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

For the most part, our strategic plan to defer capital spending to the back half of the year and bring the new, unhedged, liquids-rich Cardium production onstream into better winter prices looks to be on track. And it seems the good ol’ farmers’ Almanac agrees with us. A very cold winter is forecast across much of North America (Figure 1), including the Prairies where our Alberta gas is currently trapped by pipeline egress. Generally low levels of gas storage everywhere else should combine to support prices both north and south of the border.

Figure 1

Source: Farmers’ Almanac

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	Sep	Q3 18
Acq/Disp	34	4	0	0	0	4	-4	0	0	0	0	0	0	0	0
Land & Seismic	9	9	2	1	4	17	1	0	0	0	1	2	2	1	5
Drilling	219	67	48	73	69	256	14	0	0	7	7	9	12	16	37
Completions	105	36	21	34	42	134	17	0	0	1	1	6	10	2	18
Tie ins	42	13	9	15	16	53	4	0	0	0	1	1	2	3	6
Facilities	60	25	17	11	4	57	4	0	2	3	5	2	1	2	5
Total	**469**	**154**	**98**	**135**	**134**	**521**	**35**	**1**	**2**	**12**	**15**	**20**	**27**	**23**	**70**

Production ('000 boe/d)*

	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Jul	Aug	Sept	Q3 18	Oct
Sundance	59	56	55	58	**57**	56	50	49	48	49	49	48
Ansell	21	20	22	21	**21**	20	18	16	16	16	16	15
Brazeau	18	19	21	25	**21**	24	19	17	16	16	16	15
Kakwa	2	2	2	2	**2**	2	2	2	2	2	2	2
Other	1	1	2	3	**2**	3	2	2	2	3	2	3
Total	**101**	**98**	**102**	**110**	**103**	**105**	**92**	**86**	**85**	**86**	**85**	**83**
Deferral		**-**	**6**				**2**	**1**			**0**	**2**
Capability	**101**	**98**	**108**	**110**	**103**	**105**	**94**	**87**	**85**	**86**	**86**	**85**
Liquids %						9.5%	10.1%	10.0%	10.6%	11.3%	10.6%	10.9%

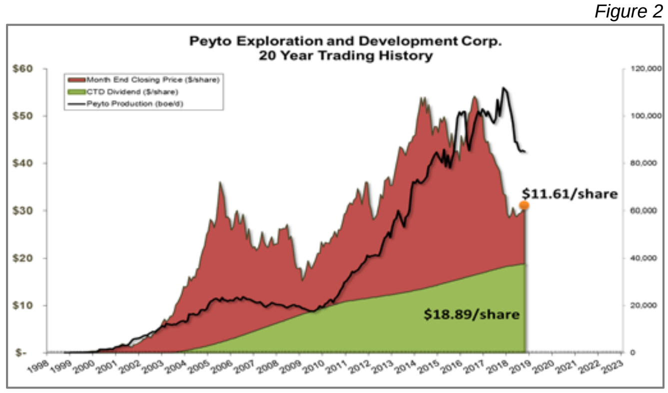
This estimate is based on real field data, not a* ***forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.*

Happy 20th Birthday Peyto!

On October 23, 2018, Peyto celebrated its 20th birthday, and it was quite the momentous occasion. We chose that date to mark the start of Peyto Exploration & Development Corp. as that was the day we closed a major transaction ($250k) and removed the JCP restrictions whereby Peyto emerged with a new management team led by then CEO, Don Gray.

On that day, the shares of Peyto were just $0.075 (adjusted for a share split that occurred in May of 2005). Had you bought and held, say, a couple thousand dollars’ worth of stock back then, you would have received almost $19/share in distributions and dividends as well as seen the share price appreciate to the Oct 23, 2018 close of $11.61. So, your $2,000 would be worth over $813,000 today (pre-tax). That’s a Compound Annual Growth Rate (CAGR) on your money of 35%/year for 20 years (Figure 2) – better than Buffett!

Figure 2



Source: Peyto, TMX

Over those 20 years, Peyto has definitely experienced its ups and downs. But as illustrated in Figure 3, there were also many milestones. Like when we originally drilled our way to 10,000 boe/d. It seemed like quite the production milestone back in 2002 (I was actually there). Or when we converted to a trust in 2003 as a way to mitigate the then crushing 40%+ corporate tax rate (Prov+Fed). And then came the Halloween surprise by the federal government to tax trusts announced on October 31, 2006 – scary. We had to survive the great recession from 2007 to 2009. Then we converted back to a corporation in 2010 and started a second period of fantastic growth. It was also in 2010 when we hit $1 billion in cumulative distributions and dividends. That was quite the accomplishment. So too, was drilling our 1,000th Deep Basin well in August 2014. By that time, however, we’d been drilling with horizontal wells for almost 5 years. Of course, there was the 100,000 boe/d production milestone hit in October 2015 and then we followed up with the $2 billion dividend milestone in August of 2016. My goodness, it’s been quite the ride. All along the way, commodity prices were never static or stable, but then neither were we. Our stock price followed the ups and downs in the commodity price as well as our activities at the time (and any political interference!).

