Peyto Exploration & Development Corp.
President's Monthly Report

March 2019 | From the desk of Darren Gee, President & CEO

There appeared to be some misunderstanding of comments I made in last month's report when I called out the mayors (and those that agree with them) of Victoria and Whistler for their blatant environmental hypocrisy. For clarity, when the Victoria mayor claims oil and gas companies should pay the bill for climate change, while at the same time promoting more cruise ship visits to the Victoria harbour, knowing full well a single cruise ship is the epitome of energy gluttony and waste, with equivalent emissions to one million cars on the road, I call that hypocritical. The same goes for the mayor of Whistler, who promotes his town's livelihood which relies on visitors flying in planes and driving long distances in cars, just so they can be whisked to the top of a mountain in a heated gondola (or even more damaging, helicopter) and enjoy fine apre-ski wining and dining on food and beverages shipped in from the far reaches of the world. Again, I call that hypocritical. Blaming the energy industry for causing climate change just because they provided the lifestyle you demanded is inherently hypocritical. By extension, we're all hypocrites if we think it's someone else's fault. If you believe the consumption of hydrocarbon fuels is causing damage to earth's climate, then stop using them (I suggest coal should be first). If consumers stop using them, then the industry will stop making them – its simple supply and demand. So to clarify, I wasn't suggesting last month *all* the residents of Victoria and Whistler are environmental hypocrites. Just the ones who don't understand the relationship between hydrocarbon production and the quality of life they enjoy, and are pointing their finger at someone else and not themselves. Sitting in my comfortable office, I'm am very thankful we have natural gas, because it's -30C outside.

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). Production for February was impacted by a decision to shut in the deep cut portion of the Oldman gas plant, as well as modify operating conditions at our other gas plants, to leave Propane and Butane in the gas stream where they capture a higher price. Currently, both C3 and C4 prices are low relative to a higher spot natural gas price. We continue to remain very nimble with the ability to turn on/off our deep cut plant and increase/decrease corporate liquid recoveries through modified operations of all our gas plant infrastructure, if prices justify, depending on which mode of operation drives greater cashflow. This value maximization would not be possible if Peyto did not own and operate all of its gas processing plants and instead used midstream alternatives.

Capital Summary (millions$ CND)*

	Q1 17	Q2 17	Q3 17	Q4 17	2017	Q1 18	Q2 18	Q3 18	Oct	Nov	Dec	Q4 18	2018	Jan
Acq/Disp	4	0	0	0	4	-4	0	0	0	2	0	2	-2	1
Land & Seismic	9	2	1	4	17	1	1	5	1	1	1	2	8	1
Drilling	67	48	73	69	256	14	7	37	21	21	15	57	116	8
Completions	36	21	34	42	134	17	1	18	11	15	11	36	72	6
Tie ins	13	9	15	16	53	4	1	6	3	3	5	11	21	7
Facilities	25	17	11	4	57	4	5	5	2	1	1	4	18	2
Total	**154**	**98**	**135**	**134**	**521**	**35**	**15**	**70**	**37**	**43**	**33**	**112**	**232**	**24**

Production ('000 boe/d)*

	Q1 18	Q2 18	Q3 18	Oct	Nov	Dec	Q4 18	2018	Jan	Feb
Sundance	56	50	49	48	51	52	50	**51**	51	50
Ansell	20	18	16	15	15	18	16	**18**	18	17
Brazeau	24	19	16	15	15	16	15	**19**	16	15
Kakwa	2	2	2	2	3	2	2	**2**	2	2
Other	3	2	2	3	3	3	3	**3**	3	3
Total	**105**	**92**	**85**	**83**	**86**	**92**	**87**	**92**	**91**	**87**
Deferral		**2**	**0**	**2**	**1**					
Capability	**105**	**94**	**86**	**85**	**87**	**92**	**87**	**92**	**91**	**87**
Liquids %	9.5%	10.1%	10.6%	10.9%	11.5%	12.2%	11.5%	10.4%	12.6%	11.6%

