Peyto Exploration & Development Corp.
President's Monthly Report

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

First, we're stuck in the mud, and now we're stuck in the snow. As happens some years, we're experiencing what I like to call "fall breakup" this year. Early snows and cold rains, without any frost or cool dry, fall days, has turned most of Northern Alberta into a mud bog. Peace River Gumbo is what we called it when I was growing up in Grande Prairie. This subsequently caused most of the September drilling and completion activity in Northern Alberta to grind to a halt, as evidenced by the drop in rig count. It throws a small wrench into the timing of our plans too. We had planned to drill and complete about 40 wells between September 1 and December 31, so with a three week "fall breakup" delay, we've amassed over a dozen DUCs (drilled uncompleted wells) and will have to double time it when the freeze finally does hit and we can move freely again.

Figure 1

Source: Peyto location

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	Q4 17	2017	Q1 18	Apr	May	Jun	Q2 18	Jul	Aug
Acq/Disp	34	4	0	0	0	4	-4	0	0	0	0	0	0
Land & Seismic	9	9	2	1	4	17	1	0	0	0	1	2	2
Drilling	219	67	48	73	69	256	14	0	0	7	7	9	12
Completions	105	36	21	34	42	134	17	0	0	1	1	6	10
Tie ins	42	13	9	15	16	53	4	0	0	0	1	1	2
Facilities	60	25	17	11	4	57	4	0	2	3	5	2	1
Total	**469**	**154**	**98**	**135**	**134**	**521**	**35**	**1**	**2**	**12**	**15**	**20**	**27**

Production ('000 boe/d)*

	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Apr	May	June	Q2 18	Jul	Aug	Sept	Q3 18
Sundance	59	56	55	58	57	56	54	49	49	50	49	48	49	49
Ansell	21	20	22	21	21	20	19	18	18	18	16	16	16	16
Brazeau	18	19	21	25	21	24	21	19	18	19	17	16	16	16
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	1	1	2	3	2	3	2	2	2	2	2	2	3	2
Total	**101**	**98**	**102**	**110**	**103**	**105**	**97**	**89**	**89**	**92**	**86**	**85**	**86**	**85**
Deferral		-	6					4	2	2	1			0
Capability	**101**	**98**	**108**	**110**	**103**	**105**	**97**	**93**	**91**	**94**	**87**	**85**	**86**	**86**
Liquids %						9.5%	10.0%	10.3%	10.0%	10.1%	10.0%	10.6%	11.3%	10.6%

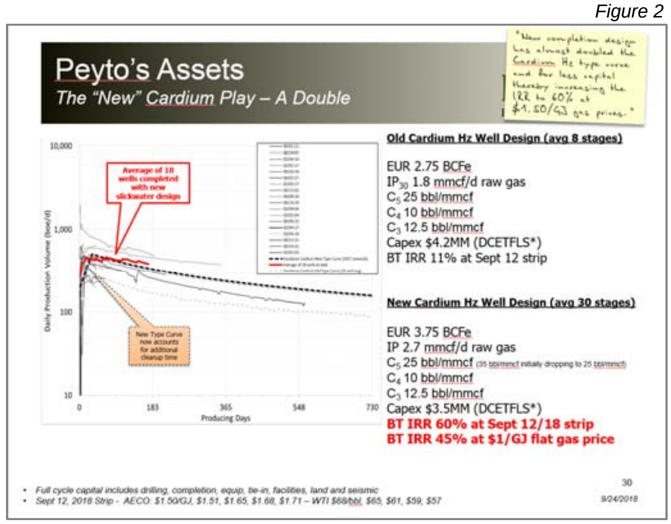
This estimate is based on real field data, not a* ***forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.*

Cardium Program Update

As we stated earlier this year, with severely discounted AECO summer gas prices and stronger oil prices, we were going to focus the majority of our capital investments on our Cardium resource play. By combining our innovative completion design, lower costs and improved productivity/increased reserve recovery, the Deep Basin Cardium play is still highly economic in today's commodity price environment and justifies our attention. We also planned to time the majority of the capital investment in the back half of the year to match new production additions with a stronger winter gas price (fall breakup notwithstanding).

So now that we're in the back half of the year, how's that capital plan working out? In tribute to the late, great Clay Riddell with his efficiency of words – "It's good". Early production data from the 18 new style Cardium completions we've brought on seems to be following the type curve (figure 2). We had to modify our expectations slightly to include an increasing production profile over the first 30 days, as we clean up from a stimulation that includes three times more frac water, but so far results are meeting our expectations.

Figure 2



Source: Peyto

On the cost side, both drilling and completion costs are coming in lower than expected. We had budgeted drilling costs of $1.7 million and $1.5 million for completion ($3.7 total incl. equip, tie-in, land, seismic, facilities) when in reality the last dozen wells were drilled for $1.5 million and completed for $1.4 million. This cost result, combined with the improved production type curve, yields before-tax IRRs of 60% at current strip prices. A very good result, considering the current weakness in the gas strip. Even at a $1 flat gas price the internal rate of return is still 45%, driven mostly by the higher liquids yields and higher oil and propane forecasts.

