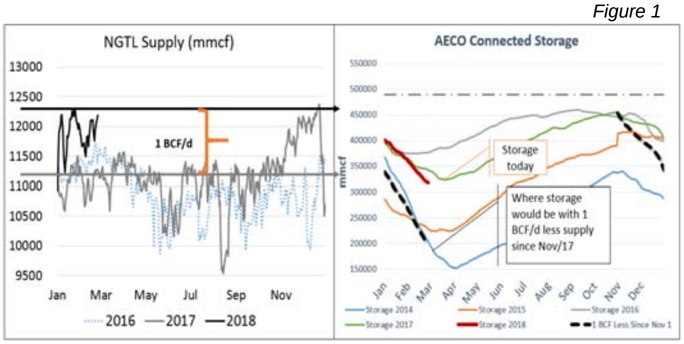
Peyto Exploration & Development Corp.
President's Monthly Report

March 2018

From the desk of Darren Gee, President & CEO

Everybody says we have too much gas in Western Canada and that's why the gas price is so low. For the most part, that's a true statement, but it's actually only just recently. Looking at the left graph in Figure 1 you can see that NGTL receipts rocketed up in November of 2017, increasing 1 BCF/d. As a consumer you're probably saying "good thing", because considering the winter we're having, had we not had that extra, we'd be in dire straits. The dotted line in the graph on the right shows where storage would be without that volume, and it would've been fast approaching zero! Considering all that new volume is flush, it just goes to show how sensitive the situation is between too much and not enough. Entering next winter with full storage might not be such a bad thing because if we lose that flush supply and we have another winter like this one, things could get awfully chilly!

Figure 1



Source: TCPL, 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).

Capital Investment*

*2016/17 /18 Capital Summary (millions$ CND)**

	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Q3 17	Oct	Nov	Dec	Q4 17	2017	Jan
Acq.	28	0	5	1	34	4	0	0	0	0	0	0	4	0
Land & Seismic	4	1	1	4	9	9	2	1	0	4	0	4	17	0
Drilling	63	30	64	63	219	67	48	73	25	29	15	69	256	10
Completions	33	8	27	37	105	36	21	34	17	14	12	42	134	8
Tie ins	12	3	13	14	42	13	9	15	6	5	5	16	53	2
Facilities	37	9	4	11	60	25	17	11	2	1	1	4	57	0
Total	**176**	**50**	**114**	**130**	**469**	**154**	**98**	**135**	**50**	**53**	**32**	**134**	**521**	**20**

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	Jan	Feb
Sundance	**59**	61	54	58	59	**58**	59	56	55	58	59	59	58	**57**	57	56
Ansell	**17**	25	20	21	22	**22**	21	20	22	21	22	22	21	**21**	21	21
Brazeau	**7**	12	11	14	17	**14**	18	19	21	23	27	27	25	**21**	27	24
Kakwa	**2**	2	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**	3	2
Total	**86**	101	88	96	102	**97**	101	98	102	106	112	111	110	**103**	110	105

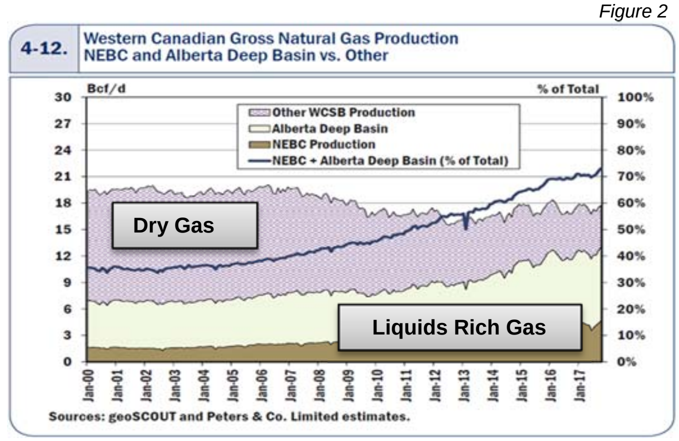
*This estimate is based on real field data, not a ***forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.***

Can't Be Cheap AECO Forever

The current narrative in Canada is that we are awash in cheap gas that is effectively a by-product of natural gas liquids drilling and that we have so much in the resource plays like the Deep Basin, Montney and Duvernay that we'll be this way for a long time to come. That, plus a lack of egress to markets beyond Alberta and voilà, you have a natural gas futures curve that is half of what it should be. I don't buy that narrative though, for a couple of reasons. For one, I don't think industry can sustainably cover its full cycle supply cost with the combination of *just* liquids revenue and effectively zero gas revenue. And two, we don't have enough pipe in the right places to supply the current 16 BCF/d of demand with this type of gas anyway.

According to Figure 2, today we have about 17+ BCF/d or so of total WCSB raw gas, split 30% dry gas (effectively zero liquids) and 70% rich gas. Back in 2010, this split was 50/50.

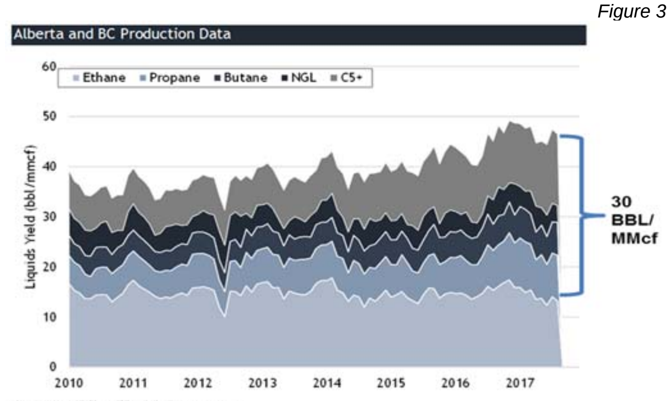
Figure 2



Source: Peter's & Co.

