**NEWS RELEASE**

**NOVEMBER 8, 2017** **SYMBOL: PEY – TSX**

# PEYTO ANNOUNCES Q3 2017 RESULTS, EARNINGS PER SHARE UP 93%

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the third quarter of the 2017 fiscal year. A 76% operating margin (1) and a 25% profit margin (2) in the quarter delivered an annualized 10% return on equity (ROE) and 8% return on capital employed (ROCE). Additional highlights included:

- **Earnings of $0.27/share, dividends of $0.33/share.** Earnings of $45 million were generated in the quarter bringing year-to-date earnings to $125 million. Earnings per share of $0.27 were up 93% from the $0.14 in Q3 2016. The Company has never incurred a write down or recorded an impairment in its 19 year history and this quarter represents Peyto's 51st consecutive quarter of earnings which is the best evidence shareholder's capital has been invested profitably.

- **Funds from operations of $0.85/share.** Generated $139 million in FFO in Q3 2017 up from $128 million in Q3 2016 (up 9%/share). Year to date in 2017, funds from operations have totaled $412 million while capital expenditures have totaled $387.

- **Total cash costs of $0.76/Mcfe (or $0.67/Mcfe ($4.03/boe) excluding royalties).** Industry leading total cash costs, including $0.09/Mcfe royalties, $0.26/Mcfe operating costs, $0.17/Mcfe transportation, $0.03/Mcfe G&A and $0.21/Mcfe interest, combined with a realized price of $3.24/Mcfe, resulting in a $2.48/Mcfe ($14.85/boe) cash netback, or a 76% operating margin.

- **Capital investment of $135 million**. A total of 44 gross wells (42.5 net) were drilled in the third quarter, 37 gross wells (35.0 net) were completed, and 42 gross wells (39.5 net) brought on production. Over the last 12 months the 138 gross (128 net) new wells brought on production accounted for 42,000 boe/d at the end of the quarter, which when combined with a trailing twelve month capital investment of $517 million, equates to an annualized capital efficiency of $12,300/boe/d.

- **Production per share up 6%.** Third quarter 2017 production of 612 MMcfe/d (101,951 boe/d) was up 6% (also 6% per share) from Q3 2016. Peyto elected to temporarily shut in production during periods of low gas prices in the quarter, which deferred approximately 3,500 boe/d of production from the quarter.

## Third quarter 2017 in Review

Peyto had an active quarter of drilling and connecting new gas wells in Q3 2017 with nine drilling rigs operating in the quarter. Drilling and completion costs remained stable as execution and efficiency gains offset inflationary pressures. AECO daily natural gas prices, however, were extremely volatile, with prices ranging from a high of $2.46/GJ to a low of negative $2.20/GJ, which required Peyto to remain both nimble and disciplined in managing its production to ensure that volumes were only sold when profit could be generated. As a result, on certain days, up to 36,000 boe/d was shut in when AECO daily prices turned negative. This translated to a quarterly average volume of 3,500 boe/d being deferred. Despite this deferral, production was still up over the prior quarter and prior year period. At the same time, total cash costs and operating margins matched the same level as Q3 2016. These industry leading cash costs and operating margins allowed Peyto to generate the highest quarterly earnings achieved in the last three years and contributed to a year-over-year increase in annualized Return on Capital Employed.

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

| | Three Months Ended Sep 30 | | % | Nine Months Ended Sep 30 | | % |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | Change | **2017** | **2016** | Change |
| **Operations** | | | | | | |
| Production | | | | | | |
| Natural gas (mcf/d) | **557,958** | 534,710 | *4%* | **547,456** | 530,441 | *3%* |
| Oil & NGLs (bbl/d) | **8,958** | 7,247 | *24%* | **8,952** | 6,960 | *29%* |
| Thousand cubic feet equivalent (mcfe/d @ 1:6) | **611,703** | 578,189 | *6%* | **601,168** | 572,199 | *5%* |
| Barrels of oil equivalent (boe/d @ 6:1) | **101,951** | 96,365 | *6%* | **100,195** | 95,367 | *5%* |
| Production per million common shares (boe/d)* | **618** | 585 | *6%* | **608** | 589 | *3%* |
| Product prices | | | | | | |
| Natural gas ($/mcf) | **2.81** | 2.88 | *-2%* | **2.90** | 2.86 | *1%* |
| Oil & NGLs ($/bbl) | **45.92** | 39.76 | *15%* | **47.45** | 38.54 | *23%* |
| Operating expenses ($/mcfe) | **0.26** | 0.25 | *4%* | **0.27** | 0.25 | *8%* |
| Transportation ($/mcfe) | **0.17** | 0.16 | *6%* | **0.17** | 0.16 | *6%* |
| Field netback ($/mcfe) | **2.72** | 2.63 | *3%* | **2.76** | 2.59 | *7%* |
| General & administrative expenses ($/mcfe) | **0.03** | 0.04 | *-25%* | **0.04** | 0.04 | - |
| Interest expense ($/mcfe) | **0.21** | 0.19 | *11%* | **0.21** | 0.19 | *11%* |
| **Financial ($000, except per share*)** | | | | | | |
| Revenue | **182,226** | 168,195 | *8%* | **549,158** | 488,437 | *12%* |
| Royalties | **5,165** | 6,382 | *-19%* | **24,872** | 18,241 | *36%* |
| Funds from operations | **139,257** | 127,915 | *9%* | **412,049** | 370,000 | *11%* |
| Funds from operations per share | **0.85** | 0.78 | *9%* | **2.50** | 2.29 | *9%* |
| Total dividends | **54,408** | 54,328 | - | **163,204** | 160,583 | *2%* |
| Total dividends per share | **0.33** | 0.33 | - | **0.99** | 0.99 | - |
| Payout ratio | **39** | 42 | *-7%* | **40** | 43 | *-7%* |
| Earnings | **44,818** | 22,814 | *96%* | **125,029** | 73,859 | *69%* |
| Earnings per share | **0.27** | 0.14 | *93%* | **0.76** | 0.46 | *65%* |
| Capital expenditures | **135,187** | 113,571 | *19%* | **386,800** | 339,968 | *14%* |
| Weighted average common shares outstanding | **164,874,175** | 164,630,168 | - | **164,849,932** | 161,882,961 | *2%* |
| **As at September 30** | | | | | | |
| End of period shares outstanding (includes shares to be issued | | | | **164,874,175** | 164,630,168 | - |
| Net debt | | | | **1,286,268** | 1,060,355 | *21%* |
| Shareholders' equity | | | | **1,668,761** | 1,638,860 | *2%* |
| Total assets | | | | **3,691,803** | 3,443,871 | *7%* |

