured a 54% higher netback.
- **Liquids production up 13%** – Condensate and NGL production averaged 10,922 bbls/d up 13% in 2019 while natural gas production averaged 419 MMcf/d down 15% from 2018. For Q4 2019, natural gas and liquids production was 397 MMcf/d and 11,221 bbls/d. Fourth quarter liquid yields increased 26% year-over-year to 28 bbl/mmcf. Realized liquids prices were 3.7 times that of gas when gas is converted to oil on an energy equivalent basis of 6 mcf equals 1 bbl.
- **Lower Emissions** – GHG Emissions Intensity was further reduced in 2019 due to Peyto’s ongoing installation of zero emissions wellsite controllers and pumps, and by pre-connecting new wells to existing gathering systems to eliminate flaring. Since implementation of its comprehensive emissions reduction program in 2014, the Company has achieved a methane flaring and venting intensity reduction of 38% and an overall GHG emissions intensity reduction of 28%.
- **Minimal Future Liabilities** – The forecast cost of all Peyto’s future abandonment and reclamation liability (wells, sites, & facilities) is \$55 million (NPV₅), which represents 1.7% of the \$3.3 billion of forecast future value of the total developed reserves³ (NPV₅).

2019 in Review

The year 2019 marked Peyto’s 21st year of successful operations with the advancement of several key plays across the Company’s Deep Basin lands. Most of the drilling took place in Cardium “sweet-spots” that exhibited higher condensate yields, particularly in the Wildhay area, while at the same time the company completed and tied in its first Montney well. In addition, a prolific Falher channel was discovered in the Ansell area and the first few development wells were brought on production. Peyto also continued to evaluate its South Brazeau acreage and late in the year commenced construction of a 16 km pipeline to connect this area to the Company’s Brazeau gas plant. The Company significantly increased its Deep Basin land position in the year with 130 net sections (equivalent to 3.6 townships of land) purchased at Crown auctions and through private acquisition. The 108 net sections of land purchased at auction was acquired at a record low price of \$37/acre.

The Average AECO daily natural gas price in Alberta was up 17% from the previous year to \$1.67/GJ, while the NYMEX price in the US fell 19% to \$2.56/MMBTU. WTI oil price was also down year over year by 13% to \$57/bbl. While this lower oil price translated into lower realized natural gas liquids prices, Peyto’s blend of NGLs still sold for significantly more than gas which is why drilling was directed to increasing liquids production. This focus on increasing liquids production and reserves, with PDP liquid reserves up 23% and liquid production up 13%, came at a higher finding and development cost of \$1.55/Mcfe (\$9.29/boe). The Company plans to keep innovating with its Cardium well design to lower this cost in 2020 while continuing to enjoy the higher netback and value realized from increased liquids production.

1. Operating Margin is defined as funds from operations divided by revenue before royalties and marketing but including realized hedging gains/losses.

2. Profit Margin is defined as net earnings for the quarter divided by revenue before royalties and marketing but including realized hedging gains/losses.

3. Total Developed Reserves includes Proved Developed Producing+Probable Additional reserves and Proved Developed Non-Producing+Probable Additional reserves.

Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

The Peyto Strategy

For the past 21 years, the Peyto strategy has focused on maximizing the returns on shareholders' capital by investing that capital into the profitable development of long life, low cost, and low risk natural gas resource plays. This strategy of maximizing returns does not end in the field with just the efficient execution of exploration and production operations but continues on to the head office where the management of corporate costs, including the cost of capital, must be controlled to ensure true returns are ultimately realized. Alignment of goals between what is good for the Company, its shareholders and its employees and what is good for the environment and all stakeholders is critical to ensuring that the greatest returns are achieved. Evidence of the success Peyto has had deploying this strategy, through the years, is illustrated in the following table.

