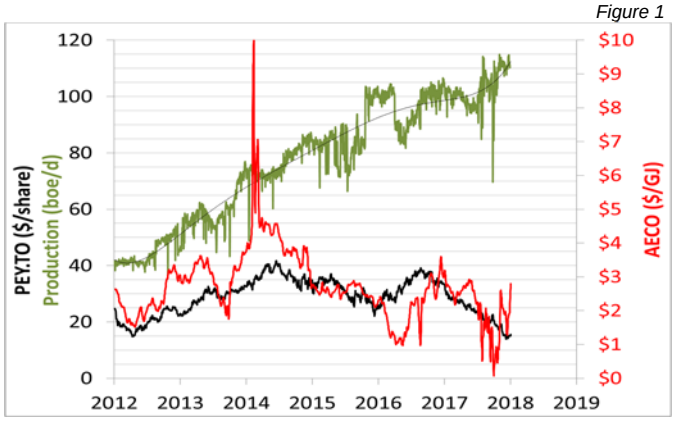
Peyto Exploration & Development Corp.
President's Monthly Report

January 2018 — From the desk of Darren Gee, President & CEO

Happy New Year! Here's to 2018 being better than 2017. For shareholders like me, 2017 was a tough year, mostly caused by erratic and generally falling natural gas prices rather than things we at Peyto have direct control over (see Figure 1).

Figure 1



Source: Peyto, TMX, TD

December was another crazy month for AECO gas price, with a low of $0.56/GJ and a high of $4.09/GJ. We went from shutting in volumes one week (reducing December average volumes) to producing everything full out the next. Thankfully, we rang in the New Year with the La Nina winter that was projected and colder than normal weather across much of North America. It didn't drive up the futures curve very much but it sure helped the spot price of natural gas.

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).

Capital Investment*

*2016/17 Capital Summary (millions$ CND)**

	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Jul	Aug	Sep	Q3 17	Oct	Nov
Acq.	28	0	5	1	34	4	0	0	0	0	0	0	0
Land & Seismic	4	1	1	4	9	9	2	0	1	0	1	0	4
Drilling	63	30	64	63	219	67	48	25	23	25	73	25	29
Completions	33	8	27	37	105	36	21	15	11	8	34	17	14
Tie ins	12	3	13	14	42	13	9	7	4	4	15	6	5
Facilities	37	9	4	11	60	25	17	4	2	5	11	2	1
Total	**176**	**50**	**114**	**130**	**469**	**154**	**98**	**51**	**41**	**43**	**135**	**50**	**53**

Production*

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

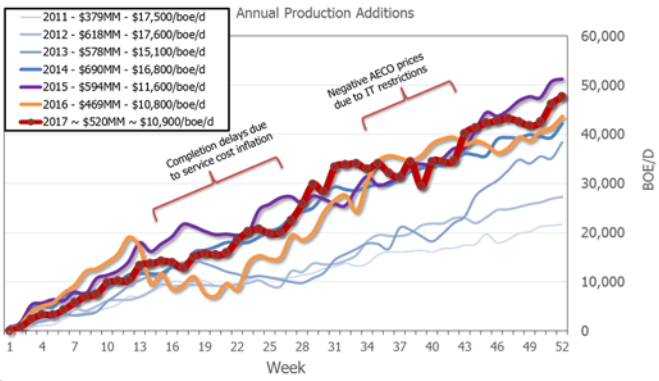
	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Oct	Nov	Dec	Q4 17	2017
Sundance	59	61	54	58	59	58	59	56	55	58	59	59	58	57
Ansell	17	25	20	21	22	22	21	20	22	21	22	22	21	21
Brazeau	7	12	11	14	17	14	18	19	21	23	27	27	25	21
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	1	1	1	1	1	1	2	3	3	3	3	2
Total	**86**	**101**	**88**	**96**	**102**	**97**	**101**	**98**	**102**	**106**	**112**	**111**	**110**	**103**

**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.*

Capital Efficiency

Based on our field estimates, it looks like we finished off our 2017 capital program spending slightly less than expected and building just under 50,000 boe/d of new production. Capital efficiency, or that ratio of capital spending to new production additions, calculated out at just under $11,000/boe/d, very similar to 2016 (see Figure 2). I would remind readers, however, that capital efficiency is not a good measure of profitability, but does serve to help model the impact of future capital programs.