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ($000 except per share) | **2017** | 2016 | **2017** | 2016 |
| Cash flows from operating activities | **142,659** | 129,057 | **391,776** | 370,299 |
| Change in non-cash working capital | **(4,411)** | (10,256) | **13,938** | (20,647) |
| Change in provision for performance based compensation | **1,009** | 9,114 | **6,335** | 20,348 |
| Funds from operations | **139,257** | 127,915 | **412,049** | 370,000 |
| Funds from operations per share | **0.85** | 0.78 | **2.50** | 2.29 |

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

**Exploration & Development**

Third quarter 2017 activity was spread evenly across the Sundance, Ansell and Brazeau areas focused primarily on the Spirit River group of formations including the Notikewin, Falher and Wilrich. In total, 2 vertical Cardium wells in Brazeau and 42 horizontal wells were drilled as shown in the table below. The Company continues to realize particularly strong results in the Brazeau Notikewin program after refinements were made to the geophysical model earlier in the year.

| Zone | Field | | | | | | | Total Wells Drilled |
|---|---|---|---|---|---|---|---|---|
| | Sundance | Nosehill | Wildhay | Ansell | Berland | Kisku/ Kakwa | Brazeau | |
| Belly River | | | | | | | | 0 |
| Cardium | 1 | | | | | | 2V | 3 |
| Notikewin | 1 | 1 | | 2 | | | 12 | 16 |
| Falher | 1 | 2 | | 1 | | | 1 | 5 |
| Wilrich | 6 | 2 | | 11 | | | 1 | 20 |
| Bluesky | | | | | | | | 0 |
| Total | 9 | 5 | | 14 | | | 16 | 44 |

Horizontal well drilling costs in Q3 2017 were in line with the last six quarters despite some additional costs related to stratigraphic testing and increased casing costs. Completion costs (per meter of horizontal lateral) were up from Q2 2017 due to increased fracturing costs; however, costs per stage have also been in line with the previous six quarters. The following table illustrates the progression of cost optimization designed to contribute to lower overall development costs and greater returns:

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 Q1 | 2017 Q2 | 2017 Q3 |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Hz Spuds | 52 | 70 | 86 | 99 | 123 | 140 | 126 | **40** | **25** | **43** |
| Measured Depth (m) | 3,762 | 3,903 | 4,017 | 4,179 | 4,251 | 4,309 | 4,197 | **4,313** | **4,143** | **4,230** |
| | | | | | | | | | | |
| Drilling ($MM/well) | $2.76 | $2.82 | $2.79 | $2.72 | $2.66 | $2.16 | $1.82 | **$1.82** | **$1.89** | **$1.89** |
| $ per meter | $734 | $723 | $694 | $651 | $626 | $501 | $433 | **$423** | **$457** | **$446** |
| | | | | | | | | | | |
| Completion ($MM/well) | $1.36 | $1.68 | $1.67 | $1.63 | $1.70 | $1.21 | $0.86 | **$1.09** | **$0.96** | **$0.95** |
| Hz Length (m) | 1,335 | 1,303 | 1,358 | 1,409 | 1,460 | 1,531 | 1,460 | **1,547** | **1,498** | **1,397** |
| $ per Hz Length (m) | $1,017 | $1,286 | $1,231 | $1,153 | $1,166 | $792 | $587 | **$705** | **$641** | **$680** |
| $ '000 per Stage | $231 | $246 | $257 | $188 | $168 | $115 | $79 | **$83** | **$76** | **$82** |

**Capital Expenditures**

During the third quarter of 2017, Peyto spent $73 million on drilling, $34 million on completions, $15 million on wellsite equipment and tie-ins, $11 million on facilities and major pipeline projects, and $2 million on lands and seismic, for total capital investments of $135 million.

In addition to the 42 gross (40.5 net) horizontal wells and 2 gross (2 net) vertical wells drilled, 37 gross (35 net) wells were completed and 42 gross (39.5 net) wells were equipped and tied in. Peyto also completed construction of a $3 million multi-well group pipeline in Whitehorse that connected the first three wells in the area and sets up for future drilling to be connected more quickly. Other facility and pipeline work included installing a 12th compressor at the West Brazeau gas plant, taking total capacity to 150 MMcf/d, as well as a pipeline to connect the Company's Galloway and Swanson plants, further enhancing the Greater Sundance plant inter-connectivity and operating flexibility.

**Commodity Prices**

Average daily AECO natural gas prices were $1.38/GJ in Q3 2017, down 48% from $2.64/GJ the quarter before and down 37% from $2.20/GJ in Q3 2016. This was in contrast to US Henry Hub spot prices which averaged $2.95/MMBTU for the quarter, similar to the $2.88/MMBTU the year before. A change in the prioritization of gas transmission service on the NGTL system, which severely inhibited the ability for Alberta storage reservoirs to buffer the supply/demand imbalance, led to daily market instability and extreme volatility in AECO daily prices during the quarter which contributed to the dramatic drop in average natural gas price.

