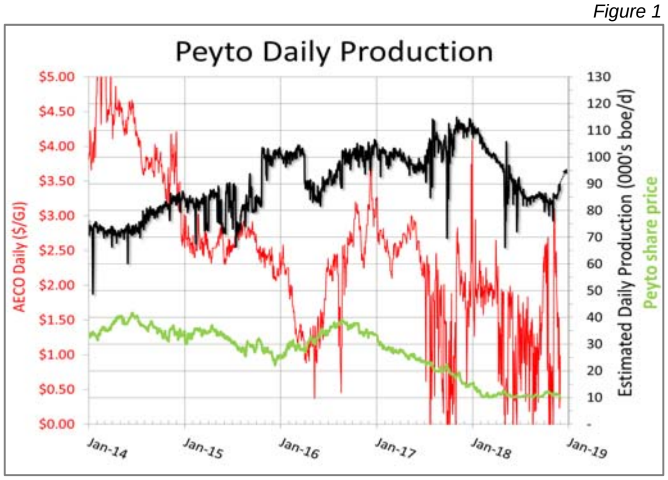
Peyto Exploration & Development Corp.
President's Monthly Report

December 2018 | From the desk of Darren Gee, President & CEO

According to the farmers, November was supposed to be cold in Alberta. Sadly, that was not the case and AECO gas prices averaged a paltry $1.64/GJ, spending a whole week under $0.50/GJ. Now that December has arrived hopefully so has winter – fingers crossed. We've turned on all our new unhedged Cardium wells and production is finally back over 90,000 boe/d on its way to ~95,000 by year end. And since condensate prices have been discounted by the heavy oil differential problem we actually need some gas price to make up the difference and keep liquids-rich gas economics robust.

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).

Capital Summary (millions$ CND)*

	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Jul	Aug	Sep	Q3 18	Oct
Acq/Disp	34	4	0	0	0	4	-4	0	0	0	0	0	0
Land & Seismic	9	9	2	1	4	17	1	1	2	2	1	5	1
Drilling	219	67	48	73	69	256	14	7	9	12	16	37	21
Completions	105	36	21	34	42	134	17	1	6	10	2	18	11
Tie ins	42	13	9	15	16	53	4	1	1	2	3	6	3
Facilities	60	25	17	11	4	57	4	5	2	1	2	5	2
Total	**469**	**154**	**98**	**135**	**134**	**521**	**35**	**15**	**20**	**27**	**23**	**70**	**37**

Production ('000 boe/d)*

	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Jul	Aug	Sept	Q3 18	Oct	Nov
Sundance	59	56	55	58	57	56	50	49	48	49	49	48	51
Ansell	21	20	22	21	21	20	18	16	16	16	16	15	15
Brazeau	18	19	21	25	21	24	19	17	16	16	16	15	15
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	3
Other	1	1	2	3	2	3	2	2	2	3	2	3	3
Total	**101**	**98**	**102**	**110**	**103**	**105**	**92**	**86**	**85**	**86**	**85**	**83**	**86**
Deferral		-	6				2	1			0	2	1
Capability	**101**	**98**	**108**	**110**	**103**	**105**	**94**	**87**	**85**	**86**	**86**	**85**	**87**
Liquids %						9.5%	10.1%	10.0%	10.6%	11.3%	10.6%	10.9%	11.5%

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.*

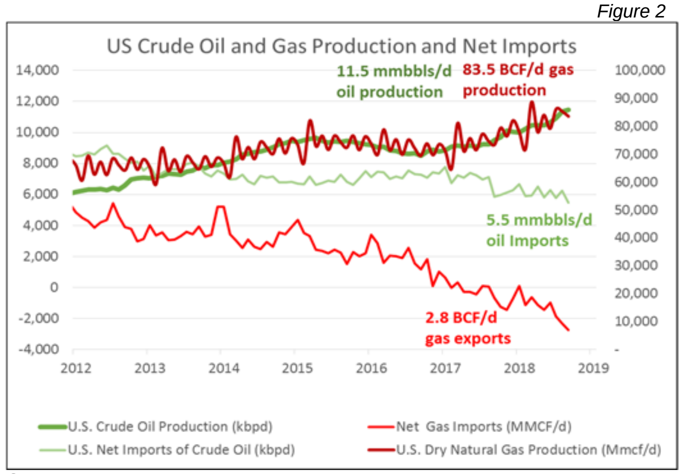
Hey Oil, Welcome to our World

Ya know, sometimes I hate being right. I was reminded, recently, of a cynical prediction I made a year or so ago that the "situation" we find ourselves in with gas was soon going to find its way to oil and when it did look out because then things were really going to get ugly. Of course, that "situation" is when there is too much supply trying to fight for limited pipeline egress to get to market. And the "backing up" of volumes into Alberta pushes the price of the commodity down. Whether that's due to how volumes are allocated on the existing pipelines and rail cars or who owns/controls those pipelines/rail cars becomes irrelevant. The net effect is bad for Alberta.

The blame for both gas and oil problems, of course, falls squarely at the feet of government, both Provincial and Federal, as the upstream petroleum industry in Canada expected the rule of law to be upheld and assumed approved infrastructure projects would get built in a timely fashion. So over the last few years, the industry did what they are supposed to do and invested the capital to develop the resources to bring them on production. Only to discover that the pipeline and infrastructure sector required to get that production to market wasn't allowed to follow suit. From Petronas' LNG project to Kinder Morgan's Trans Mountain Expansion, project after project has been cancelled/halted as a result of unreasonable restrictions being placed on previous approvals by our current governments who are listening to special interest groups rather than the majority of voters.