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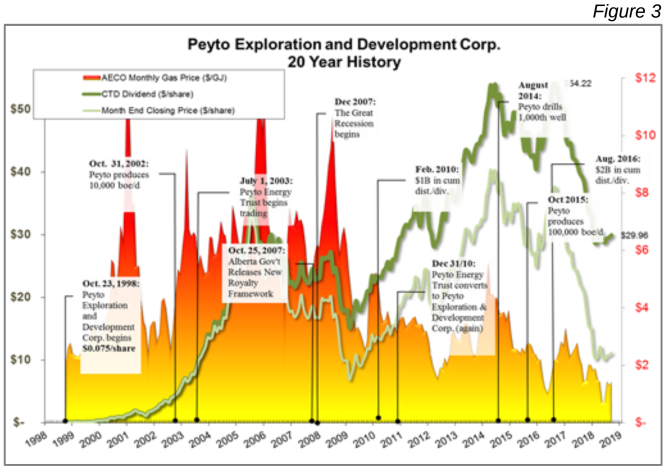
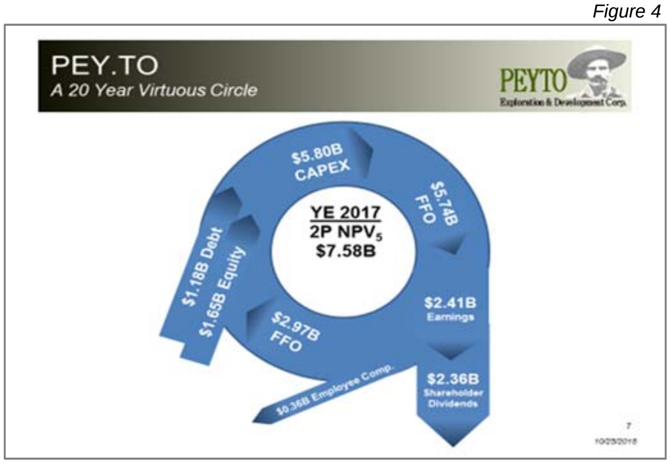
Figure 3



Source: Peyto

Over that 20 year period we raised $1.65B in equity, borrowed around $1.2B in debt and combined it with close to $3B in cashflow to fund $5.8 Billion in capital investments. Virtually all of that capital was invested in organic, drilling operations that we initiated and controlled at Peyto. Coincidentially, we discovered around 5.8 TCFe of reserves (P+P reserves plus cumulative production) at an average cost of around $1/mcfe (so far we've sold reserves for an average of around $3.50/mcfe cash netback). And over those 20 years we generated almost $5.8B in funds from operations and paid the Alberta government almost $850 million in royalties. Kinda funny how that number 5.8 keeps popping up. A virtuous (vicious?) circle of our activity is shown below, including the $2.4B in cumulative earnings generated on the $5.8B of capital and the $2.36B of distributions and dividends payed to shareholders (1.4 times what we raised from them).

Figure 4



Source: Peyto Financials

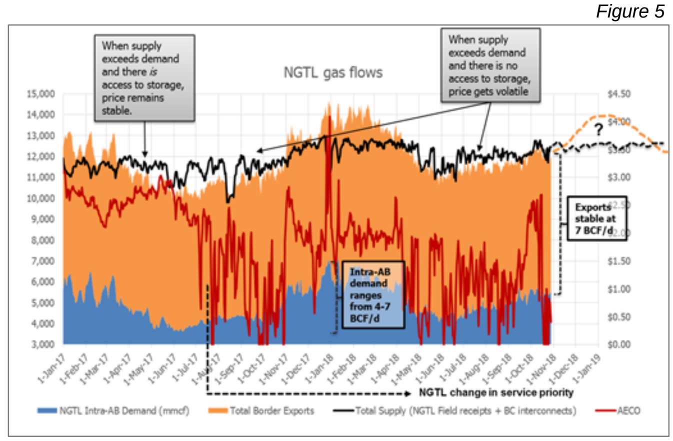
Perhaps one of the things most interesting about looking back over 20 years was the environment and business sentiment back then. In October 1998, oil prices in Edmonton were $20/bbl (not far off our WCS price today sadly). AECO 7A gas price was $2.13/GJ (even better than today's $1.35/GJ monthly price). But the sentiment was strangely upbeat. Sure debt levels in most companies were high and they were selling assets to bring them down (like today), and new equity issues were non-existent due to poor performance and commodity uncertainty (also, like today), but our conclusion was that it was a great time to start a new junior oil and gas company because there were lots of opportunities to chase. So why is that not the same conclusion today?

I would submit it is because the Canadian energy industry has become so politicized, effectively hacked by environmental extremism, that it can no longer attract the financial or political capital, or human interest it once did. On the positive side, politics too is always changing so I guess we just have to be patient. Anyway, Happy Birthday Peyto, it's been quite the ride so far!

Activity Levels and Commodity Prices

Looking specifically at the flow of gas on the Nova (NGTL) system, it's interesting to see just how sensitive the supply demand imbalance currently is. The export volumes going out the borders of Alberta remain pretty constant throughout the year at around 7 BCF/d (orange) while the Alberta domestic demand fluctuates from 4 BCF/d in summer to 7 BCF/d in winter (blue). As supply on the system remains constrained by pipe capacity to under 13 BCF/d (black), its either storage or price (red) that has to change to absorb the difference in demand. And you can clearly see when it's not storage! This plainly illustrates the importance of a functioning storage market in Alberta. As we enter the winter heating season and demand exceeds supply, either there will be enough storage to satisfy that demand or price will have to rise. The only way price doesn't rise, is if demand is cut by a restriction of export volumes at the border or to the oil sands. But then, who would want to do that?

Figure 5



Source: TCPL, Peyto

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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.