On average for Q3 2017, Peyto realized a natural gas price of $2.45/GJ or $2.81/Mcf. This was the result of a combination of approximately 16% of natural gas production being sold in the daily or monthly spot market at an average of $1.93/GJ ($2.21/Mcf) and 84% having been pre-sold at an average hedged price of $2.54/GJ (prices reported net of TCPL fuel).

In September of 2017, higher realized liquid propane prices allowed Peyto to restart its Oldman deep cut plant which resulted in increased NGL recoveries from 15 bbl/mmcf to 18 bbl/mmcf. As a result, Peyto's Q3 2017 liquid recoveries averaged 16 bbl/mmcf with a blended, realized, oil and natural gas liquids price of $45.92/bbl, which represented 81% of the $56.65/bbl average Canadian Light Sweet posted price. Details of realized commodity prices by component are shown in the following table:

**Commodity Prices by Component**

| | | Three Months ended September 30 | |
|---|---|---|---|
| | | **2017** | 2016 |
| AECO monthly | ($/GJ) | **1.93** | 2.09 |
| AECO daily | ($/GJ) | **1.38** | 2.20 |
| Henry Hub spot | ($US/MMBTU) | **2.95** | 2.88 |
| Natural gas – prior to hedging | ($/GJ) | **1.93** | 2.08 |
| | ($/mcf) | **2.21** | 2.39 |
| Natural gas – after hedging | ($/GJ) | **2.45** | 2.50 |
| | ($/mcf) | **2.81** | 2.88 |
| Oil and natural gas liquids ($/bbl) | | | |
| Condensate ($/bbl) | | **53.77** | 47.95 |
| Propane ($/bbl) | | **23.25** | 6.51 |
| Butane ($/bbl) | | **29.58** | 20.25 |
| Pentane ($/bbl) | | **55.10** | 49.15 |
| Total Oil and natural gas liquids ($/bbl) | | **45.92** | 39.76 |
| Canadian Light Sweet stream ($/bbl) | | **56.65** | 54.82 |
| Peyto realized liquids price/Canadian Light Sweet | | **81%** | 73% |

*Liquids prices are Peyto realized prices (F.O.B. plant gate) in Canadian dollars adjusted for fractionation and transportation.*

## Financial Results

Approximately 21%, or $0.67/Mcfe, of Peyto's revenue came from its liquids sales while 79%, or $2.57/Mcfe, came from natural gas. This liquids revenue covered all cash costs excluding royalties. Cash costs of $0.76/Mcfe, included royalties of $0.09/Mcfe, operating costs of $0.26/Mcfe, transportation costs of $0.17/Mcfe, G&A of $0.03/Mcfe and interest costs of $0.21/Mcfe. Cash costs were lower than the previous quarter due to reductions in royalties, G&A and transportation, partially offset by increases in operating costs. These total cash costs, when deducted from realized revenues of $3.24/Mcfe, resulted in a cash netback of $2.48/Mcfe or a 76% operating margin. Historical cash costs and operating margins are shown in the following table. Going forward, Peyto expects per unit cash costs will continue to trend towards $0.80/Mcfe levels for the balance of 2017.

| | **2014** | **2015** | | | | **2016** | | | | **2017** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ($/Mcfe) | FY | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | **Q1** | **Q2** | **Q3** |
| Revenue | 5.04 | 4.17 | 3.81 | 3.80 | 3.58 | 3.24 | 2.92 | 3.16 | 3.38 | **3.44** | **3.36** | **3.24** |
| Royalties | 0.38 | 0.18 | 0.13 | 0.15 | 0.13 | 0.13 | 0.10 | 0.12 | 0.18 | **0.19** | **0.17** | **0.09** |
| Operating Costs | 0.34 | 0.32 | 0.31 | 0.28 | 0.25 | 0.23 | 0.26 | 0.25 | 0.26 | **0.29** | **0.24** | **0.26** |
| Transportation | 0.13 | 0.15 | 0.15 | 0.16 | 0.16 | 0.16 | 0.17 | 0.16 | 0.16 | **0.17** | **0.18** | **0.17** |
| G&A | 0.03 | 0.04 | 0.04 | 0.02 | 0.05 | 0.03 | 0.06 | 0.04 | 0.03 | **0.04** | **0.05** | **0.03** |
| Interest | 0.21 | 0.20 | 0.19 | 0.19 | 0.16 | 0.17 | 0.21 | 0.19 | 0.18 | **0.20** | **0.21** | **0.21** |
| Total Cash Costs | 1.09 | 0.89 | 0.82 | 0.80 | 0.75 | 0.72 | 0.80 | 0.76 | 0.81 | **0.89** | **0.85** | **0.76** |
| Netback | 3.95 | 3.28 | 2.99 | 3.00 | 2.83 | 2.52 | 2.12 | 2.40 | 2.57 | **2.55** | **2.51** | **2.48** |
| Operating Margin | 78% | 79% | 78% | 79% | 79% | 78% | 73% | 76% | 76% | **74%** | **75%** | **76%** |

Depletion, depreciation and amortization charges of $1.33/Mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of $0.80/Mcfe, or a 25% profit margin. Dividends of $0.97/Mcfe were paid to shareholders.

Subsequent to the end of the third quarter, Peyto increased and extended its revolving, unsecured credit facility to $1.3 billion with a stated term date of October 2021. This new facility has increased Peyto's total borrowing capacity to $1.82 billion.