The energy industry is global. And the more the Canadian industry wants to participate in that global industry, the more we are going to have to fight for and defend market share. Our most direct competitor, the United States, understands this simple concept. As they have grown their own production, they have built the access to market they needed to accommodate that growth and preserve their commodity prices.

Figure 2



Source: EIA

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Figure 2 shows the recent growth in US crude oil and natural gas that has helped "backup" both commodities into Alberta. On the gas side, the US has become a net exporter while on the oil side they are still a net importer - but that is shrinking. They are importing less and less gas and oil because they are growing their own production and connecting any exports to other markets, meaning we have to get our production connected to other markets too or face significantly discounted prices.

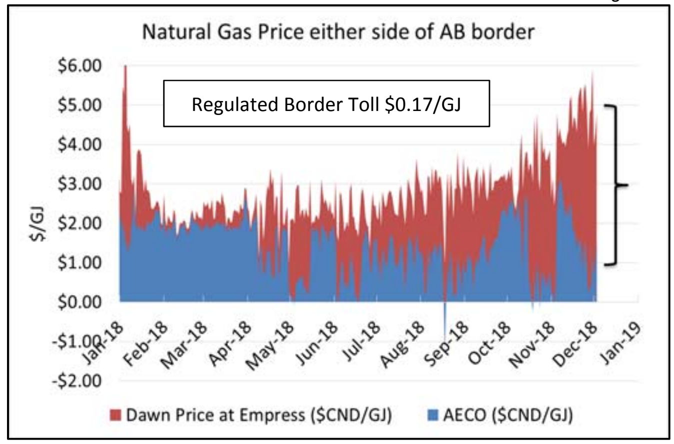
In response to this "situation", Canadian producers are having to wait for pipeline expansions to be built and in the meantime, curtail the excess production (AB government imposed) or shrink production (natural decline coupled with reduced capital investment) to match the capacity of the current egress. It is definitely a tough thing to do. Producers are not set up to wait. We're set up to build. And we have a particularly hard time with shrinking.

It's even further frustrating to watch the US industry be empowered by state and federal governments who lower taxes and reduce regulations while we experience the opposite. The combination of the two has created this "crisis situation" in Alberta. Sadly, we are now appealing to the provincial and federal governments for help fixing a problem they created in the first place.

Rebalancing the supply with the pipeline/takeaway capacity is one thing. But we obviously need to go further. That includes matching productive capability with takeaway capacity but it also involves increasing the competition for takeaway. Having only one or two companies controlling all the pipeline or rail capacity out of the basis means governments will have to pay particularly close attention to how they are being operated to ensure production is not being deliberately restricted and prices deliberately supressed or we will soon find ourselves back in a "crisis situation". Curtailing production won't help if someone keeps closing the valve on the export pipeline.

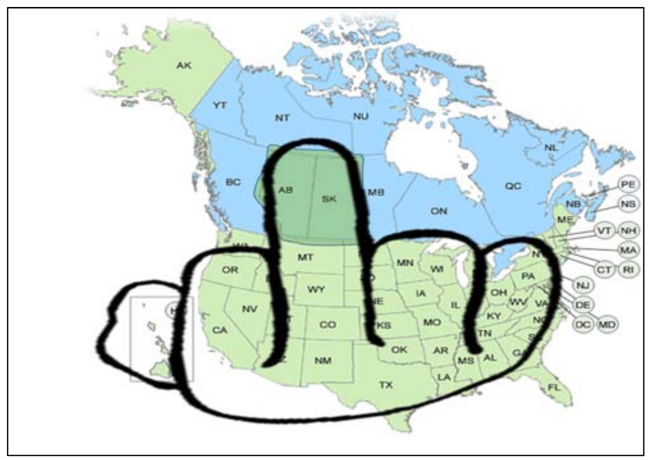
Gas producers have been dealing with this lack of egress for some time. When you compare the price of natural gas on the other side of the Alberta border (Figure 3) to what we're receiving on this side (this is what the provincial royalties are based on), the daily loss of revenue is rather appalling. The contrast is particularly alarming recently with gas on the Alberta side trading at $1.00/GJ while gas on the Saskatchewan side of the border trading at $5/GJ! With about 5.0 bcf/d remaining and priced in Alberta, that's a loss of revenue of (5.0 bcf/d*($4.00-$0.17)) = $19 million per day. Maybe not quite as bad as oil, but clearly bad enough that the Alberta government should step in and protect their fair share of the gas revenues as well.

Figure 3



Source: Enerdata

Activity Levels and Commodity Prices



Perhaps the biggest chuckle I had last week was this graphic that I saw that had Alberta and Saskatchewan outlined as part of the US. With the current commodity price disparity between the two countries it's easy to make the economic case for separation. The annual revenue difference between what gas and oil sell for in the US versus what Alberta and Saskatchewan are capturing would be enough to clear those province's per capita share of the national debt in about a year. So those provinces could join the US as virtually debt free states with enough natural resources between them to make the US truly energy independent, and in exchange for what? A couple of pipelines? Seems like a deal even Trump couldn't resist. It makes one wonder just how that trade negotiation between Ottawa and Washington would go? Probably similar to NAFTA but I suppose trading away Alberta and Saskatchewan would be one way for Trudeau's Liberals to meet the Paris CO_2 emissions targets.

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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.