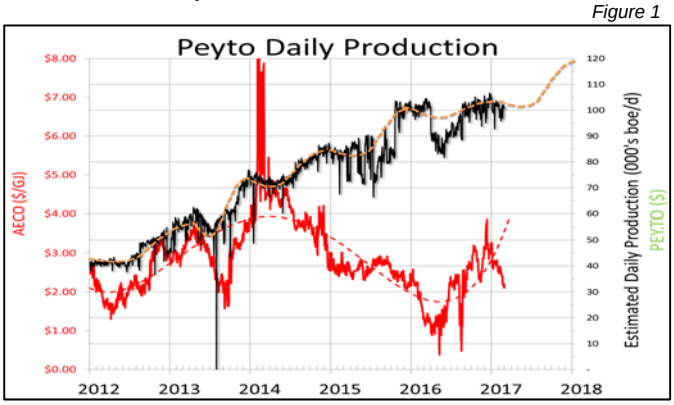
Peyto Exploration & Development Corp.
President's Monthly Report

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

In the back half of 2016 it was looking encouraging for a recovery in AECO gas prices. The first part of 2017, not so much. This is exactly why we hedge at Peyto. To smooth out all of this extreme volatility in natural gas price that we've seen over the last few years. The more certainty we have for the funding of our capital program, the easier it is to execute it efficiently and cost effectively. So far, we have about 75% of the gas price locked away at around $3/mcf. We'll see if we end up ahead or behind on it, but either way we can now confidently get after our drilling program for the year. The first few months, however, are going to be all about holding any cost inflation at bay.

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	Jul	Aug	Sep	Q3 16	Oct	Nov	Dec	Q4 16	2016	Jan
Acq.	28	0	0	4	1	5	0	0	1	1	34	0
Land & Seismic	4	1	0	0	1	1	1	3	0	4	9	8
Drilling	63	30	20	21	23	64	26	24	13	63	219	22
Completions	33	8	5	11	11	27	10	13	14	37	105	11
Tie ins	12	3	4	6	3	13	4	5	6	14	42	3
Facilities	37	9	1	1	1	4	2	4	5	11	60	9
Total	**176**	**50**	**30**	**43**	**40**	**114**	**43**	**49**	**38**	**130**	**469**	**53**

Production*

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

	2015	Q1 16	Q2 16	Q3 16	Oct	Nov	Dec	Q4 16	2016	Jan	Feb
Sundance	**59**	61	54	58	61	59	59	59	**58**	59	59
Ansell	**17**	25	20	21	22	21	22	22	**22**	21	21
Brazeau	**7**	12	11	14	16	17	19	17	**14**	19	18
Kakwa	**2**	2	2	2	2	2	2	2	**2**	2	2
Other	**2**	2	1	1	1	2	1	1	**1**	2	2
Total	**86**	**101**	**88**	**96**	**102**	**100**	**103**	**102**	**97**	**102**	**100**
Deferral			**17**	**6**							

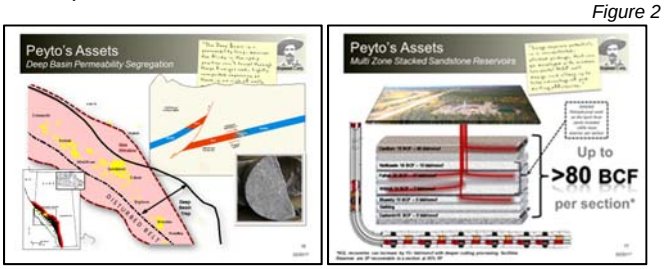
**This estimate is based on real field data, not a **forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.*

Peyto Inventory – Where Does It Come From

Recently, the question of Peyto's drilling inventory has been raised. This happens from time to time as new entrants to the investment community try to understand how Peyto has been so successful for so long with basically an organic business strategy. So I thought it would be worth devoting a monthly report to reiterate where and how we come by our future drilling inventory, how we can yield so much opportunity from a relatively small land base, and how it is that we generate so much more profit for each new well we drill when compared to many peers in the industry.

To start with you have to understand a bit about the Deep Basin, where all of Peyto's assets exists. The Alberta Deep Basin of Western Canada is an immense wedge of abnormally pressured, hydrocarbon-saturated strata on the eastern flank of the Rocky Mountain Foothills. Within this strata there are multiple, stacked, sandstone formations that have been estimated to contain hundreds of TCFs of potentially recoverable gas resources (check out slides 16 & 17 in our corporate presentation). John Masters, President of Canadian Hunter Exploration published a case study on the Deep Basin back in 1984 (worth a look if you can find it). However, very little of this extremely large resource has actually been developed.

Figure 2



Source: Peyto presentation http://www.peyto.com/Files/Presentations/Corporate/20170215CorporatePresentation.pdf

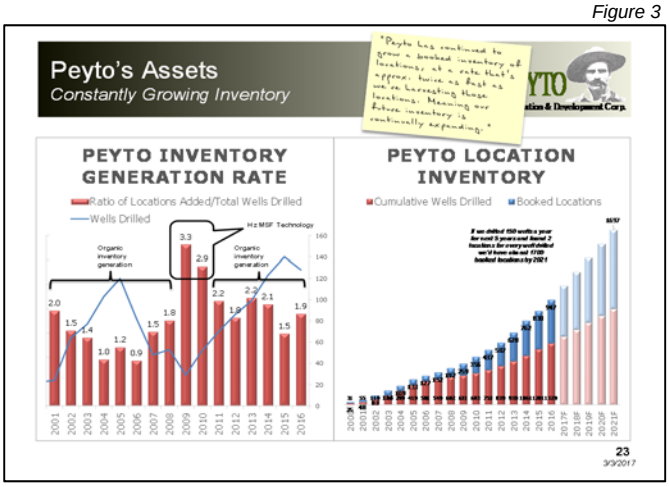
Over the past 18 years Peyto has expanded its land holdings to over 700 net sections of land containing close to 3,000 net sections of rights across 7 productive Cretaceous formations. In each one of those sections and for each layer of hydrocarbon saturated sandstone there is the potential to drill between 4 and 8 wells to drain the available resource (based on historically observed drainage areas).

