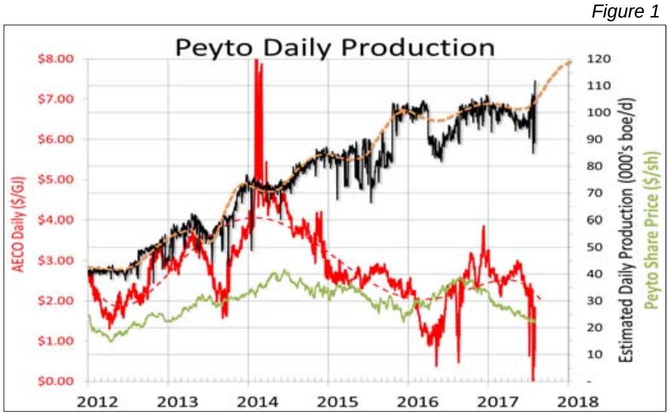
Peyto Exploration & Development Corp.
President's Monthly Report

August 2017 — From the desk of Darren Gee, President & CEO

July was quite the month. We finally got after our backlog of completions and tie-ins, eliminating a good chunk of our DUC list, and our daily production has started to reflect this activity, recently hitting as high as 114,000 boe/d. July was also quite the volatile month for average daily gas prices. AECO traded as high as $2.43/GJ and as low as -$2.20/GJ. You read that right, negative prices. Of course on those negative days, we didn't pay someone to take our gas away like others did. We had already hedged 75% of our gas for 2017 at around $2.60/GJ, put 10% more on the Monthly at $2.30/GJ, and we shut in the Daily gas for that day or two. In fact, we shut in even more than 15% and managed to buy (or really, get paid to take) a bunch of gas at the negative price to put towards our Monthly commitment. We ended up making a fair amount of revenue off those who chose to keep producing into a negative price. Boy, I love having that kind of operational flexibility!

Figure 1



Source: Peyto

As in the past, this report includes an estimate of monthly capital spending as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below) as well as any production deferrals.

Capital Investment*

2016/17 Capital Summary (millions$ CND)*

	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Apr	May	Jun	Q2 17
Acq.	28	0	5	1	34	4	0	0	0	0
Land & Seismic	4	1	1	4	9	9	1	1	0	2
Drilling	63	30	64	63	219	67	10	13	26	48
Completions	33	8	27	37	105	36	4	5	12	21
Tie ins	12	3	13	14	42	13	2	3	4	9
Facilities	37	9	4	11	60	25	8	5	4	17
Total	**176**	**50**	**114**	**130**	**469**	**154**	**25**	**28**	**45**	**98**

Production*

2016/17 Production ('000 boe/d)*

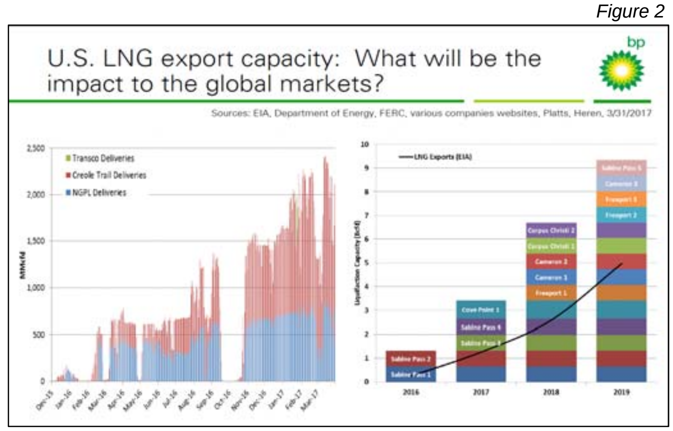
	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Apr	May	June	Q2 17	Jul
Sundance	59	61	54	58	59	58	59	58	55	55	56	54
Ansell	17	25	20	21	22	22	21	20	19	21	20	20
Brazeau	7	12	11	14	17	14	18	18	20	18	19	21
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	1	1	1	1	1	2	1	1	1	1
Total	**86**	**101**	**88**	**96**	**102**	**97**	**101**	**100**	**98**	**97**	**98**	**99**

This estimate is based on real field data, not a* ***forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.*

Pipeline Pontifications

The recent announcement by Petronas to cancel their LNG project on the West coast of Canada was a disappointing one that has negative financial ramifications for all Canadians. I guess we'll just have to continue to pay the Americans to take our excess gas to foreign markets for us, since we're not prepared to encourage the capital investment that would enable us to do it ourselves. There are those too political or polite to say it, but it's obviously the investment environment that our governments are creating that is to blame, since other LNG facilities are actively being pursued elsewhere on the globe. In fact, when you look at the projected growth of LNG export capacity in the United States (Figure 2), they are clearly creating an attractive place to put capital to work. By the end of the decade, they will have close to 10 BCF/d of export capacity. That could just as easily have been us if not for the municipal and regional taxes, provincial taxes, federal taxes, carbon taxes, First Nations benefit agreements, regulatory costs, environmental costs, regulatory delays, and over four years of hoop jumping. That list went on and on (190+ conditions), so Petronas's decision should be no big surprise to anyone.

Figure 2



Source: BP

What this means, however, is that the development of one of Canada's largest natural gas resources will be limited to using, and competing for, existing pipeline egress, since the same issues that prevented Petronas from proceeding also exist for any material expansion of other Canadian egress solutions. The proposal, as it sits now, is to just tie any incremental reserves to the existing TransCanada Nova/Alliance/Spectra systems and send it through Alberta/BC and into the North American gas pipeline system. This, of course, opens the door to inter-provincial disputes over who should get paid for what when hydrocarbons travel through various provinces, just like BC charging Alberta to ship oil on the Trans Mountain Pipeline or Quebec charging Alberta to ship on Energy East. Quid pro quo. I suppose it's time for Alberta to get a pound of flesh back from BC for shipping their gas across Alberta.