**Natural Gas Marketing**

The current volatility in natural gas markets in Alberta remains high, reinforcing the value of Peyto's hedging practice of layering in future sales in the form of fixed price swaps. For the balance of 2017, approximately 78% of forecast gas volumes have been hedged to protect against this increased AECO volatility. Peyto's hedging program aims to achieve a fixed price on a descending, graduated schedule of up to 85% of gross production for the immediate summer or winter season and 75%, 65%, 55%, 45% and 30% targets thereafter for the successive following seasons. These fixed prices, which are settled against the AECO Monthly price, are achieved through a series of frequent transactions which is similar to "dollar cost averaging" the future gas prices in order to smooth out volatility. The following table summarizes the remaining hedged volumes and prices for the upcoming years as of November 8, 2017:

| | Future Sales | | Average Price (CAD) | |
|---|---|---|---|---|
| | GJ | Mcf | $/GJ | $/Mcf |
| 2017 | 30,100,000 | 26,173,913 | $2.64 | $3.03 |
| 2018 | 137,255,000 | 119,326,087 | $2.48 | $2.85 |
| 2019 | 18,975,000 | 16,500,000 | $2.41 | $2.77 |
| 2020 | 1,365,000 | 1,186,957 | $2.39 | $2.75 |
| Total | 185,385,000 | 161,204,348 | $2.50 | $2.88 |

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

In order to deal with restricted access to take-away capacity, Peyto has secured excess firm transportation on the NGTL system north of the James River receipt point of approximately 110% of Peyto's forecasted natural gas sales for the remainder of 2017 and 115% for the first quarter of 2018.

Both the firm transportation service and hedging strategies are designed to remove the uncertainty of system access and AECO price volatility while at the same time leaving Peyto with the maximum operating margin and future market optionality.

**Activity Update**

Peyto currently has 9 drilling rigs running in the Greater Sundance and Brazeau areas. Since the end of the third quarter, 13 wells have been drilled, 16 wells completed and 18 wells brought on production. October production averaged approximately 106,000 boe/d with 3,000 boe/d curtailed due to low gas price while current production is 115,000 boe/d and year-end exit production levels are expected to range between 115,000 and 120,000 boe/d. This exit production is expected to be accomplished for a total 2017 capital investment of approximately $530 million, less than the original budget of $550 to $600 million. This reduced capital is due to stronger than expected well results in Peyto's Brazeau Notikewin play and increases in the Brazeau West gas plant capacity that has allowed the construction of the Brazeau East gas plant to be deferred until 2018. It is now anticipated that a total of 146 gross (141 net) wells will be drilled in 2017, building approximately 50,000 boe/d of new production by year end for an expected capital efficiency of $10,600/boe/d.

Propane prices continue to improve which has allowed Peyto to modify the operation of its nine gas plants to recover more natural gas liquids, including continuous operation of the Company's Oldman deep cut plant. As a result, the Company's total natural gas liquid yields have increased from 15 bbl/mmcf earlier in the year to 18 bbl/mmcf.

**2018 Budget**

The current forecast for Alberta realized natural gas price for the summer of 2018 is less than $2.00/GJ. As a result, Peyto plans to defer a larger portion of its 2018 capital investments until the latter part of 2018 when prices are expected to improve rather than building new volumes throughout the competitive winter season only to bring them on into a seasonally low gas price environment. By timing capital investments in this way, Peyto expects to improve the returns on its capital program much as it has by being counter cyclical over the longer commodity price cycles. Therefore, the Board of Directors of Peyto has approved a preliminary first half 2018 budget which includes a capital program of approximately $150 million that involves the drilling of 45 gross wells (average 97% working interest) along with associated pipeline investments which is expected to build 18,000-20,000 boe/d of new production by mid-year and will contribute to an average first half production target of approximately 113,000 boe/d. Funds from operations are currently forecast to cover this entire capital program, dividend payments and reduce indebtedness.

For the second half of 2018, pending future Board approval and assuming the natural gas price forecast continues to improve, Peyto intends to embark on a larger capital program of approximately $300 million that involves the drilling of approximately 75 gross wells, associated pipelines and facility investments which, combined with the first half capital program, are designed to build total new production for the year of 50,000 boe/d. A portion of this new production would offset an annual forecast of 35% base decline, while a portion would grow 2018 production to an exit level of approximately 125,000 boe/d. New facility investments in Brazeau and Whitehorse are planned to be part of this larger capital program.

The future strip for Alberta natural gas prices remains volatile but is currently forecast to average approximately $2.15/GJ in 2018, along with Canadian Light Sweet oil prices of approximately $70/bbl. In accordance with Peyto's historical hedging practice, the Company has already forward sold approximately 52% of current gas production levels at an average price of $2.46/GJ. These prices, when adjusted for Peyto's historic NGL and heat content premiums and combined with the Company's industry leading cash costs of approximately $0.75 - $0.80/Mcfe ($4.80/boe), are expected to yield cash netbacks of approximately $14.50/boe.

**Outlook**

Peyto's focus on maximizing the return on and minimizing the risk of future capital investments by controlling the timing and execution of operations and by focusing on reducing costs throughout its business continues to remain steadfast. Volatile commodity markets are nothing new and Peyto's 19 year history of successfully navigating them has rewarded investors over the long term with industry leading profitability. Those profits have and will continue to form the basis for dividends to shareholders.

**Conference Call and Webcast**

A conference call will be held with the senior management of Peyto to answer questions with respect to the Q3 2017 financial results on November 9th, 2017 at 9:00 a.m. Mountain Standard Time (MST), or 11:00 a.m. Eastern Standard Time (EST). Please see the press release for conference call details. To participate, please call 1-844-492-6041 (North America) or 1-478-219-0837 (International). Shareholders and interested investors are encouraged to ask questions about Peyto and its most recent results. Questions can be submitted prior to the call at info@peyto.com. The conference call can also be accessed through the internet at https://edge.media-server.com/m6/p/mookje4i. The conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

**Management's Discussion and Analysis**

A copy of the third quarter report to shareholders, including the MD&A, audited financial statements and related notes, is available at http://www.peyto.com/Files/Financials/2017/Q32017MDandA.pdf and will be filed at SEDAR, www.sedar.com at a later date.