In the 18 years of drilling and developing, Peyto has fully developed individual formations draining a grand total of 158,000 acres (248 net sections), which equates to 8.3% of our controlled lands. This was done with 655 vertical wells and 723 horizontal wells and required close to $5 billion of capital investment (including land, seismic and all the infrastructure). That $5 billion capital investment, by the way, has already thrown off $2 billion in earnings, which is one of the largest ratios of earnings to capital in the industry.

Considering we've spent the last 18 years drilling and we've only developed 8.3% of the owned lands, it becomes easier to understand how we can continue to identify so many future opportunities in the remaining lands. But Peyto doesn't stop

there. Every year we add to our land base with new lands that have additional pre-identified drilling inventory on it. For instance, in 2016 we bought 50 net sections of land that had 117 pre-identified drilling locations on it. This year will be no different.

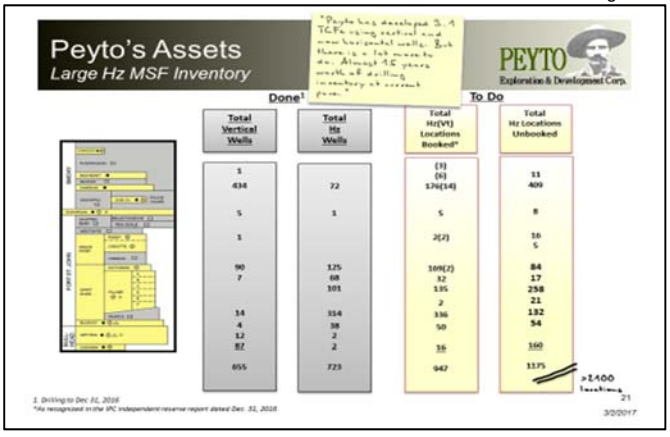
Figure 3



Source: Peyto corporate presentation, slide 23

As we drill and develop those identified locations, we can start to recognize more locations. Our reserve books each year only reflect a small fraction of the total identified locations, which still only represent a small portion of the total lands we own. And each year we recognize more. As shown in figure 3 above, our rate of recognizing additional inventory has outpaced our rate of drilling by 2:1. If we continue on this path, in five years' time, we'll have increased our recognized inventory by 80%.

Figure 4



Source: Peyto corporate presentation, slide 21

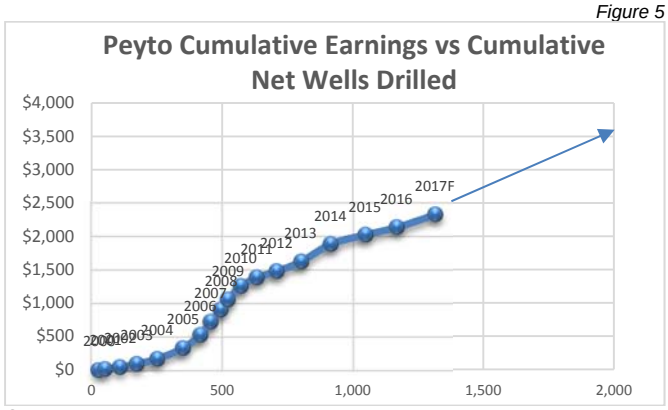
As I mentioned, we've developed 8.3% of our rights with some 1,300 wells. The undeveloped locations reflected in our reserve report takes our land development to approximately 15%. Add to that all the additional locations we see beyond our reserve report and we get closer to 25% of our land (figure 4).

At some point, adding up future locations just becomes futile. The number of wells gets too big relative to the pace at which we are harvesting them. And besides, what does all this inventory mean? If by drilling and developing all this resource we still don't generate any profit, then it's all a rather pointless discussion.

So perhaps the more important analysis for investors is to look at the amount of profit we generate off every well we drill. Then the sheer number of future locations has some meaning.

If we simply plot the cumulative number of wells drilled against cumulative earnings generated we can get a better sense of the importance of a well in financial terms. Basically for every 1,000 wells we've drilled, we've generated $2 billion in earnings, or more simply for every well, we've realized $2 million of profit to date. I'd say this makes Peyto's inventory some of the most valuable in the industry and the next 2,000 locations in inventory very meaningful for investors.

Figure 5

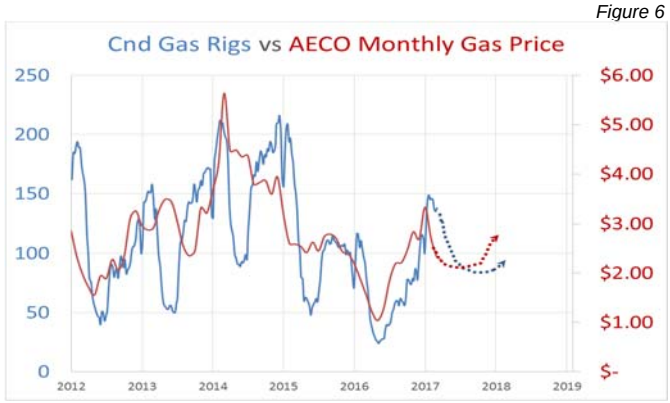


Source: Peyto

Activity Levels and Commodity Prices

AECO gas futures have fallen and Canadian gas rigs are likely to follow as there were few producers who could generate profits last year at this level (see Figure 6).

Figure 6



Source: Baker Hughes, Peyto