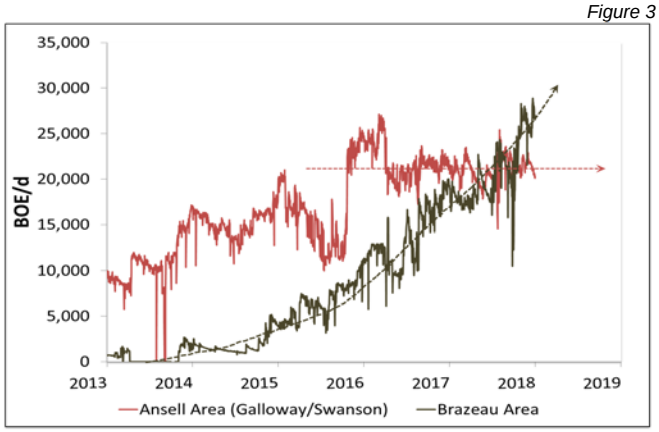
Figure 2



Source: Peyto

While this level of capital efficiency is likely industry leading, it's also interesting to look at the more granular, field level data to see what different fields, at different stages of development, are costing for new production additions. For instance, looking specifically at the Brazeau area, where we've had substantial production growth (see Figure 3), capital efficiencies have been higher with new production costing around $16,000/boe/d for the last 5 years vs our corporate average of $13,000/boe/d.

Figure 3



Source: Peyto

This is understandable as Brazeau has needed incremental facilities to accommodate the incremental production volumes.

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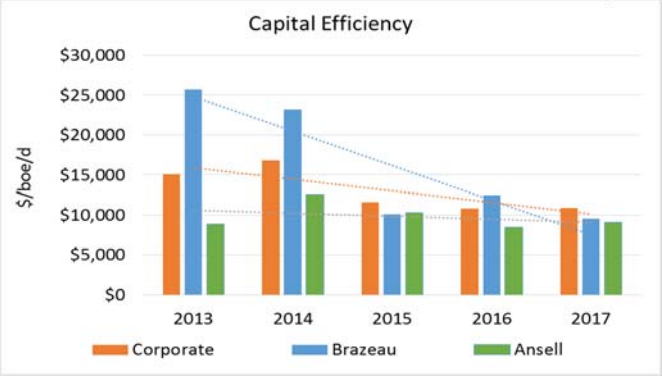
Brazeau is also an area where new lands have continued to be purchased which then requires new seismic to be acquired. So full cycle costs to add new production are generally higher.

Conversely, in the Ansell area, production has been relatively flat for the past couple of years and as expected capital efficiencies there have been much lower averaging less than $10,000/boe/d (Figure 4).

Figure 4



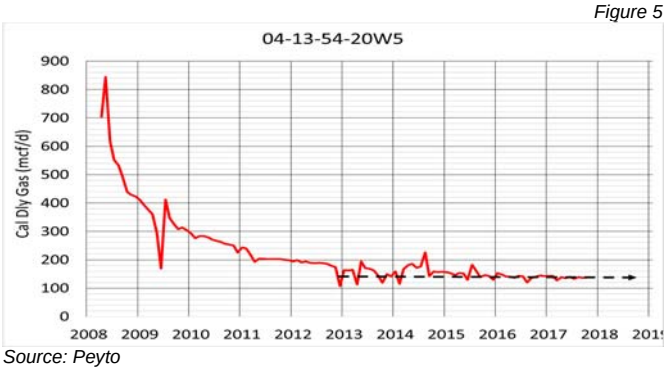
Source: Peyto

What this confirms, is that it does indeed costs less to hold a producing area flat as opposed to grow it. Which is what you would expect considering that you don't have to invest in new facilities, land and seismic when an area isn't growing.