Darren Gee
President and CEO
November 8, 2017

***Certain information set forth in this document and Management's Discussion and Analysis, including management's assessment of Peyto's future plans and operations, capital expenditures and capital efficiencies, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Peyto will derive there from. In addition, Peyto is providing future oriented financial information set out in this press release for the purposes of providing clarity with respect to Peyto's strategic direction and readers are cautioned that this information may not be appropriate for any other purpose. Other than is required pursuant to applicable securities law, Peyto does not undertake to update forward looking statements at any particular time. To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). Peyto uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.***

# Peyto Exploration & Development Corp.

**Condensed Balance Sheet** *(unaudited)*

(Amount in $ thousands)

| | September 30 2017 | December 31 2016 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 1,561 | 2,102 |
| Accounts receivable | 74,134 | 94,813 |
| Due from private placement *(Note 6)* | - | 4,930 |
| Derivative financial instruments *(Note 8)* | 67,675 | - |
| Prepaid expenses | 14,817 | 13,385 |
| | **158,187** | 115,230 |
| Long-term derivative financial instruments *(Note 8)* | 5,385 | - |
| Property, plant and equipment, net *(Note 3)* | 3,528,231 | 3,347,859 |
| | **3,533,616** | 3,347,859 |
| | **3,691,803** | 3,463,089 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 123,644 | 158,173 |
| Dividends payable *(Note 6)* | 18,136 | 18,109 |
| Derivative financial instruments *(Note 8)* | - | 119,280 |
| Provision for future performance based compensation *(Note 7)* | 13,189 | 6,854 |
| | **154,969** | 302,416 |
| Long-term debt *(Note 4)* | 1,235,000 | 1,070,000 |
| Long-term derivative financial instruments *(Note 8)* | - | 31,465 |
| Provision for future performance based compensation (Note 7) | 7,947 | 4,499 |
| Decommissioning provision *(Note 5)* | 132,450 | 127,763 |
| Deferred income taxes | 492,676 | 386,012 |
| | **1,868,073** | 1,619,739 |
| **Equity** | | |
| Share capital *(Note 6)* | 1,649,537 | 1,641,982 |
| Shares to be issued *(Note 6)* | - | 4,930 |
| Retained earnings (deficit) | (37,399) | 776 |
| Accumulated other comprehensive income (loss) *(Note 6)* | 56,623 | (106,754) |
| | **1,668,761** | 1,540,934 |
| | **3,691,803** | 3,463,089 |

See accompanying notes to the financial statements.

# Peyto Exploration & Development Corp.

**Condensed Income Statement** *(unaudited)*

(Amount in $ thousands except earnings per share amount)

| | **Three months ended September 30** | | **Nine months ended September 30** | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Revenue** | | | | |
| Oil and gas sales | 151,378 | 144,301 | 530,511 | 366,947 |
| Realized gain on hedges *(Note 8)* | 30,848 | 23,894 | 18,647 | 121,490 |
| Royalties | (5,165) | (6,382) | (24,872) | (18,241) |
| Petroleum and natural gas sales, net | **177,061** | 161,813 | **524,286** | 470,196 |
| **Expenses** | | | | |
| Operating | 14,844 | 13,254 | 43,546 | 38,526 |
| Transportation | 9,149 | 8,647 | 28,358 | 25,506 |
| General and administrative | 1,701 | 2,133 | 6,659 | 6,843 |
| Future performance based compensation *(Note 7)* | 2,109 | 13,969 | 9,783 | 31,057 |
| Interest | 12,110 | 9,864 | 33,674 | 29,320 |
| Accretion of decommissioning provision *(Note 5)* | 847 | 538 | 2,312 | 1,685 |
| Depletion and depreciation *(Note 3)* | 74,906 | 82,157 | 228,681 | 248,750 |
| Gain on disposition of assets *(Note 3)* | - | - | - | (12,668) |
| | **115,666** | 130,562 | **353,013** | 369,019 |
| **Earnings before taxes** | **61,395** | 31,251 | **171,273** | 101,177 |
| **Income tax** | | | | |
| Deferred income tax expense | 16,577 | 8,437 | 46,244 | 27,318 |
| **Earnings for the period** | **44,818** | 22,814 | **125,029** | 73,859 |
| **Earnings per share** *(Note 6)* | | | | |
| **Basic and diluted** | **$0.27** | $0.14 | **$0.76** | $0.46 |

See accompanying notes to the financial statements.

## Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Earnings for the period** | **44,818** | 22,814 | **125,029** | 73,859 |
| **Other comprehensive income (loss)** | | | | |
| Change in unrealized gain on cash flow hedges | 73,612 | 42,232 | 242,451 | 27,053 |
| Deferred (expense) tax recovery | (11,546) | (4,951) | (60,427) | 25,498 |
| Realized (gain) on cash flow hedges | (30,848) | (23,894) | (18,647) | (121,490) |
| **Comprehensive income** | **76,036** | 36,201 | **288,406** | 4,920 |

See accompanying notes to the financial statements.

