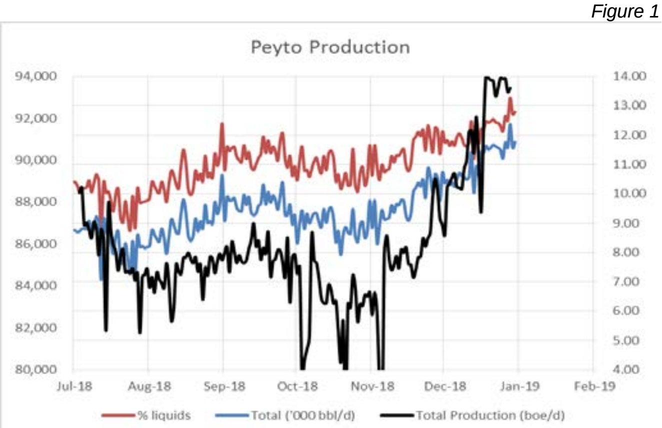
Peyto Exploration & Development Corp.
President's Monthly Report

January 2019 — From the desk of Darren Gee, President & CEO

The stock market has been particularly hard on Canadian energy investors in the last month, including Peyto investors (of which I am a rather large one). From the time of my last monthly report, Peyto share price is down 25% (Dec3-Jan3). This is in contrast to what's actually happening at Peyto, where our fourth quarter capital program has resulted in a significant increase in total production, from approximately 84,000 boe/d to 94,000 boe/d, just before the Christmas shutdown. Even more importantly, liquids production (Figure 1) increased from 8,000 bbls/d to 12,000 bbls/d or close to 13% of total production (24 bbl/mmcf).

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)*

	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Jul	Aug	Sep	Q3 18	Oct	Nov
Acq/Disp	4	0	0	0	4	-4	0	0	0	0	0	0	2
Land & Seismic	9	2	1	4	17	1	1	2	2	1	5	1	1
Drilling	67	48	73	69	256	14	7	9	12	16	37	21	21
Completions	36	21	34	42	134	17	1	6	10	2	18	11	15
Tie ins	13	9	15	16	53	4	1	1	2	3	6	3	3
Facilities	25	17	11	4	57	4	5	2	1	2	5	2	1
Total	**154**	**98**	**135**	**134**	**521**	**35**	**15**	**20**	**27**	**23**	**70**	**37**	**43**

Production ('000 boe/d)*

	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Jul	Aug	Sept	Q3 18	Oct	Nov	Dec	Q4 18	2018
Sundance	59	56	55	58	57	56	50	49	48	49	49	48	51	52	50	51
Ansell	21	20	22	21	21	20	18	16	16	16	16	15	15	18	16	18
Brazeau	18	19	21	25	21	24	19	17	16	16	16	15	15	16	15	19
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	3	2	2	2
Other	1	1	2	3	2	3	2	2	2	3	2	3	3	3	3	3
Total	**101**	**98**	**102**	**110**	**103**	**105**	**92**	**86**	**85**	**86**	**85**	**83**	**86**	**92**	**87**	**92**
Deferral		-	6				2	1			0	2	1			
Capability	101	98	108	110	103	105	94	87	85	86	86	85	87	92	87	92
Liquids %						9.5%	10.1%	10.0%	10.6%	11.3%	10.6%	10.9%	11.5%	12.2%	11.5%	10.4%

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.*

The Canadian Challenge

As the year 2018 came to a close, there were a couple of graphs that caught my eye which explain a lot about what is going on in the Canadian energy industry over the last few years. Shown in figure 2 and 3 are the US oil production (kbbl/d) and US oil rig count as well as the US gas production (bcf/month) and US gas rig count. Both graphs illustrate the incredible growth in US domestic oil (38%) and gas production (23%), since their federal election in the fall of 2016.

Figure 2

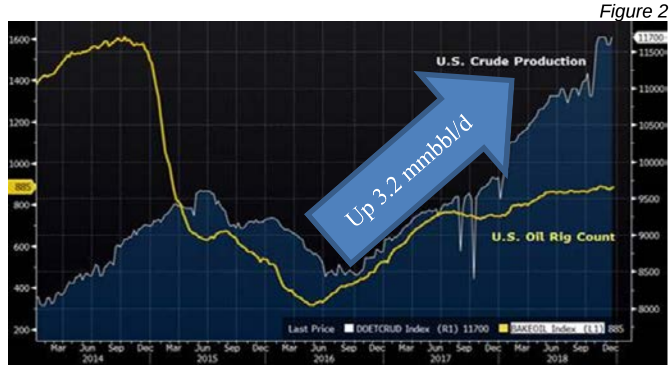
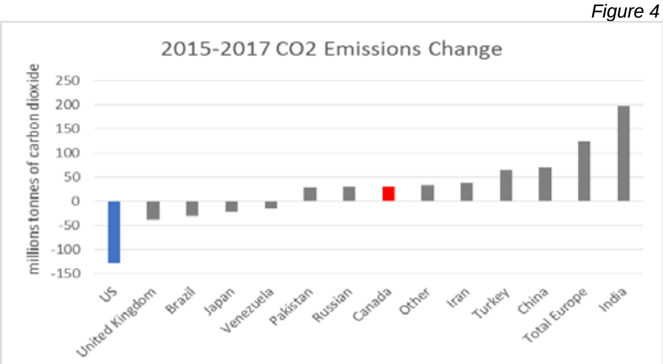


