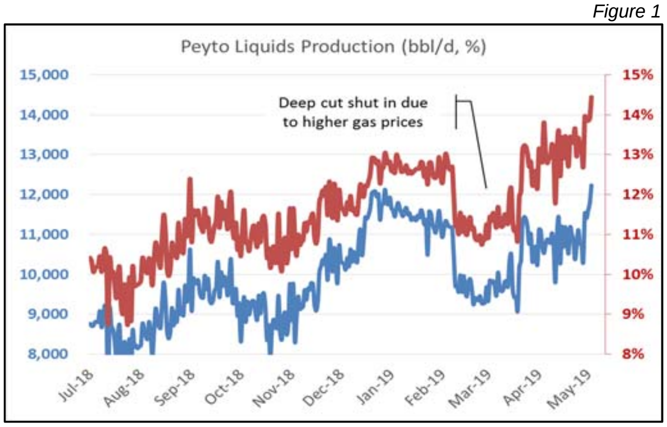
Peyto Exploration & Development Corp.
President's Monthly Report

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

These days it seems like the natural gas business is all about liquids. Particularly, now that we've exited the winter and the AECO gas market is struggling without much access to storage. Condensate, Pentane, Butane and Propane have typically been the NGLs of choice to help supplement our natural gas revenues when gas prices are down. Now with a glut of Butane that needs to clear the market, we are down to three in the short term (Butane will be back by fall). The Propane market anxiously awaits Altagas' new Ridley Island export terminal to put a bite in Propane supply and help lift prices, so really for right now, we're down to two products: Condensate and Pentane. Thankfully, our most recent Cardium wells are delivering more of those with C5+ making up over 60% of our total liquids of 12,500 bbl/d (Figure 1).

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	Mar	Q1 19
Acq/Disp	4	0	0	0	4	-4	0	0	0	2	0	2	-2	1	0	0	1
Land & Seismic	9	2	1	4	17	1	1	5	1	1	1	2	8	1	1	1	3
Drilling	67	48	73	69	256	14	7	37	21	21	15	57	116	8	6	10	24
Completions	36	21	34	42	134	17	1	18	11	15	11	36	72	6	5	9	20
Tie ins	13	9	15	16	53	4	1	6	3	3	5	11	21	7	1	3	10
Facilities	25	17	11	4	57	4	5	5	2	1	1	4	18	2	2	1	4
Total	**154**	**98**	**135**	**134**	**521**	**35**	**15**	**70**	**37**	**43**	**33**	**112**	**232**	**24**	**15**	**24**	**62**

Production ('000 boe/d)*

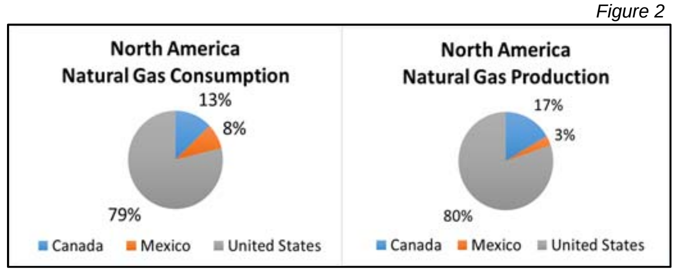
	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Jan	Feb	Mar	Q1 19	Apr
Sundance	**57**	56	50	49	50	**51**	51	50	50	50	49
Ansell	**21**	20	18	16	16	**18**	18	17	17	18	16
Brazeau	**21**	24	19	16	15	**19**	16	15	14	15	14
Kakwa	**2**	2	2	2	2	**2**	2	2	2	2	2
Other	**2**	3	2	2	3	**3**	3	3	3	3	2
Total	**103**	**105**	**92**	**85**	**87**	**92**	**91**	**87**	**87**	**88**	**83**
Deferral			**2**	**0**							**1**
Capability	**103**	**105**	**94**	**86**	**87**	**92**	**91**	**87**	**87**	**88**	**84**
Liquids %		9.5%	10.1%	10.6%	11.5%	10.4%	12.6%	11.5%	11.8%	12.0%	13.0%

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.*

The Demand Side of the Equation

In preparing some remarks for our AGM next week, I went to the EIA website for an update on the North American Natural Gas market. Specifically, I was looking at the supply and demand balance in the US as they are by far the dominant driver at about 80% of all North American supply and demand (Figure 2).

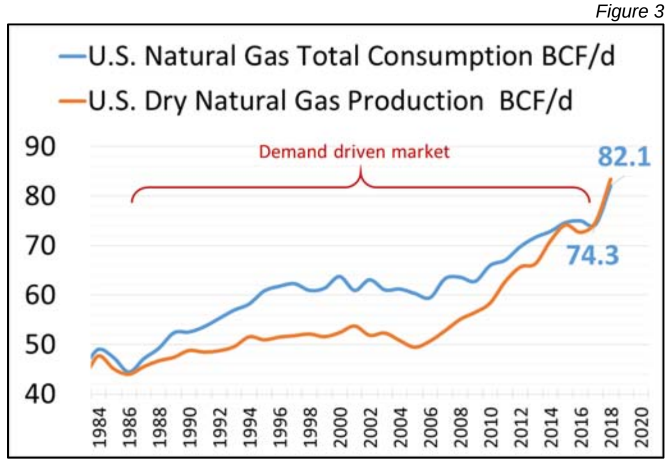
Figure 2



Source: EIA 2017 dry gas data

The 2018 data was posted for at least the US, if not Canada and Mexico (*it's sad that our own domestic data is much harder to find especially since the industry is much more important to the average Canadian's pocketbook, but I'll save that discussion for another time*). What I was a bit astonished to see was the massive year over year jump in both supply and demand (Figure 3). I suppose I was already aware of the incredible growth in US supply throughout 2018, driven by the Permian and Marcellus shale gas plays, but it was the 11% growth in annual demand that I guess I wasn't expecting. It was the single greatest year of demand growth ever experienced in the US.