(\$/Mcf)	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	21 Year Wt. Avg.
Sales Price	\$6.75	\$6.15	\$5.47	\$4.21	\$4.43	\$5.04	\$3.83	\$3.18	\$3.39	\$3.27	\$2.78	\$4.59
All cash costs but royalties ²	(\$1.12)	(\$0.99)	(\$0.82)	(\$0.73)	(\$0.75)	(\$0.71)	(\$0.67)	(\$0.63)	(\$0.68)	(\$0.79)	(\$0.87)	(\$0.76)
Capital costs ¹	(\$2.26)	(\$2.10)	(\$2.12)	(\$2.22)	(\$2.35)	(\$2.25)	(\$1.64)	(\$1.44)	(\$1.36)	(\$1.18)	(\$1.55)	(\$1.77)
Profits	\$3.37	\$3.06	\$2.53	\$1.26	\$1.33	\$2.08	\$1.52	\$1.12	\$1.35	\$1.30	\$0.35	\$2.06
	50%	50%	46%	30%	30%	41%	40%	35%	40%	40%	13%	45%
Royalty Owners	\$0.63	\$0.64	\$0.53	\$0.32	\$0.31	\$0.37	\$0.14	\$0.13	\$0.15	\$0.13	\$0.08	\$0.47
Shareholders	\$2.74	\$2.42	\$2.00	\$0.94	\$1.02	\$1.71	\$1.38	\$0.99	\$1.19	\$1.17	\$0.27	\$1.59
Div./Dist. paid	\$4.03	\$3.37	\$1.24	\$1.04	\$1.01	\$1.05	\$1.11	\$1.01	\$0.97	\$0.59	\$0.22	\$1.31

1. Capital costs to develop new producing reserves is the PDP FD&A

2. Cash costs not including royalties but including Operating costs, Transportation, G&A and Interest.

3. Profit above is defined as the Sales Price, less all cash costs but royalties, less the PDP FD&A.

Table may not add due to rounding.

The consistency and repeatability of Peyto's operational execution in the field, combined with strict cost control in all aspects of its business has resulted in 45% of the average sales price being retained in profit over the past 21 years. This healthy margin of profit (as shown above), which benefits both royalty owners and shareholders, has been preserved despite a greater than 60% decline in commodity prices from a decade ago. Out of that profit, royalty owners have received approximately 23%, while shareholders, whose capital has been at risk, have received the balance. This margin of profit is what has and will continue to help insulate Peyto and its stakeholders from future volatility in commodity prices.

Capital Expenditures

Peyto drilled 61 gross (53 net) horizontal wells in 2019 and completed 59 gross (52 net) wells for a capital investment of \$151 million. The Company also invested \$20.5 million in the wellsite equipment and pipeline connections to bring these wells on production. Drilling costs per well and on a per-meter basis continued to drop, due to ongoing efficiency gains like pad drilling, while completion costs on a per stage basis were also lower due to increasing stage count efficiencies. An average of 27 frac stages were pumped per well, up from 22 stages in 2018. The table below outlines the past ten years of average horizontal drilling and completion costs.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross Hz Spuds	52	70	86	99	123	140	126	135	70	61
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,309	4,197	4,229	4,020	3,848
Drilling (\$MM/well)	\$2.76	\$2.82	\$2.79	\$2.72	\$2.66	\$2.16	\$1.82	\$1.90	\$1.71	\$1.62
\$ per meter	\$734	\$723	\$694	\$651	\$626	\$501	\$433	\$450	\$425	\$420
Completion (\$MM/well)	\$1.36	\$1.68	\$1.67	\$1.63	\$1.70	\$1.21	\$0.86	\$1.00	\$1.13	\$1.01*
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,460	1,241	1,348	1,484
\$ per Hz Length (m)	\$1,017	\$1,286	\$1,231	\$1,153	\$1,166	\$792	\$587	\$803	\$751	\$679
\$ '000 per Stage	\$231	\$246	\$257	\$188	\$168	\$115	\$79	\$81	\$51	\$38

*Peyto's Montney well is excluded from drilling and completion cost comparison.

The \$26.5 million invested in facilities and major pipeline projects included \$13 million in new pipelines and liquid handling facilities at Wildhay to accommodate the growing Cardium liquids-rich production. New condensate stabilization and storage facilities increased Wildhay's condensate processing capacity from 1,400 bbl/d to 4,300 bbl/d and site storage from 2,000 bbl to 4,000 bbl. Other projects included the start of construction of the South Brazeau pipeline, Oldman North facility modifications, and pipeline looping projects in the Greater Sundance Area.