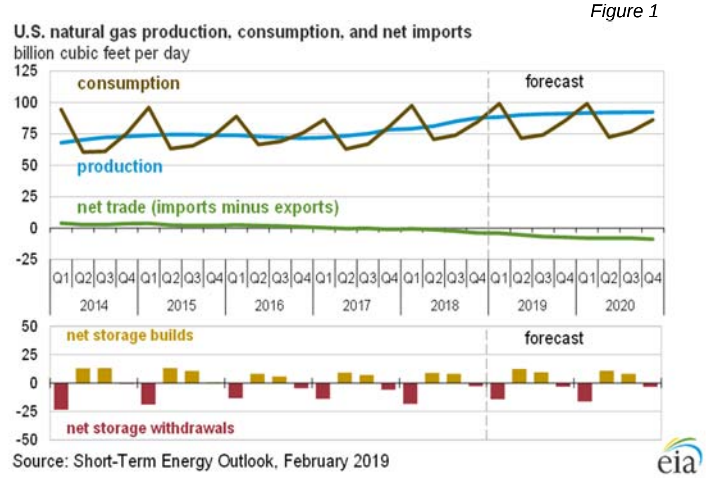
*This estimate is based on real field data, not a **forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.***

The Future of AECO

If you asked a gas trader today what the future AECO price will be, most will probably conclude it is going to forever trade at a steep discount to Henry Hub. In addition, they may say that the AECO-NIT market is forever changed now that the US has become self-sufficient with its natural gas needs and that without a competitive export market (Canada Can't Build Pipe) Canadian gas will remain discounted at the end of the (existing) pipe.

Figure 1 from the EIA shows it quite plainly. At some point in late 2017/early 2018, the US crossed over from being a net importer to a net exporter, thus becoming self-sufficient.

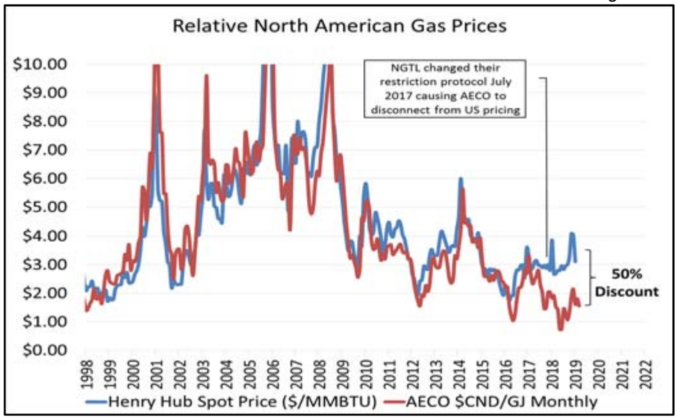
Figure 1



It was about the same time that the relative price between AECO and Henry Hub diverged. Some will argue this had more to do with the change in operation of the NGTL system in Alberta which put commercial constraints ahead of physical constraints. Or perhaps it was a combination of both (Fig. 2).

But maybe thinking about the AECO gas market in the context of the rest of the North American market is wrong. I'm pretty sure that's not how the Americans think of Henry Hub now. What if we were to think about it in the context of the world market?

