Peyto Exploration & Development Corp.
President’s Monthly Report

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

Pipelines (or lack thereof) continue to dominate the industry news in Canada. The required nationalization of Kinder Morgan’s Trans Mountain pipeline and expansion project is the latest disappointing news for a country that is supposed to be more than just a collection of independent provinces. It doesn’t fit the unified vision of Canada that I have in my mind (but then neither does Justin Trudeau’s vision of dividing us into small, “diverse”, placatable groups). We have one of the most progressive, free market economies in the world, governed by the rule of law, and one of the oldest constitutional democracies. Not to mention one of the highest standards of living in the world. Shouldn’t our private sector be publicly supported by that same rule of law, rather than forced to be governed by bureaucracy? Historically, there is little value added when elected governments wade into the business realm and yet, here we go again. Ironically, I started my career in the Canadian energy industry working for Petro-Canada, at that time a crown corporation owned by the federal government, and I got to experience first-hand the inefficiency of a government controlled business venture, with its executive dining rooms and multi-million dollar art collections. Any suggestion that this pipeline will “make money” for the people of Canada is truly laughable. It is clearly just another ploy by the federal government to attempt to control the development of Alberta’s rightful energy resources. What’s next, nationalize TCPL? Actually, maybe that’s not such a bad idea…..

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 Summary (millions$ CND)*

	2016	Q1 17	Q2 17	Q3 17	Oct	Nov	Dec	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr
Acq/Disp	34	4	0	0	0	0	0	0	4	0	-4	0	-4	0.0
Land & Seismic	9	9	2	1	0	4	0	4	17	1	0	0	1	0.2
Drilling	219	67	48	73	25	29	15	69	256	10	3	1	14	0.0
Completions	105	36	21	34	17	14	12	42	134	8	5	5	17	0.0
Tie ins	42	13	9	15	6	5	5	16	53	2	1	1	4	0.3
Facilities	60	25	17	11	2	1	1	4	57	0	1	3	4	0.2
Total	**469**	**154**	**98**	**135**	**50**	**53**	**32**	**134**	**521**	**21**	**5**	**9**	**35**	**1**

Production ('000 boe/d)*

	2015	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr	May
Sundance	**59**	**58**	59	56	55	58	**57**	57	56	55	56	54	49
Ansell	**17**	**22**	21	20	22	21	**21**	21	21	20	20	19	18
Brazeau	**7**	**14**	18	19	21	25	**21**	27	24	22	24	21	19
Kakwa	**2**	**2**	2	2	2	2	**2**	2	2	2	2	2	2
Other	**2**	**1**	1	1	2	3	**2**	3	2	3	3	2	2
Total	**86**	**97**	**101**	**98**	**102**	**110**	**103**	**110**	**105**	**101**	**105**	**97**	**89**
Deferral				**-**	**6**								**4**
Capability	**86**	**97**	**101**	**98**	**108**	**110**	**103**	**110**	**105**	**101**	**105**	**97**	**93**
Liquids %								9.4%	9.5%	9.7%		10.0%	10.3%

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.*

More Energy for Less Impact

Every year in the spring, we update our Sustainability Report where we review our performance for the past year in the area of ESG (Environmental, Social, and Governance). Although, for me the S stands for Safety rather than Social but in effect means the same with a focus on protecting local communities, our employees and wildlife from the potential hazards of our operations.

In addition to minimizing our footprint on the environment and the risk to our people, and maintaining the integrity of our assets, our primary focus is on two main areas: emissions and water. Our goal, of course, is to continuously improve. To emit less pollutants and use less water in delivering the energy that people need. I use the word *need* because, in Canada, energy is not a luxury, it is a requirement for survival. And if we didn’t provide it for Canadians, they’d be forced to pay a lot more to buy it from someone else in the world who would take far less care in protecting the global environment than we do.

As I mentioned at our Annual General Meeting a month ago, Peyto’s production provided enough natural gas last year to heat all the homes in Alberta and Saskatchewan. Some two million homes that on average consume 120 GJ/yr. Without it, we all would have frozen to death this past winter. And since Peyto’s gas is extracted with half the emissions intensity of the rest of the Canadian gas industry and since burning natural gas for heat emits half that of coal or wood, it is by far the logical choice for consumers.

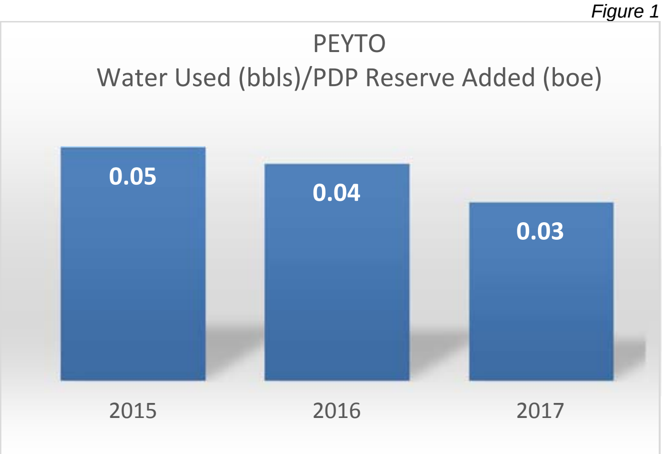
If you’re not a homeowner, think of it this way, Peyto’s production provided the energy to run all the private and public hospitals in Canada - over 1,400 of them. Your average hospital, say the Alberta Children’s hospital, runs around 70,000 m^2 of area. And according to National Resources Canada consumes around 2.4 GJ/m^2. Making them one of the largest consumers of energy, particularly since they’re open 24/7 and require a lot of electricity to run the multitude of lifesaving healthcare equipment. Again, our gas, extracted most efficiently, provides the most reliable, life saving energy available. So, yes, our energy is needed.