Peyto had a very successful year of acquiring new lands during 2019 which contributed to the increase in undeveloped drilling locations in the annual reserve evaluation from 1,201 to 1,280 gross locations (630 PU and 405 PA locations). In total, 130 net sections of new lands were acquired at Crown sales and through acquisition. Within the Greater Sundance Area, 58 net sections of new Cardium lands were acquired, helping drive the 18% increase in 2P Cardium inventory to 442 locations. Much of this new land was subsequently evaluated at year end with a 98 square km 3D seismic acquisition which will help to define additional Cardium and Spirit River drilling targets.

The following table summarizes the capital investments for the fourth quarter and 2019 fiscal year.

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Land	186	106	2,716	3,291
Seismic	1,600	2,000	4,588	5,216
Drilling	36,325	57,383	86,053	115,610
Completions	21,125	36,369	64,973	72,274
Equipping & Tie-ins	9,317	10,716	20,505	20,766
Facilities & Pipelines	4,798	3,691	26,540	17,293
Acquisitions	-	1,950	1,071	1,950
Dispositions	-	-	(15)	(4,037)
Total Capital Expenditures	73,351	112,215	206,431	232,363

Reserves

Using 64% of Funds from Operations, Peyto was successful in effectively holding reserve volumes flat in all categories, however, the significant reduction in commodity price forecasts used by the independent engineering consultants resulted in a negative change in NPV per share. Volumes on a debt adjusted share basis were further impacted by the 46% drop in Peyto share price which was used in the debt adjustment calculation. The following table illustrates the change in reserve volumes and Net Present Value ("NPV") of future cash flows, discounted at 5%, before income tax and using Insite forecast pricing.

	As at December 31		% Change,	% Change, per debt
	2019	2018	per share	adjusted share [†]
Reserves (BCFe)				
Proved Producing	1,600	1,644	(3%)	(30%)
Total Proved	3,164	3,098	2%	(26%)
Proved + Probable Additional	4,888	4,817	1%	(27%)
Net Present Value (\$millions) Discounted at 5%				
Proved Producing	\$2,622	\$3,180	(18%)	(25%)
Total Proved	\$4,514	\$5,029	(10%)	(11%)
Proved + Probable Additional	\$6,818	\$7,345	(7%)	(7%)

[†]Per share reserves are adjusted for changes in net debt by converting debt to equity using the Dec 31 share price of \$7.08 for 2018 and share price of \$3.80 for 2019. Net Present Values are adjusted for debt by subtracting net debt from the value prior to calculating per share amounts.

Note: based on the InSite Petroleum Consultants ("InSite") report effective December 31, 2019. The InSite price forecast is available at www.InSitepc.com. The complete statement of reserves data and required reporting in compliance with NI 51-101 will be included in Peyto's Annual Information Form to be released in March 2020.

For more information on Peyto's reserves, refer to the Press Release dated February 19, 2020 announcing the Year End Reserve Report which is available on the website at www.peyto.com.

Fourth Quarter 2019

Peyto ramped up capital investments during the fourth quarter to double that of the previous quarter in order to bring on additional new production into the winter heating season. During the quarter, between four and five drilling rigs were active across the Greater Sundance Area, split between Cardium and Spirit River formations, as illustrated in the table below. Total capital of \$57 million was invested in the drilling of 25 gross (22 net) wells and the completion of 26 gross (22 net) wells. In addition, \$9 million was invested in wellsite equipment and tie-ins while \$5 million was invested in facility upgrades and major pipeline infrastructure. New seismic accounted for \$2 million in the quarter, while 5 sections of land were acquired at Crown sales.

Zone	Sundance	Nosehill	Wildhay	Field Ansell/ Minehead	Whitehorse	Kisku/ Kakwa	Brazeau	Total Wells Drilled
Belly River								
Cardium	4		11					15
Notikewin				1			2	3
Falher				2				2
Wilrich	3			1				4
Bluesky		1						1
Montney								
Total	7	1	11	4			2	25

Production during the fourth quarter of 2019 grew from 75,000 boe/d in October to exit the year at a peak of 82,000 boe/d, averaging 77,457 boe/d, or 397 mmcf/d of gas and 11,221 bbl/d of NGLs (14.5% liquid). This average Q4 production was down 11% from Q4 2018 which averaged 86,738 boe/d (459 mmcf/d and 10,273 bbl/d of NGLs or 12% liquid) due to 35% lower capital investments. The production additions in the fourth quarter 2019 were dominated (60%) by Cardium wells which drove the increase in relative liquids production. Of the 11,221 bbls/d of NGL production, approximately 60% or 6,650 bbl/d was condensate and C₅+, while the remaining volume was effectively split between propane and butane. Peyto operated its Oldman deep cut plant during the quarter as propane and butane prices, relative to gas prices, justified the extra cost to strip those products out into liquid form.