Figure 3

Source: NBF

The timing of the US federal election and the start of this dramatic growth phase is not a coincidence. The aggressive investment resulting in domestic production growth was spurned by the Republican's party's invitation to the US energy industry by way of reduced regulation, increased pipeline approvals (remember the North Dakota pipeline approval), and a different environmental agenda. And when I say different environmental agenda, I don't mean an abandonment of their attention to CO_2 emissions and climate change. It appears they are merely choosing to solve the problem themselves by growing domestic oil and gas production to displace foreign oil and domestic coal consumption rather than participate in what they believe is some misguided global initiative (Kyoto/Paris). The replacement of coal and foreign oil significantly reduced the US's CO_2 "footprint" and is one of the reasons the US has reduced its CO_2 emissions by more than any other country (Figure 4). This is a solution that the Canadian federal government has yet to grasp. That we can both solve global climate problems and benefit domestically from growth in Canadian oil and gas production by selling our more-responsibly developed hydrocarbons to the rest of the world.

Figure 4

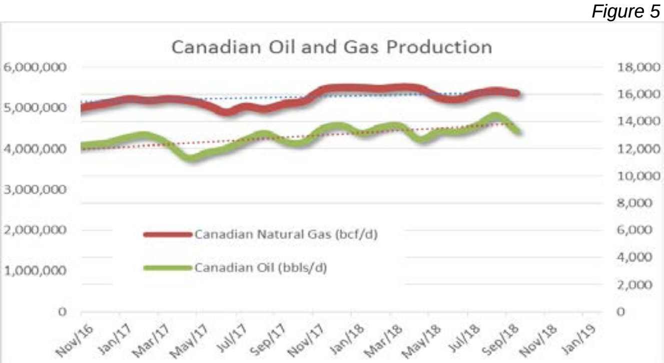


Source: [BP Statistical Review of World Energy 2018]

Ultimately, Canada has a choice. We can either continue to handicap ourselves and let the US be the one to grow and export its domestic production to the rest of the energy hungry world, thus helping to displace the other jurisdictions in the world that have less environmentally responsible hydrocarbon development (Russia, Middle East, etc), or we can step up and be part of that solution. And at the same time, provide jobs and create wealth for Canadians.

To me it seems like a no-brainer. We have the hydrocarbon resources, we have the expertise, and we're regulated by some of the strictest environmental and human rights laws in the world. The federal and provincial governments have spouted the rhetoric that we can protect the environment and our economy at the same time, but they have failed miserably to follow that up with real action. Instead, they have increased regulation and consultation to the point of stagnating the industry that could help achieve that goal. And instead paved the way for our most direct competitor to do it rather than us.

Figure 5



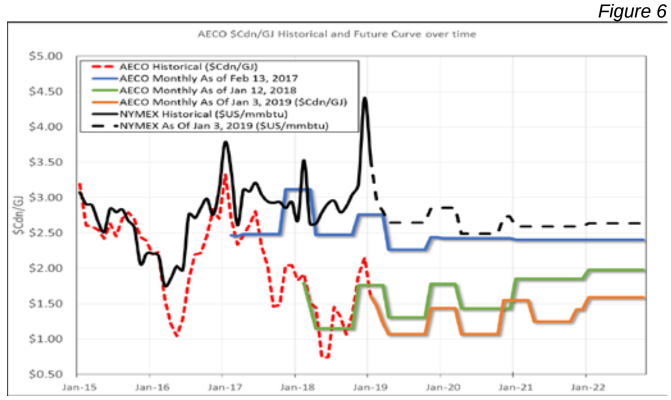
Source: NEB

By stark contrast, Canadian oil and gas production over that same time period has barely moved (Fig. 5). And considering the current government imposed curtailments on oil and pipeline restrictions on gas, it's likely we'll be flat at best for a while. That's not really doing our part to affect global climate change by replacing environmentally irresponsible hydrocarbon production in other parts of the world with our cleaner, more responsible Canadian production. Voters in Canada are going to have a chance in 2019 to elect governments that will truly make a difference, both to our economy and the global climate but it will mean taking an active leadership role rather than just trying to "look good" in the eyes of the world.

Activity Levels and Commodity Prices

Natural gas prices in Alberta have taken another step backwards. The current forward strip for AECO gas price is even worse than a year ago and dramatically worse than two years ago when $2.50/GJ looked like the low point (see Figure 6). A lack of winter so far in Western Canada is partly the culprit, but there is more to the story.

Figure 6



Source: TD, NGX, Peyto

This is in contrast to the NYMEX price in the US where, other than a winter spike to $4.40/MMBTU in December, the future strip also hovers around that $2.50-$3 mark. Recall, AECO prices became disconnected from NYMEX prices back in the summer of 2017 when NGTL changed their service priority protocol.

By the way, that is one of the recommendations of the Alberta Natural Gas Advisory panel, led by former TCPL CEO Hal Kvisle, which is "to reverse the July 2017 restriction protocol back to restricting firm receipts" which will hopefully "minimize operationally induced AECO-C price volatility." The panel's [report] to the Government of Alberta is filled with recommendations for reviving Alberta's Natural Gas Industry - some 48 of them. Most involve ways to improve market access, both in North America using additional pipelines, and globally using LNG exports. In the short term, there are immediate recommendations for removing commercial barriers that are depriving the Alberta royalty owners (people of Alberta) of their fair share. It's worth a read.

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.