# Peyto Exploration & Development Corp.

**Condensed Statement of Changes in Equity** *(unaudited)*

(Amount in $ thousands)

| | Nine months ended September 30 | |
|---|---|---|
| | **2017** | 2016 |
| **Share capital, beginning of period** | **1,641,982** | 1,467,264 |
| Common shares issued by private placement | 7,574 | 7,644 |
| Equity offering | - | 172,500 |
| Common shares issuance costs (net of tax) | (19) | (5,409) |
| **Share capital, end of period** | **1,649,537** | 1,641,999 |

| | | |
|---|---|---|
| **Shares to be issued, beginning of period** | **4,930** | 3,769 |
| Shares issued | (4,930) | (3,769) |
| **Shares to be issued, end of period** | **-** | - |

| | | |
|---|---|---|
| **Retained earnings, beginning of period** | **776** | 103,339 |
| Earnings for the period | 125,029 | 73,859 |
| Dividends *(Note 6)* | (163,204) | (160,583) |
| **Retained (deficit) earnings, end of period** | **(37,399)** | 16,615 |

| | | |
|---|---|---|
| **Accumulated other comprehensive income, beginning of period** | **(106,754)** | 49,185 |
| Other comprehensive income (loss) | 163,377 | (68,939) |
| **Accumulated other comprehensive (loss) income, end of period** | **56,623** | (19,754) |

| | | |
|---|---|---|
| **Total equity** | **1,668,761** | 1,638,860 |

See accompanying notes to the financial statements.

## Peyto Exploration & Development Corp.

**Condensed Statement of Cash Flows** *(unaudited)*

(Amount in $ thousands)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| **Cash provided by (used in) operating activities** | | | | |
| Earnings | 44,818 | 22,814 | 125,029 | 73,859 |
| Items not requiring cash: | | | | |
| Deferred income tax | 16,577 | 8,437 | 46,244 | 27,318 |
| Depletion and depreciation | 74,906 | 82,157 | 228,681 | 248,750 |
| Accretion of decommissioning provision | 847 | 538 | 2,312 | 1,685 |
| Gain on disposition of assets | - | - | - | (12,668) |
| Long term portion of future performance based compensation | 1,010 | 4,855 | 3,448 | 10,708 |
| Change in non-cash working capital related to operating activities | 4,411 | 10,256 | (13,938) | 20,647 |
| | **142,569** | **129,057** | **391,776** | **370,299** |
| **Financing activities** | | | | |
| Issuance of common shares | - | - | 7,574 | 180,144 |
| Issuance costs | - | (10) | (26) | (7,409) |
| Cash dividends paid | (54,408) | (54,328) | (163,178) | (159,960) |
| Increase in bank debt | 30,000 | - | 165,000 | - |
| Issuance of senior unsecured notes | - | - | - | - |
| | **(24,408)** | **(54,338)** | **9,370** | **12,775** |
| **Investing activities** | | | | |
| Additions to property, plant and equipment | (135,187) | (113,571) | (386,779) | (339,968) |
| Change in prepaid capital | (17,050) | (1,567) | (19,879) | 6,166 |
| Change in non-cash working capital relating to investing activities | 31,311 | 48,059 | 4,990 | (16,175) |
| | **(120,926)** | (67,079) | **(401,688)** | (349,977) |
| **Net increase (decrease) in cash** | **(2,675)** | 7,640 | **(542)** | 33,097 |
| **Cash, beginning of period** | **4,235** | 25,457 | **2,102** | - |
| **Cash, end of period** | **1,560** | 33,097 | **1,560** | 33,097 |

| | | | | |
|---|---|---|---|---|
| The following amounts are included in cash flows from operating activities: | | | | |
| Cash interest paid | **7,963** | 9,140 | **32,991** | 28,547 |
| Cash taxes paid | **-** | - | **-** | - |

See accompanying notes to the financial statements

## 1. Nature of operations

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 7, 2017.

## 2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2016 and 2015.

**Significant Accounting Policies**

**(a) Significant Accounting Judgments, Estimates and Assumptions**

The timely preparation of the condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed financial statements.

All accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2016 and 2015.

**(b) Standards issued but not yet effective**

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosure may be required upon implementation of IFRS 15 in order to provide sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

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

## 3. Property, plant and equipment, net

| | |
|---|---|
| **Cost** | |
| **At December 31, 2016** | **4,901,523** |
| Additions | 386,799 |
| Decommissioning provision additions | 2,375 |
| Prepaid capital | 19,879 |
| **At September 30, 2017** | **5,310,576** |
| **Accumulated depletion and depreciation** | |
| **At December 31, 2016** | **(1,553,664)** |
| Depletion and depreciation | (228,681) |
| **At September 30, 2017** | **(1,782,345)** |
| | |
| Carrying amount at December 31, 2016 | 3,347,859 |
| **Carrying amount at September 30, 2017** | **3,528,231** |

During the three and nine month periods ended September 30, 2017, Peyto capitalized $2.2 million and $5.7 million (2016 - $1.6 million and $4.7 million) of general and administrative expense directly attributable to exploration and development activities.

## 4. Long-term debt

| | **September 30, 2017** | December 31, 2016 |
|---|---|---|
| Bank credit facility | 715,000 | 550,000 |
| Senior unsecured notes | 520,000 | 520,000 |
| **Balance, end of the period** | **1,235,000** | 1,070,000 |

The Company has a syndicated $1.0 billion extendible unsecured revolving credit facility with a stated term date of December 4, 2019. An accordion provision has been added that allows for the pre-approved increase of the facility up to $1.3 billion, at the Company's request, subject to additional commitments by existing facility lenders or by adding new financial institutions to the syndicate. The bank facility is made up of a $30 million working capital sub-tranche and a $970 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

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

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of the book value of shareholders' equity and long-term debt and subordinated debt.

Peyto is in compliance with all financial covenants at September 30, 2017.

Outstanding senior notes are as follows:

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

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

Total interest expense for the three and nine month periods ended September 30, 2017 was $12.1 million and $33.7 million (2016 - $9.9 million and $29.3 million) and the average borrowing rate for the period was 3.9% and 3.8% (2016– 3.7% and 3.6%).