The Company's realized price for natural gas in Q4 2019 was \$3.12/Mcf, prior to \$0.92 market diversification activities and a \$0.24/Mcf hedging loss, while its realized liquids price was \$43.85/bbl, including a \$0.73/bbl hedging gain, which yielded a combined revenue stream of \$2.76/Mcfe. This net sales price was 9% lower than the \$3.03/Mcfe realized in Q4 2018. Total cash costs in Q4 2019 were \$0.98/Mcfe (\$5.88/boe) up from \$0.95/Mcfe in Q4 2018 due to slightly higher per unit interest charges and operating costs as a result of reduced production volumes. The total Q4 2019 cash cost included royalties of \$0.12/Mcfe, operating costs of \$0.34/Mcfe, transportation of \$0.19/Mcfe, G&A of \$0.02/Mcfe and interest of \$0.31/Mcfe. Peyto generated total funds from operations of \$76 million in the quarter, or \$1.78/Mcfe, equating to a 65% operating margin. DD&A charges of \$1.38/Mcfe, as well as a provision for current and future performance-based compensation and income tax, reduced FFO to earnings of \$0.09/Mcfe, or a 3% profit margin. No impairments were recorded in the quarter and dividends to shareholders totaled \$0.23/Mcfe.

Marketing

Peyto actively markets all components of its production stream including natural gas, condensate, pentane, butane and propane. Natural gas was sold in 2019 at various hubs including AECO, Dawn, Ventura, Emerson 2 and Henry Hub using both physical fixed price and basis transactions to access those locations (diversification activities). Natural gas prices were left to float on daily pricing or locked in using fixed price swaps at those hubs and Peyto's realized price is benchmarked against those local prices, then adjusted for transportation (either physical or synthetic) to those markets. The Company's liquids are also actively marketed with condensate being sold on a monthly index differential linked to West Texas Intermediate ("WTI") oil prices. Peyto's NGLs (a blend of pentanes plus, butane and propane) are fractionated by a third party in Fort Saskatchewan, Alberta and Peyto markets each product separately. Pentanes Plus are sold on a monthly index differential linked to WTI, with some volumes forward sold on fixed differentials to WTI. Butane is sold as a percent of WTI or a fixed differential to Mount Belvieu, Texas markets. Propane is sold on a fixed differential to Conway, Kansas markets. While some products require annual term contracts to ensure delivery paths remain open, others can be marketed on the daily spot market.

During 2019 Peyto sold 77% of its natural gas at AECO, 5% at Dawn, 3% at Emerson, 4% at Ventura, and 11% at Henry Hub. Net of diversification activities, Peyto realized a before hedge price of \$1.91/mcf. Hedging activity improved this price by \$0.13/mcf, to \$2.04/mcf.

Condensate and Pentane Plus volumes were sold for an average price of \$69.22/bbl in 2019, down from \$75.46 in 2018, and as compared to Canadian WTI oil price that averaged \$75.68/bbl. The \$6.46/bbl differential from light oil price was down from \$8.43/bbl in the previous year. Butane and propane volumes were sold in combination at an average price of \$10.43/bbl, far below their typical price between 25-50% of light oil price, due to a significant surplus of supplies overwhelming the local Alberta market. Much of this surplus has subsequently been cleared and spot pricing has improved. Peyto will begin to realize these improved prices as the April 2019 to March 2020 term contract year ends. Peyto's realized price by product and relative to benchmark prices is shown in the following table.