In some instances, however, it's easier than you might think to hold production flat. It's been our observation that when an area has undergone rapid growth over a longer period of time, especially when the same gathering system has been used for various vintages of production, older producing wells are backed out by newer, stronger producing wells. Then when growth slows or stops, these older wells begin to perform better as system pressures drop and there is less disruption to these more sensitive producers. This is different than when new "pods" or pads of wells are tied in with brand new pipelines.

Take for example this old vertical producer in the Ansell area that was drilled back in 2008.

Figure 5



Source: Peyto

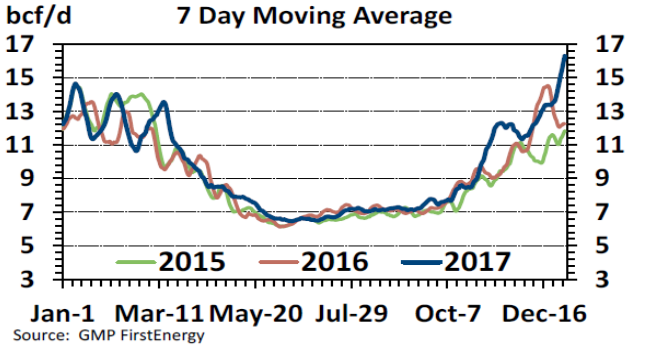
Since the Ansell area stopped growing in 2016 this well has experienced no natural decline. This implies its getting stronger, despite its natural depletion, because there are no new wells being added to the gathering system around it to back it out.

The more times you see this phenomenon the more it confirms why we established Peyto in the Deep Basin and built these types of low risk, long life, stable decline, sweet, natural gas producing assets in the first place.

Activity Levels and Commodity Prices

Figure 7

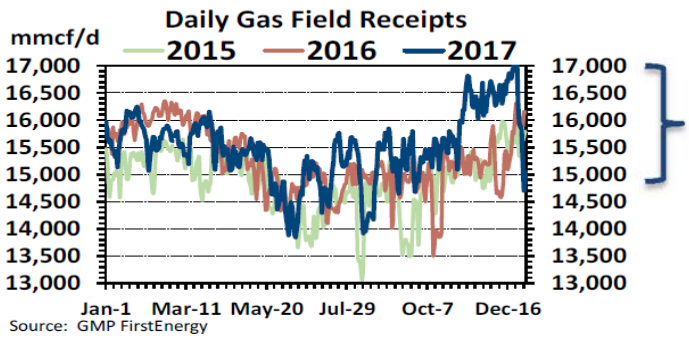
Canadian Natural Gas Demand



Canadians were gobbling up natural gas as fast as turkey leftovers during the last week of 2017. Consumption hit a record 17 BCF/d with all the cold weather (Figure 7). Supply would have kept up had it not been for the 2.5 BCF/d of well freeze offs (also due to that same cold weather, Figure 8). Of course, increased demand and missing supply caused short term prices to rocket, but it's a good reminder that winter cold (and summer heat for that matter) affects both demand and supply.

Figure 8

Canada West Natural Gas Supply



Forward Looking Statements

Certain information set forth in this monthly report, including management's expectation of future natural gas prices and the reasons therefore and management's estimate of monthly capital spending, field estimate of production, production decline rates and forecast 2018 netback, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Peyto's 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 that Peyto will derive there from. The forward-looking statements contained in this monthly report are made as of the date of this monthly report. Except as required by applicable securities law, we assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risks and assumptions affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

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

Certain measures in this monthly report do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These measures may not be comparable to similar measures presented by other issuers. Non-IFRS measures are commonly used in the oil and gas industry and by Peyto to provide potential investors with additional information regarding Peyto's liquidity and its ability to generate funds to conduct its business. Non-IFRS measures used herein include netback and funds from operations.

Netbacks are a non-IFRS measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices. Funds from operations is a non-IFRS measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate Peyto's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable IFRS measure is cash flows from operating activities.