## 5. Decommissioning provision

Peyto makes provision for the future cost of decommissioning wells and facilities on a discounted basis based on the commissioning of these assets.

The decommissioning provision represents the present value of the decommissioning costs related to the above infrastructure, which are expected to be incurred over the economic life of the assets. The provisions have been based on the Company's internal estimates on the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain

The following table reconciles the change in decommissioning provision:

| | |
|---|---|
| **Balance, December 31, 2016** | **127,763** |
| New or increased provisions | 11,192 |
| Accretion of decommissioning provision | 2,312 |
| Change in discount rate and estimates | (8,817) |
| **Balance, September 30, 2017** | **132,450** |
| | |
| Current | - |
| Non-current | 132,450 |

Peyto has estimated the net present value of its total decommissioning provision to be $132.5 million as at September 30, 2017 ($127.8 million at December 31, 2016) based on a total future undiscounted liability of $280.9 million ($258.2 million at December 31, 2016). At September 30, 2017 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2047 to 2065. The Bank of Canada's long term bond rate of 2.47 per cent (2.31 per cent at December 31, 2016) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2016) were used to calculate the present value of the decommissioning provision.

## 6. Share capital

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

**Issued and Outstanding**

| **Common Shares (no par value)** | **Number of Common Shares** | **Amount** |
|---|---|---|
| Balance, December 31, 2016 | **164,630,168** | **1,641,982** |
| Common shares issued by private placement | 244,007 | 7,574 |
| Common share issuance costs, (net of tax) | - | (19) |
| Balance, September 30, 2017 | **164,874,175** | **1,649,537** |

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

| | Three Months ended September 30 | | Nine Months ended September 30 | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| Weighted average common shares basic and diluted | **164,874,175** | 164,630,168 | **164,849,932** | 161,882,961 |

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

**Dividends**
During the three and nine month periods ended September 30, 2017, Peyto declared and paid dividends of $0.33 and $0.99 per common share ($0.11 per common share for the months of January to September 2017, totaling $56.9 million and $163.2 million respectively (2016 - $0.33 and $0.99 ($0.11 per common share for the months of January to September 2016), totaling $54.3 million and $160.6 million respectively).

**Comprehensive income**
Comprehensive income consists of earnings and other comprehensive income (“OCI”). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge. “Accumulated other comprehensive income” is an equity category comprised of the cumulative amounts of OCI.

**Accumulated hedging gains**
Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement with gains and losses being recognized as a component of net revenue. Further information on these contracts is set out in Note 8.

## 7. Future performance based compensation

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

**Reserve based component**
The reserves value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%.

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

The fair values were calculated using a Black-Scholes valuation model. The principal inputs to the option valuation model were:

| | **September 30, 2017** | September 30, 2016 |
|---|---|---|
| Share price | $20.40-$33.80 | $36.82 |
| Exercise price (net of dividend) | $22.77- $33.02 | $23.10 |
| Expected volatility | 28.9% | 36.1% |
| Option life | 0.25 years | 0.25 years |
| Risk-free interest rate | 1.51% | 0.51% |

## 8. Financial instruments

**Financial instrument classification and measurement**
Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at September 30, 2017.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2016.

The fair value of the Company's cash and financial derivative instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

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

**Fair values of financial assets and liabilities**
The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At September 30, 2017, cash and financial derivative instruments are carried at fair value. Accounts receivable, due from private placement, current liabilities and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

**Commodity price risk management**
Peyto uses derivative instruments to reduce its exposure to fluctuations in commodity prices. Peyto considers all of these transactions to be effective economic hedges for accounting purposes.

Following is a summary of all risk management contracts in place as at September 30, 2017:

| **Natural Gas<br>Period Hedged – Monthly Index** | **Type** | **Daily Volume** | **Price<br>(CAD)** |
|---|---|---|---|
| January 1, 2016 to March 31, 2018 | Fixed Price | 5,000 GJ | $2.54/GJ |
| April 1, 2016 to March 31, 2018 | Fixed Price | 60,000 GJ | $2.42/GJ to $2.75/GJ |
| April 1, 2016 to October 31, 2018 | Fixed Price | 35,000 GJ | $2.10/GJ to $2.60/GJ |
| May 1, 2016 to October 31, 2017 | Fixed Price | 20,000 GJ | $2.11/GJ to $2.305/GJ |
| May 1, 2016 to October 31, 2018 | Fixed Price | 20,000 GJ | $2.20/GJ to $2.35/GJ |
| July 1, 2016 to October 31, 2017 | Fixed Price | 10,000 GJ | $2.375/GJ to $2.3775/GJ |
| July 1, 2016 to October 31, 2018 | Fixed Price | 20,000 GJ | $2.28/GJ to $2.45/GJ |
| August 1, 2016 to October 31, 2017 | Fixed Price | 20,000 GJ | $2.22/GJ to $2.30/GJ |
| August 1, 2016 to October 31, 2018 | Fixed Price | 25,000 GJ | $2.3175/GJ to $2.5525/GJ |