Realized Commodity Prices by Component

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Natural gas (\$/mcf)	3.12	2.18	2.63	1.70
Diversification activities (\$/mcf)	(0.92)	(0.09)	(0.72)	(0.02)
Gas hedging (\$/mcf)	(0.24)	0.34	0.13	0.86
Realized total natural gas (\$/mcf)	1.96	2.43	2.04	2.54
Oil, condensate and C ₅ + (\$/bbl)	65.13	54.86	65.76	74.49
Oil hedging (\$/bbl)	1.26	4.54	3.46	0.97
Realized oil, condy and C ₅ + (\$/bbl)	66.39	59.40	69.22	75.46
Realized butane and propane (\$/bbl)	12.45	31.43	10.43	31.43

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

Peyto natural gas has an average heating value of approximately 1.15 GJ/mcf

Benchmark Commodity Prices

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
AECO 7A monthly (\$/GJ)	2.21	1.80	1.54	1.45
AECO 5A daily (\$/GJ)	2.35	1.48	1.67	1.42
Empress daily (\$/GJ)	2.59	4.06	2.43	2.93
NYMEX (US\$/MMbtu)	2.41	3.74	2.53	3.07
Ventura daily (US\$/MMbtu)	2.64	4.18	2.47	3.06
Dawn daily (US\$/MMbtu)	2.42	3.91	2.44	3.10
Conway Propane (US\$/bbl)	19.73	28.96	19.91	30.31
Canadian WTI (\$/bbl)	75.18	77.54	75.68	83.89

2019 average CND/USD exchange rate of 1.3269.

Details of Peyto's ongoing marketing and diversification efforts are available on Peyto's website at <http://www.peyto.com/Files/Operations/Marketing/hedges.pdf>

Activity Update

Peyto began 2020 with 5 drilling rigs running and has spud 12 gross (10 net) wells, completed 15 gross (13 net) wells and connected 9 gross (8 net) wells to the end of February. There are 5 gross (4 net) additional wells which came onstream at the beginning of March. The Q1 2020 drilling program has been focused on both Cardium and Spirit River formations that exhibit high liquid yields. Operations were delayed by the extreme cold weather experienced in mid-January as scheduled frac service was disrupted. This disruption delayed the timing of new well production additions. Cardium well results in this first quarter continue to provide impressive initial liquid yields of over 100 bbls/mmcf of high value condensate and pentanes.

During the first 2 months of 2020, Peyto also finished construction of a strategic 16 km, 8-inch pipeline in South Brazeau linking the Chambers area to Peyto's existing Brazeau gas gathering system. This pipeline re-directed existing volumes that were flowing to a third-party plant to the Peyto operated Brazeau plant and will support the future development of a large inventory of liquids-rich Spirit River and Cardium locations in the Chambers area. The Company currently has one drilling rig operating in this area.

In January, the Company completed a 98 square km 3D seismic shoot in the Ansell area over a large portion of lands that were purchased in 2019. This proprietary data will be used in the identification of Cardium and Spirit River targets later this year.

The recent COVID-19 virus outbreak and resultant reduced energy demand outlook combined with a lack of winter heating demand in North America has weakened both oil and natural gas prices significantly since Peyto announced its capital budget in December. As a result, the Company has deferred approximately \$26 million of the Q1 drilling program to later in the year when commodity prices are expected to recover. The remaining 2 drilling rigs currently operating for Peyto are focused on high quality Cardium targets and Peyto intends to continue to drill through breakup before ramping up activity in the second half of the year.

Business Development and New Ventures

While the current financial difficulties of the natural gas sector have brought challenges, they have also brought forward tremendous opportunities. New technologies and resource plays have been proven over the past decade and stand ready for development as producer behaviour and the marketplace restore economic order. Peyto views the next couple of years as a clear window to capitalize on these opportunities through a number of strategies and has created a new internal team to pursue these opportunities. This team will focus on a spectrum of ideas ranging from the establishment of new core areas, either organically or through acquisition, a strengthening of Peyto's existing core areas through large scale multi-company joint venture aggregation, expansion of direct product sales markets such as additional power generation, and other ideas and projects across the hydrocarbon value chain. Peyto has a well-seasoned operations team capable of taking its time-proven, low capital and operating cost results, to other geographical areas and other play types.