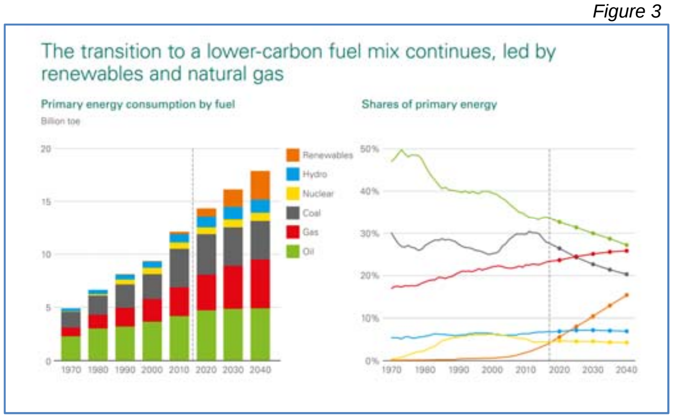
Figure 2



Source: Peyto, ICE, EIA

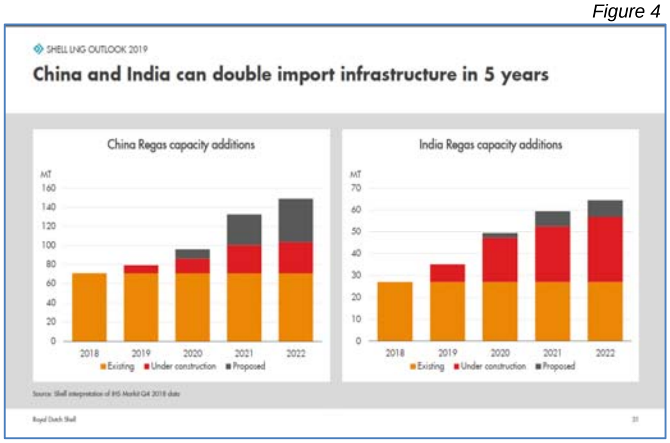
According to BP and Shell, natural gas will continue to be one of the fastest growing fuels on the planet and countries like China and India are preparing to import massive quantities from other countries over the next several years (Figs. 3 & 4).

Figure 3



Source: BP Energy Outlook 2019

Figure 4



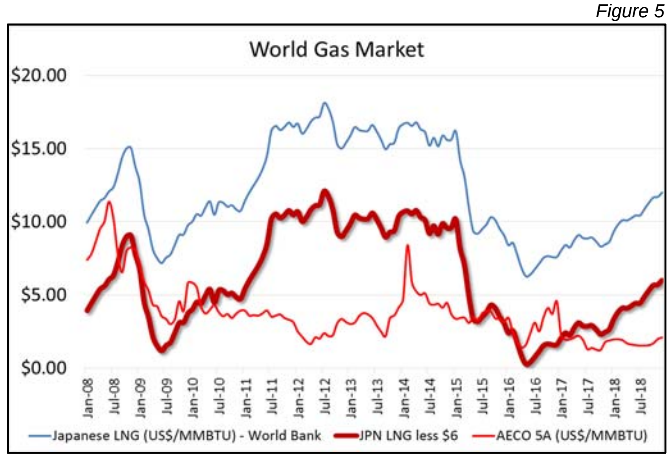
Source: Shell

Here in Canada we are slowly coming to the realization we can participate in that world market. And that by doing so, we not only help lift the developing world out of poverty, we also displace dirtier fuels and reduce overall emissions thus helping combat global climate change. In the US last week, FERC used this exact conclusion to approve increased LNG exports.

So, if the future of the Canadian gas market (AECO) can be tied to the future of the world gas market, what's that look like? It's obviously a concept that is many years away, and requires Canada to get their act together when it comes to building and exporting LNG off either (both?) coastlines. But if and when we had 20% of our domestic production (say 4 BCF/d out of 20 BCF/d) tied to world markets through Canadian built export terminals, what kind of price would we get?

According to the few LNG presentations I've seen, the cost to get LNG from Canada to Asia ranges from USD$4-$7.50/MMBTU ($2.50-3.50 liquefaction, $1-$2 shipping, $0.50-$2 pipeline). So if we assume the price that can be realized back in Canada is Asia less ~USD$6/MMBTU, using Japanese LNG price as a proxy for Asia, then the dark red line below becomes the AECO price. This can be both good and bad in that we're now exposed to world supply and demand. Which I would argue is exactly where we want to be.

Figure 5



Source: FirstEnergy, Peyto

Activity Levels and Commodity Prices

The weather forecast for Alberta continues to look very constructive for gas prices. And the Alberta Clipper, that's what they used to call it, now it's the "polar vortex", is pushing that cold deep into the US which should help burn through some more storage. This is another winter in a row where the cold weather showed up late (Jan/Feb) and lasted longer than people expected. I believe our winter season shifted several years back when the world's 4th largest ever earthquake hit Japan in 2011. But then that makes me sound like the old codger I'm quickly becoming.

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.