However, unlike our governments, the fact that we are needed, doesn’t entitle us to be any less efficient or responsible than we can possibly be. Which is why every year we strive to provide more for less. More energy for less impact. More Gigajoules of natural gas for less tonnes of CO_2 emissions. And more BCFs of reserves for less barrels of fresh water. So for 2017, how did Peyto do?

Our formal 2018 Sustainability Report will be published on our website in the next few weeks, but the data is now in so we can compare our performance to our past and to the rest of the industry to get perspectives on how good a job we did providing energy to Canadians.

With respect to water, we continued to get more for less. We used 18% less water in 2017 to develop the same amount of reserves, just 0.03 bbls of water for every boe of PDP reserves. To put that in the same terms above, we developed enough energy to run the Alberta Children's Hospital for a year with just 730 bbls of water. Considering that's less water than the average household in Canada uses, I'd say that's a pretty good trade.

Figure 1



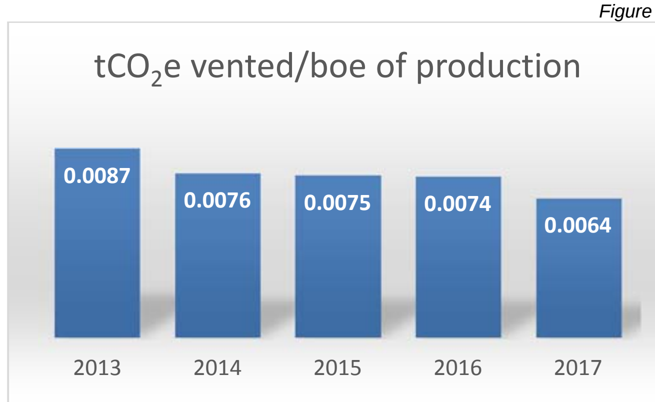
Source: Peyto

The other area we're continuously working on is emissions. Specifically, the methane emissions at our wellsites because those methane emissions can be preventable and methane is significantly more harmful than CO_2 – some 30 times more harmful.

Peyto's major sources of methane emissions are our wellsite controllers and our wellsite methanol pumps, both of which vent a tiny amount of methane as part of their normal operational functionality. We have trialed several zero emissions electrical pumps powered by solar electricity and have moved into implementation of this new style of equipment. Since inception in 2016, we've increased the number of these new zero emissions pumps to 118. Over the first quarter of 2018, we've installed another 7 new pumps out of the 14 wellsites we have equipped thus far.

Furthermore, we are now installing low bleed controllers on all new wellsite equips which will reduce our vent gas from separator level controllers by 83% from the old style of controllers. As we drill and equip new wells with this new equipment over the next several years we will continue to improve and reduce our methane emission intensity. On a unit of production basis our methane emissions improvement is shown in figure 2.

Figure 2



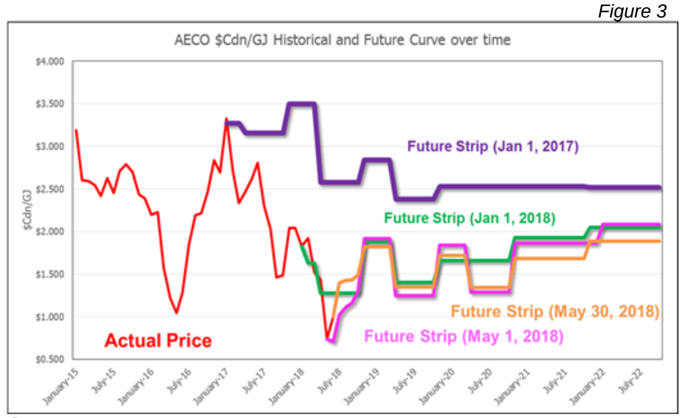
Source: Peyto

Overall, it was another successful year making strides on important environmental objectives. And that ultimately leads to our goal of delivering some of the lowest cost, most profitable, most efficient and most responsible resource development and production in the world.

Activity Levels and Commodity Prices

The May AECO price went negative again, which prompted us to defer some production, while the future strip has been moving around a lot lately (see Fig 3.). With the announcement of the North Montney Mainline approval, the back end of the curve has come down as more supply into an already constrained system puts additional pressure on the period prior to 2021. Further out, the PETRONAS purchase of an interest in LNG Canada's Kitimat project provides some support. In the short term, summer 2018 has strengthened, as reality sets in on Alberta's true storage deficit and the slim prospect of refilling it with EGAT IT restrictions. Personally, I'm still of the opinion that for this winter AECO gas price should be higher, because if we aren't filling storage this summer, then next winter price have to go up.

Figure 3



Source: TD, Peyto

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.

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