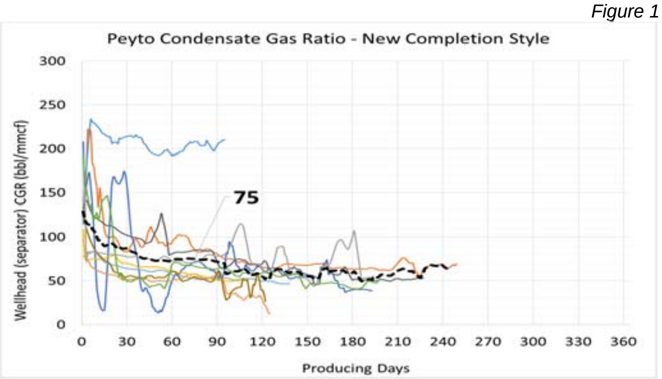
Peyto Exploration & Development Corp.
President's Monthly Report

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

With the shoulder season upon us, natural gas prices have softened, making liquids like Propane more valuable in liquid form than in gas. As a result we've cooled off our plant processes and re-started our Oldman deep cut plant to extract more liquids. Condensate still remains the most valuable of the natural gas liquids and we are seeing a significant boost in our Condensate production with the newest Cardium wells we're drilling. The top 15 Condensate producers, which represent 25% of last year's drilling, are yielding much higher Condensate/Gas ratios (CGR) than expected. We were modelling, for economic purposes, avg CGRs of 30 bbl/mmcf (with another 20 bbls/mmcf of Propane, Butane and Pentanes) because the average Cardium vertical well in Sundance had a CGR of 20-25 bbl/mmcf. But these new wells are closer to 75 bbl/mmcf, with initial yields as high as 200 bbl/mmcf. If we can continue to achieve these types of CGRs it will be a nice boost to the economics and a great insulator to low gas prices.

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

Production ('000 boe/d)*

	Q1 18	Q2 18	Q3 18	Oct	Nov	Dec	Q4 18	2018	Jan	Feb	Mar	Q1 19
Sundance	56	50	49	48	51	52	50	**51**	51	50	50	50
Ansell	20	18	16	15	15	18	16	**18**	18	17	17	18
Brazeau	24	19	16	15	15	16	15	**19**	16	15	14	15
Kakwa	2	2	2	2	3	2	2	**2**	2	2	2	2
Other	3	2	2	3	3	3	3	**3**	3	3	3	3
Total	**105**	**92**	**85**	**83**	**86**	**92**	**87**	**92**	**91**	**87**	**87**	**88**
Deferral		**2**	**0**	**2**	**1**							
Capability	**105**	**94**	**86**	**85**	**87**	**92**	**87**	**92**	**91**	**87**	**87**	**88**
Liquids %	9.5%	10.1%	10.6%	10.9%	11.5%	12.2%	11.5%	10.4%	12.6%	11.5%	11.8%	12.0%

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.*

Streamlining Regulatory Costs in Alberta

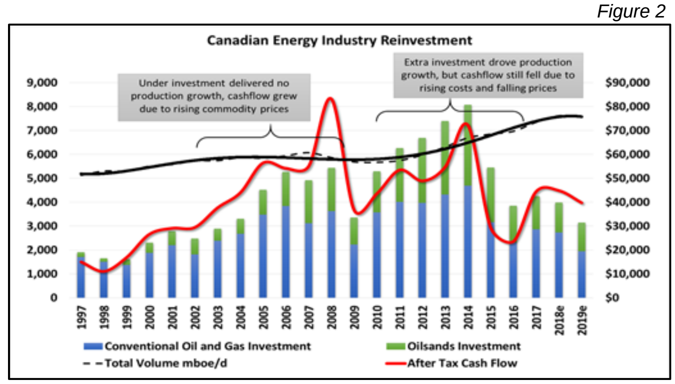
In January this year, I wrote about how Canada faces an interesting challenge - how to solve global climate problems and grow our Canadian economy at the same time. http://www.peyto.com/Files/PMReport/2019/PMR2019014.pdf

I pointed out that the United States had done exactly that by reducing regulations and encouraging investment in their domestic oil and gas industry. The result of which was reduced coal and foreign oil consumption, causing a greater reduction of their CO_2 emissions than by any other country in the world. Oh, and a massive boom to their economy.

In Canada, we've taken the opposite approach. We've increased regulation and taxes, erected barriers to investment, and discouraged growth in domestic oil and gas all by restricting pipeline development. This has effectively robbed Western Canada of its jurisdictional right to develop its resources. And, this action does nothing to help reduce our coal and foreign oil consumption by supplying a cleaner, domestic alternative, nor does it help our economy. All it's really done is make our industry less competitive with everyone else. It's time to change that.

Increasing regulation and erecting barriers to investment naturally adds cost to producers. Looking at the ARC Financial weekly charts that summarize the Canadian industry's cashflows and re-investment metrics (Figure 2), you can see that since 2016, less capital has been re-invested back into the industry than was generated. Which is in contrast to the previous eight years where total investment in excess of cashflows had driven significant growth. That growth had, in turn, delivered greater royalties and taxes to governments as well as the positive multiplier effect of all that capital investment. But not anymore.