| | | | |
|---|---|---|---|
| November 1, 2016 to March 31, 2018 | Fixed Price | 5,000 GJ | $2.51/GJ |
| April 1, 2017 to October 31, 2017 | Fixed Price | 160,000 GJ | $2.23/GJ to $2.86/GJ |
| April 1, 2017 to March 31, 2018 | Fixed Price | 110,000 GJ | $2.6050/GJ to $3.1075/GJ |
| April 1, 2017 to October 31, 2018 | Fixed Price | 10,000 GJ | $2.585/GJ to $2.745/GJ |
| May 1, 2017 to October 31, 2017 | Fixed Price | 10,000 GJ | $2.715GJ to $2.70/GJ |
| June 1, 2017 to October 31, 2017 | Fixed Price | 10,000 GJ | $2.725/GJ to $2.94/GJ |
| September 1, 2017 to October 31, 2017 | Fixed Price | 5,000 GJ | $1.935/GJ |
| October 1, 2017 to March 31, 2018 | Fixed Price | 25,000 GJ | $2.365/GJ- $2.455/GJ |
| November 1, 2017 to December 31, 2017 | Fixed Price | 20,000 GJ | $2.240/GJ to $2.430/GJ |
| November 1, 2017 to March 31, 2018 | Fixed Price | 175,000 GJ | $2.4075/GJ to $3.27/GJ |
| November 1, 2017 to October 31, 2018 | Fixed Price | 5,000 GJ | $2.92/GJ |
| April 1, 2018 to October 31, 2018 | Fixed Price | 50,000 GJ | $2.39/GJ to $2.565/GJ |
| April 1, 2018 to March 31, 2019 | Fixed Price | 150,000 GJ | $2.25/GJ to $2.625/GJ |
| April 1, 2019 to March 31, 2020 | Fixed Price | 10,000 GJ | $2.445/GJ to $2.50/GJ |

| **Natural Gas**<br>**Period Hedged – Daily Index** | **Type** | **Daily Volume** | **Price**<br>**(CAD)** |
|---|---|---|---|
| September 1, 2017 – October 31, 2017 | Fixed Price | 10,000 GJ | $2.03/GJ |

As at September 30, 2017 Peyto had committed to the future sale of 188,870,000 gigajoules (GJ) of natural gas at an average price of $2.55 per GJ or $2.93 per mcf. Had these contracts been closed on September 30, 2017, Peyto would have realized a net gain in the amount of $73.1 million. If the AECO gas price on September 30, 2017 were to decrease by $0.10/GJ, the financial derivative liability would decrease by approximately $18.9 million. An opposite change in commodity prices rates would result in an opposite impact.

Subsequent to September 30, 2017 Peyto entered into the following contracts:

| **Natural Gas**<br>**Period Hedged – Monthly Index** | **Type** | **Daily Volume** | **Price**<br>**(CAD)** |
|---|---|---|---|
| November 1, 2017 to December 31, 2017 | Fixed Price | 5,000 GJ | $2.12/GJ |
| November 1, 2017 to March 31, 2018 | Fixed Price | 10,000 GJ | $2.285/GJ to $2.32/GJ |
| December 1, 2017 to March 31, 2018 | Fixed Price | 30,000 GJ | $2.20/GJ to $2.465/GJ |
| April 1, 2018 to March 31, 2019 | Fixed Price | 15,000 GJ | $2.04/GJ to $2.1775/GJ |
| April 1, 2018 to October 31, 2018 | Fixed Price | 30,000 GJ | $1.75/GJ to $1.94/GJ |
| April 1, 2019 to March 31, 2020 | Fixed Price | 5,000 GJ | $2.2225/GJ |

| **Natural Gas**<br>**Period Hedged – Daily Index** | **Type** | **Daily Volume** | **Price**<br>**(CAD)** |
|---|---|---|---|
| November 1, 2017 – November 30, 2017 | Fixed Price | 10,000 GJ | $2.1025/GJ |
| November 1, 2017 – November 30, 2017 | Fixed Price | 20,000 GJ | $2.1050/GJ |

## 9. 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 | | | | Accounts Payable | |
|---|---|---|---|---|---|
| Three Months ended September 30 | | Nine Months ended September 30 | | As at September 30 | |
| **2017** | 2016 | **2017** | 2016 | **2017** | 2016 |
| **244.7** | 98.6 | **460.4** | 579.1 | **477.1** | 344.3 |

## 10. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at September 30, 2017:

| | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
|---|---|---|---|---|---|---|
| Interest payments(1) | 6,680 | 22,085 | 19,890 | 17,695 | 12,295 | 26,645 |
| Transportation commitments | 9,859 | 45,422 | 39,506 | 27,681 | 23,586 | 91,174 |
| Operating leases | 521 | 2,242 | 2,242 | 2,242 | 2,242 | 11,586 |
| Methanol | - | 2,916 | - | - | - | - |
| Total | 17,060 | 72,665 | 61,638 | 47,618 | 38,123 | 129,405 |

(1) Fixed interest payments on senior unsecured notes

## 11. Contingencies

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

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

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

On September 24, 2014 Poseidon amended its claim in the Poseidon Action to add Poseidon's auditor, KPMG LLP ("KPMG"), as a defendant.

On May 4, 2016, KPMG issued a third party claim in the Poseidon Action against Poseidon's former officers and directors and Peyto for any liability KPMG is determined to have to Poseidon. Peyto is not required to deliver a defence to this claim at this time.

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 (the "KPMG Poseidon Shareholder KPMG Action"). On July 29, 2014, KPMG LLP filed a statement of defence and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP.

The allegations against New Open Range contained in the claims described above are based on factual matters that pre-existed the Company's acquisition of New Open Range. The Company has not yet been required to defend either of the actions. If it is required to defend the actions, the Company intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions.

## 12. Subsequent Events

On October 13, 2017, The Company increased and extended its revolving, unsecured credit facility to $1.3 billion with a stated term date of October 13, 2021. The facility is comprised of $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 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

**Officers**

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Stephen Chetner
Corporate Secretary

**Directors**
Don Gray, Chairman
Stephen Chetner
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Scott Robinson

**Auditors**
Deloitte LLP

**Solicitors**
Burnet, Duckworth & Palmer LLP

**Bankers**
Bank of Montreal
Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank of Nova Scotia
Alberta Treasury Branches
Canadian Western Bank
*National Bank
*Wells Fargo

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*Subsequent to September 30, 2017.