None of this bickering is good for the average Canadian who benefits immensely from all of us working together to get Canada's natural resources developed in a timely fashion and sold to the highest priced markets thereby maximizing the profit to be shared. A recent report from the Fraser Institute illustrated just how important that concept is to Canadians. https://www.fraserinstitute.org/sites/default/files/a-friend-in-need-recognizing-albertas-outsized-contribution-to-confederation.pdf

So instead, we're left with trying to work with the existing natural gas pipeline system in Western Canada to get these resources to market. The problem is, those parts of the system are basically full at 12-13 BCF/d and we have very little usable storage to buffer the push and pull of supply and demand. Compound that with the lack of interruptible service recently, which the storage operators use to put gas on and pull gas off the system, and we end up with very volatile Alberta prices, just like we saw over the last month.

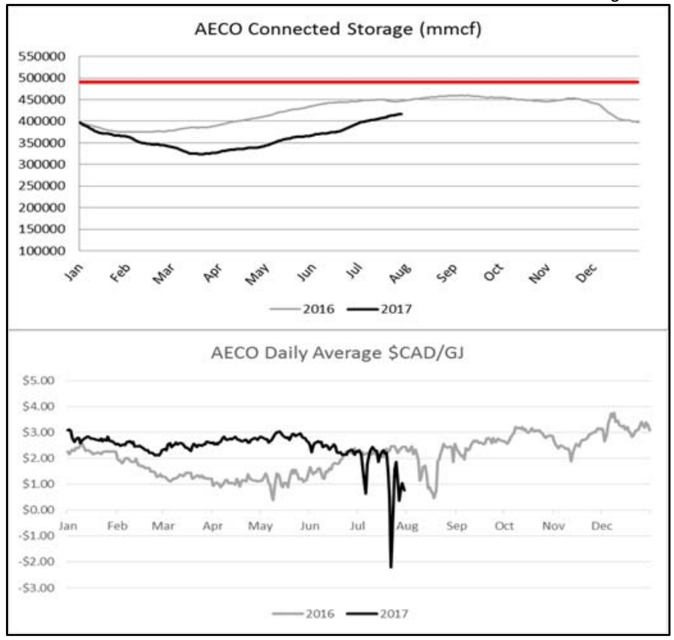
As a producer this creates two problems locally; one, how do you ensure you can get your gas onto the system and to market, and two, how do you ensure the price you receive is insulated from the extreme volatility that can exist. Those two problems are also interrelated. When there are restrictions to getting the gas on the system, generally there is less supply and better prices. Alternatively, when everyone but storage operators have access to the system through excess firm service, gas gets on but the prices are volatile depending on the daily supply-demand balance.

We've seen both of these two situations over the last couple years. In summer 2016, firm service restrictions on TCPL's Nova system Up Stream James River (USJR) reduced the volume of gas on the system and supported AECO prices during the summer and fall when Alberta storage was reaching a tipping point. In summer 2017, we are experiencing the opposite. Most producers have better access to firm service in USJR, but restrictions on IT at and around the provincial border, which affects the majority of storage operators and removes their ability to take gas off or put gas on, has resulted in extreme volatility in AECO daily prices (Figure 3).

Peyto's solution to both problems, as we outlined in the past, was to ensure we could get access to the system at minimal cost by obtaining excess firm service on NGTL and to remove the volatility in gas prices by hedging the majority of our production with shorter term physical commitments (selling to the AECO Monthly price) or longer term financial hedges (fixed price swaps).

For the most part, this strategy has worked successfully, while at the same time eliminating any risk to our margins with exposure to long term, high cost, take-or-pay commitments. However, we will continue to see softer gas prices relative to the US as we continue to pay them to reach export markets beyond North America. As natural gas volumes in Western Canada shrink due to these soft prices, and internal demand continues to grow, sooner or later prices will rebound as we approach a more balanced domestic supply-demand market. Long term this spells good news for Peyto and its shareholders but bad news for Canadians who could be benefitting from participation in global energy markets.

Figure 3

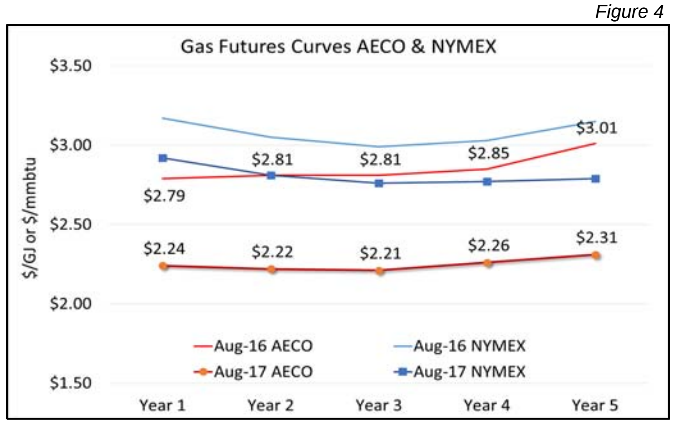


Source: Peyto, Enerdata

Activity Levels and Commodity Prices

A year ago, long term natural gas prices were looking up. Today both AECO and NYMEX are down which points to more challenging economics and likely more limited supply growth which is surprising considering demand, both domestic North America and LNG exports, continue to grow.

Figure 4



Source: CIBC