Figure 2



Source: ARC Financial

And it's not just that increased regulation and erecting barriers to investment (the world knows Canada Can't Build Pipelines) caused discounted commodity pricing and reduced revenue, it

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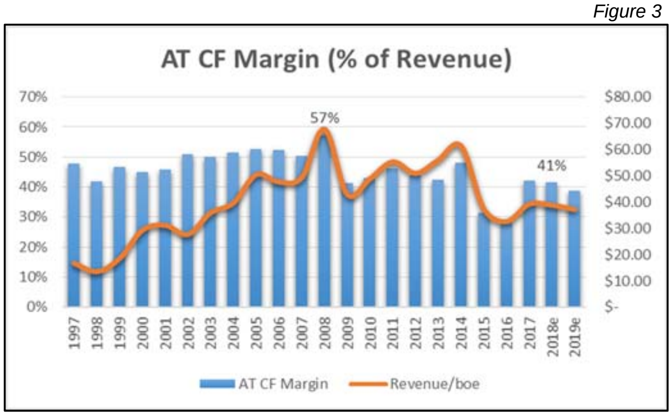
also increased costs for the industry and reduced margins on existing production making it less efficient. Figure 3 shows After Tax Cashflow margins for the industry dropped from 57% in 2008 to 41% in 2018.

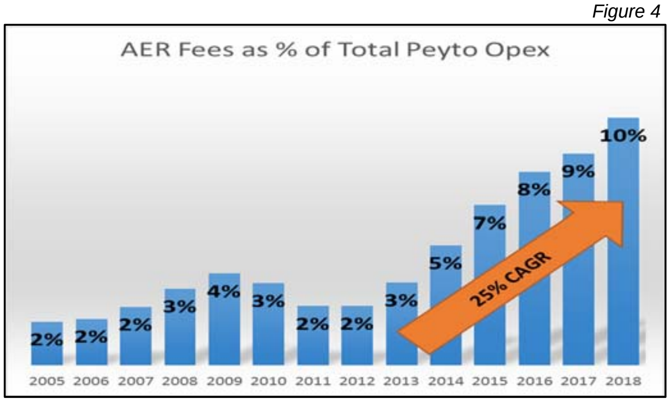
Figure 3



Source: ARC Financial

How do I know that the drop in margin is because of increased regulatory cost and not some other cost? Because we've seen it at Peyto. Take for instance our "regulatory" cost, or just the annual Alberta Energy Regulator administration fee (including Orphan Well Levy). Over the last five years, that regulatory cost alone, which used to represent 2-3% of our total Operating costs, now exceeds 10%. And it's rising at 25% per year!

Figure 4

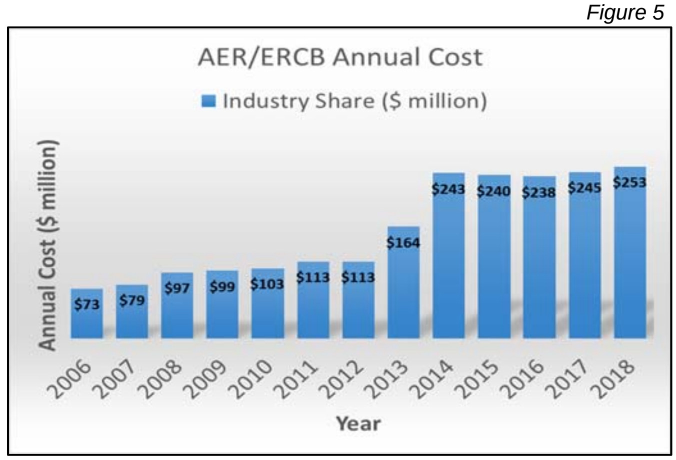


Source: Peyto

Of course, it's more dramatic for Peyto because we have some of the lowest costs in the industry, so this regulatory fee is amplified, but this increased cost to the industry for increased regulatory oversight must be addressed. Already we are one of the most highly regulated energy industries in the world. However, it seems when commodity prices fall there is no belt tightening on government bodies.

Looking at the Industry's share of the annual AER/ERCB bill, the belt seems to have been let out lately as the costs continue to climb. Back in 2012, the people of Alberta shared in the cost to regulate their natural resources, but after that, industry has footed the entire bill, including the Energy Resources Conservation Board, and its share of Alberta Environment, and Sustainable Resource Development. And the costs just keep on climbing.

Figure 5



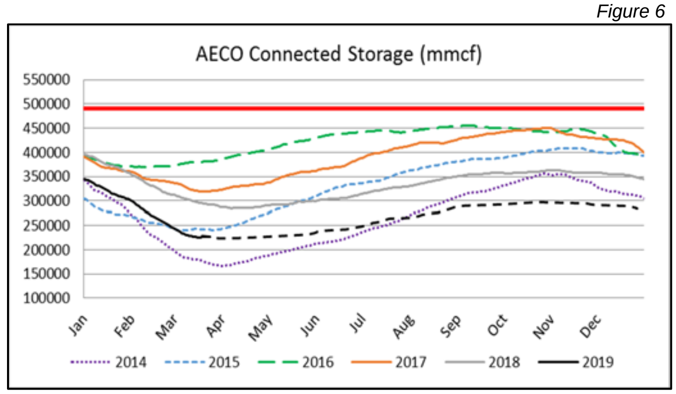
Source: Peyto, AER

If the goal is to provide the most efficient energy so that we make the least environmental impact, then all of this needless "fat" has to be trimmed. That includes substantial streamlining of our regulatory processes.

Activity Levels and Commodity Prices

Winter is over, according to the weather forecasts, and although it was late it did some damage to the little storage gas we had in Alberta. As per the latest data, we have around 225 BCF of total storage which is the second lowest in recent years. Only 2014 was lower and that drove a $4/GJ AECO gas price.

Figure 6



Source: TCPL

If we plot a similar refill to last summer (Figure 6), which drove very weak AECO prices at times, then we'll head into next winter with less stored gas to draw upon than ever before. And that could prove to be very bullish for AECO next winter.

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.