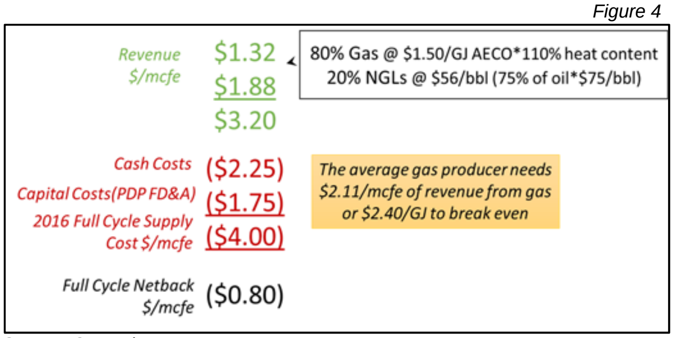
And according to Figure 3, the liquids-rich gas throws off around 40 bbls/mmcf of NGLs (propane, butane and C5+). So as a basin, we averaged 20 bbls/mmcf in 2010 at 50/50 (rich/dry) and now average 30 bbls/mmcf at 70/30.

Figure 3



The problem is, if 40 bbls/mmcf is the average of the rich gas stream, which is 20% liquids/80% gas on a production basis, and it's been that way for 7 years now, that isn't enough revenue to cover the full cycle supply costs with zero gas price. Using 2016 full cycle supply costs (from GMP) that showed the average gas producer had around $4/Mcfe of total supply cost (cash costs plus PDP FD&A), we'd need a gas price of over $2.40/GJ to combine with the liquids revenue (at $CND75/bbl oil), just to break even. At the current $1.50/GJ, the average guy is losing $0.80/Mcfe.

Figure 4



Source: GMP First Energy, Peyto

The second problem is, that even if we could afford to throw away the associated gas, we don't have enough pipe to get rid of it. Contracts are one thing, but actual capacity is another.

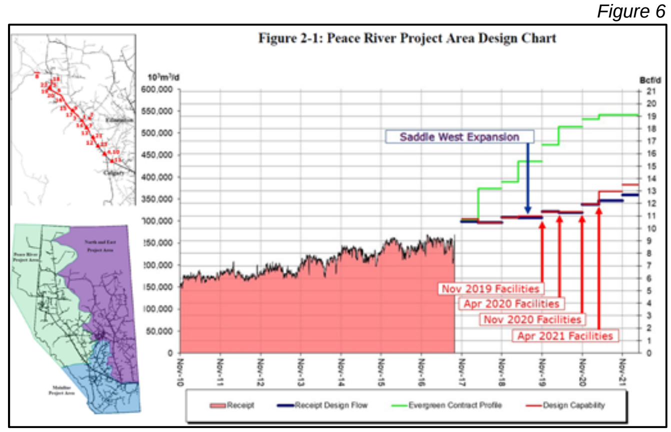
Figure 5

Source: Peyto

The current capacity of the system from the liquids-rich areas of the basin is limited to 10 BCF/d on NGTL, 1.6 BCF/d on Alliance and 1.9 BCF/d on Westcoast and those systems are all full. That only gets us to 13.5 BCF/d, not the 16+ BCF/d we're currently producing. And like I showed in Figure 1, it only takes 1 BCF/d less and we're in storage trouble from a cold winter.

If you think expansion plans are imminent, think again. TCPL has publicly released plans to expand their NGTL system but that still has to be blessed by the NEB *(who now gets final approval from the Minister of the Environment, not the Minister of Energy)*. Their plans don't really involve much expansion anyway, adding less than 10% over the next 3 years (despite having sold take or pay contracts for substantially more), see Figure 6.

Figure 6



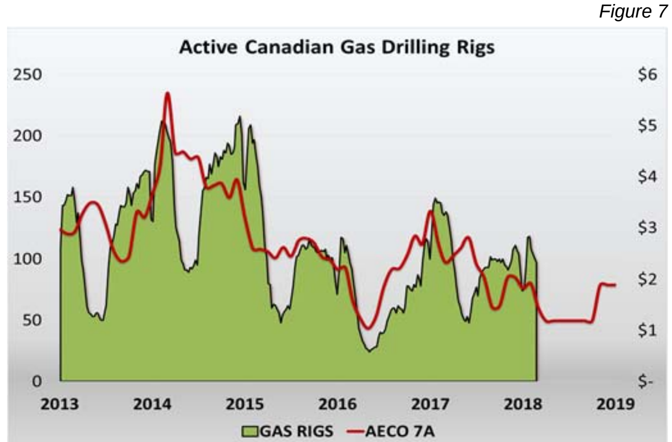
Source: http://www.tccustomerexpress.com/5771.html

All of this adds up to the basin needing a better gas price to sustain these levels of supply. Since we don't have it, there is only one logical conclusion for the WCSB. We shrink until we do. The question becomes, who's ready for that to happen?

Activity Levels and Commodity Prices

The gas rig count is dropping. Some are calling it an early break up but looking outside it still looks like winter to me. I think it is prudence being practiced by a natural gas industry in Western Canada that is looking at some very soft summer prices. It's good to see. Perhaps at Peyto we won't have to adhere to a line in Warren Buffett's letter this year which read *"The less the prudence with which others conduct their affairs, the greater the prudence with which we must conduct our own."* Or maybe we will, just the same.

Figure 7



Source: Baker Hughes, TD

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.