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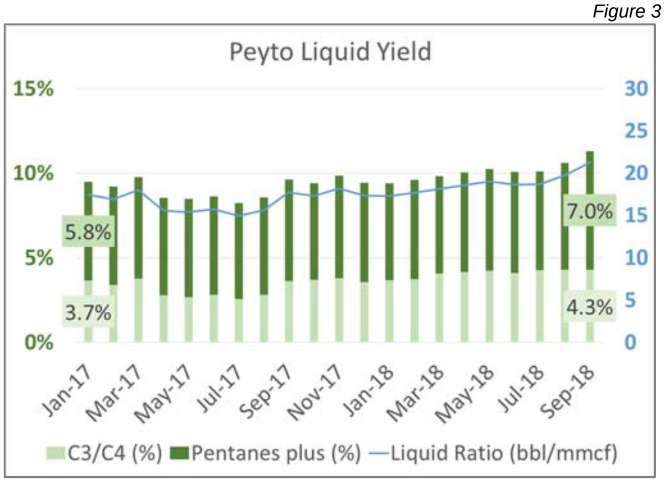
Even though the bulk of the Cardium program in the back half of the year hasn't really shown up yet, the impact on Peyto's liquids production has already started to show. Our total liquids to gas ratio has begun to increase and the proportion of Pentanes plus (C5+), or the liquids that realize like oil pricing, has also increased (Figure 3).

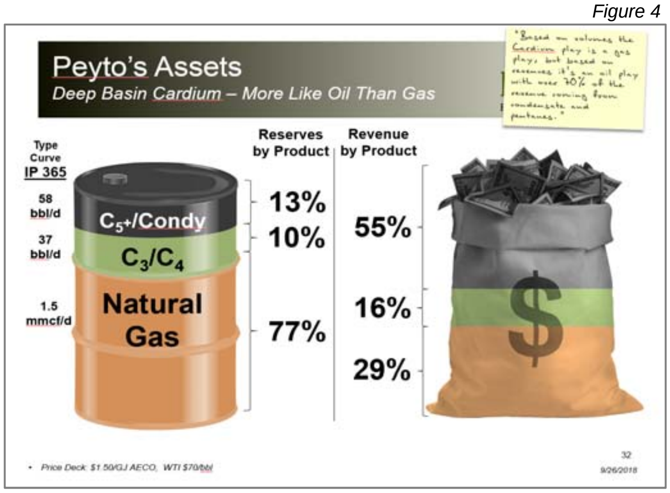
Figure 3



Source: Peyto

The current large discrepancy between oil and natural gas prices (90:1) means these Cardium wells are more "oil" wells than they are gas wells. Looking at the revenue and reserve breakdowns by product, you can see what I mean with more than 70% of the revenue coming from NGLs and condensate even though that only represents 23% of the volume (figure 4).

Figure 4

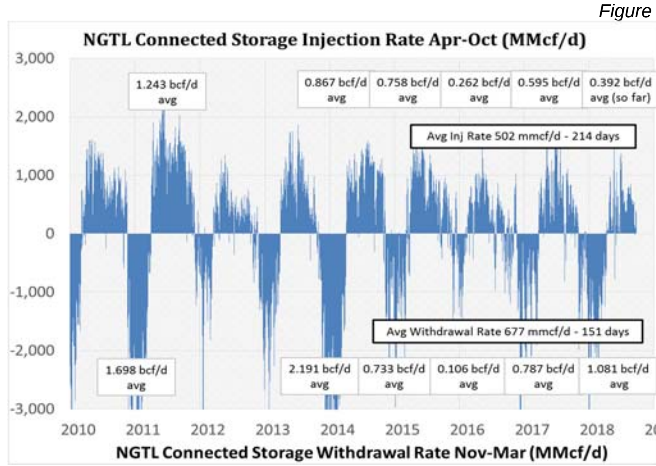


Source: Peyto

With several hundred Cardium locations identified within our greater Sundance area alone, not to mention even more locations down in Brazeau and up in our Kakwa and Cutbank areas, we have many years of Cardium drilling in front of us. We currently have Cardium wells scheduled in both Kakwa and Brazeau before the end of the year and we're excited to test this new completion design in those areas too.

Activity Levels and Commodity Prices

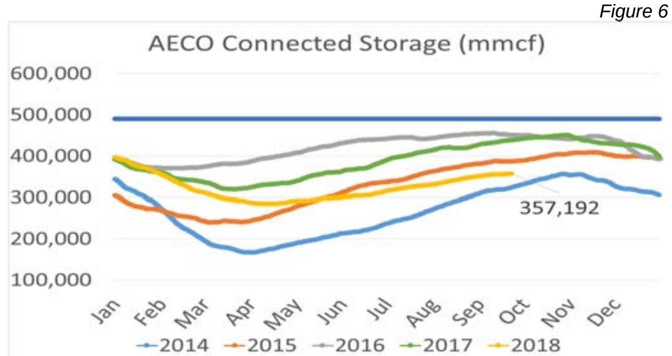
Figure 5



Source: TCPL

I always find it interesting to look at the gas we put into storage and then take out again between summer and winter in Alberta. Obviously, we have some pretty extreme weather in Western Canada with warm summers and bloody cold winters. Natural gas consumption in Alberta alone swings from a low of 3.5 BCF/d to a high of 7 BCF/d, so having some gas in storage is important to keeping furnaces firing and homes warm. Last winter was a cold one and we withdrew a relatively high volume on average (1.081 bcf/d over 151 days = 163 bcf). This summer, however, we haven't done a very good job of putting it back (0.392 bcf/d (so far) over 183 days (to Sept 30) = 72 bcf). So one has to hope we don't have a really cold winter or we could run short. Looking even further back, we've definitely pulled a lot more gas out than even last winter. The winter of 2013/14 was a big one, with average withdrawals of over 2 bcf/d or 330 bcf which is almost more than all the gas we currently have in the ground (357 bcf, figure 6).

Figure 6



Source: TCPL

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.