Environment, Social and Governance (“ESG”)

Peyto improved its ESG standing in 2019 with strong environmental performance, increased social factors and improved corporate governance. On the environmental front, Peyto continued to reduce its GHG emissions intensity while capturing more methane emissions across its operations. The ongoing installation of low bleed controllers and zero emissions pumps at well sites continued throughout the year with 304 controllers and 62 pumps installed in 2019, bringing the total to 448 controllers and 233 pumps installed over the past 5 years. Peyto is also testing the design of a new, zero emissions controller which it expects to start installing this year. In addition, almost all new wells drilled in the year were pre-connected to existing gas gathering systems which eliminated the need to flare gas during completion cleanup flows which further reduced GHG emissions. Since implementation of its comprehensive emissions reduction program in 2014, the Company has achieved an overall GHG emissions intensity reduction of 28% and methane flaring and venting intensity reduction of 38% and is well on its way to the stated goal of 50% reduction. The Company also continued its industry leading practice of using less water per BOE of reserves developed with an active water management program and efficient completion design.

From a social perspective, the health and welfare of Peyto's employees and contractors remained the highest priority for the company. A strong core training program and progression plan for operations personnel is at the heart of the Company's safety culture and provides a solid foundation of organizational competence. This safety culture is further strengthened and propagated throughout the organization through a multi-faceted, active and ongoing plan that involves regular audits, educational sessions, emergency practice drills and information dissemination to all personnel working within the organization. Two primary focuses, personnel safety and equipment maintenance, protect not only Peyto's employees and contractors but also the public at large and natural surroundings. In addition, the Company closely monitors any injury accidents and near misses within a culture of continuous improvement in an effort to implement initiatives to increase the safety of all workers. For 2019, total recordable injury frequency (TRIF) and lost time injury frequency (LTIF), including employees, consultants, field operators, and all third-party service company personnel, was 0.68 and 0, respectively. This is down from the previous year at 0.94 and 0.13. For Peyto employees, consultants and field operators only, the TRIF and LTIF was zero in 2019.

From a corporate governance perspective, Peyto increased its board independence with the addition of Mr. John Rossall to Peyto's board, as well as the adoption and strengthening of board mandates, corporate by-laws and policies. New policy adoption included say-on-pay, share ownership guidelines, compensation clawback, board renewal, enhanced diversity and shareholder engagement. In addition, Peyto further enhanced disclosure surrounding CEO compensation, anti-hedging policy, nomination process, director qualifications and annual general meeting materials.

Please refer to Peyto's 2019 Sustainability Report and policies under Corporate Responsibility at www.peyto.com.

2020 Outlook

As this new decade begins, Peyto is preparing to embark on a new chapter for the company. Once a tiny junior, the company has grown over the past two decades into a leading Canadian producer, well known for its efficiency, profitability and sustainability. With strong foundational support from its existing resource base, extensive infrastructure assets and strong technical skillset, Peyto is well positioned to capitalize on future opportunities.

The Company's current three-year plan remains intact with a focus on maximizing returns, strengthening its balance sheet and focusing on its core competencies. As production declines continue to shallow and producing reserve life grows, Peyto's base cashflows will continue to strengthen requiring less future capital to offset declines. With the current commodity price outlook driving reduced activity, the domestic natural gas market looks to become less supply driven and more demand driven which should be constructive for natural gas prices and ultimately reward Canadian natural gas producers. Capital guidance for the year remains between \$250 and \$300 million. As always, Peyto will remain nimble to the volatile market conditions while staying focused on maximizing full cycle returns.

Annual General Meeting

Peyto's Annual General Meeting of Shareholders is scheduled for 3:00 p.m. on Thursday, May 7, 2020 at the Eau Claire Tower, +15 level, 600 – 3rd Avenue SW, Calgary, Alberta. Shareholders are encouraged to visit the Peyto website at www.peyto.com where there is a wealth of information designed to inform and educate investors. A monthly President's Report can also be found on the website which follows the progress of the capital program and the ensuing production growth, along with video and audio commentary from Peyto's senior management.

Management's Discussion and Analysis

A copy of the fourth quarter report to shareholders, including the MD&A, unaudited financial statements and related notes, is available at <http://www.peyto.com/Files/Financials/2019/Q42019FS.pdf> and at <http://www.peyto.com/Files/Financials/2019/Q42019MDA.pdf> and will be filed at SEDAR, www.sedar.com at a later date.

Darren Gee
President and CEO
March 4, 2020