Figure 3



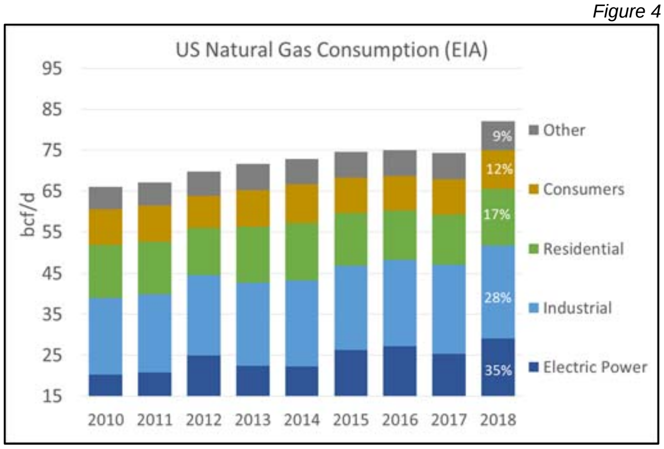
Source: EIA

Perhaps, I had been thinking that all of the excess supply or production being built was being exported via pipelines to Mexico or to other parts of the world through new LNG projects in the Gulf of Mexico. There has been a lot of news regarding

Suite 300, 600 – 3rd Avenue SW
Calgary, AB T2P 0G5
Fax: 403 451 4100

those new pockets of demand and their respective growth. But even though that is a material outlet for much of this increase in North American gas supply, this year's particular increase was purely just domestic consumption (Figure 4).

Figure 4

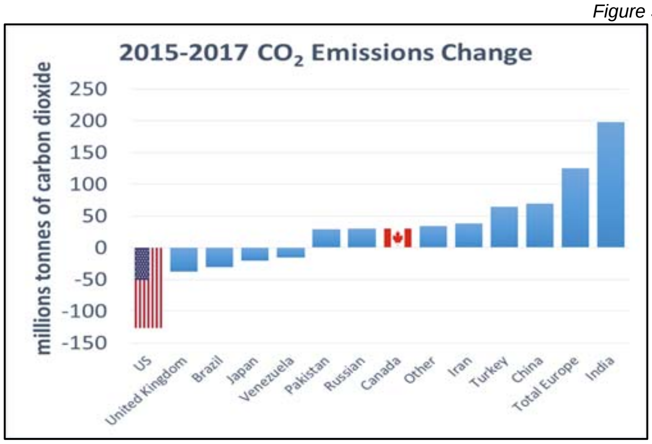


Source: EIA

And it wasn't just an anomalously cold winter or extremely hot summer that increased residential consumption, although there was some rationalization that more extreme temperature swings caused interruptions in supply (freeze offs). But overall, demand was up in all domestic sectors. It is more likely that cheap supply resulted in fuel switching across many different industries.

This is by no means a bad thing. As I've noted before, the increased consumption of natural gas by the US, in place of other energy sources, has resulted in a significant reduction in their greenhouse gas emissions, more than any other nation in the world (Figure 5).

Figure 5



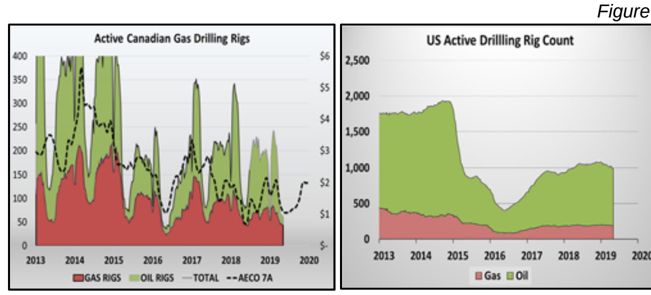
Source: June 2018 BP Statistical Review of World Energy

Perhaps this evidence of increased demand and consumption is a good reminder of the "if you build it, they will come" idiom, or perhaps it confirms what we've always thought at Peyto - that the logical fuel of the future really is Mother Nature's gas. We just need to be patient and allow consumers from all sectors to become comfortable that we have enough sustainable supply that they can securely make the switch.

Activity Levels and Commodity Prices

In Canada, drilling activity is grinding to a halt with the onset of spring breakup, while in the US it seems to be holding steady (Figure 6). At Peyto, all our rigs are currently shut down. Over the last couple of years, it seems the snow melts quickly and there is a window of dry weather before the spring rains begin where we might get back in the field. This winter, with February's bitter cold, the frost went deep into the ground and it may take longer to thaw, likely determining the duration of breakup even more than past years.

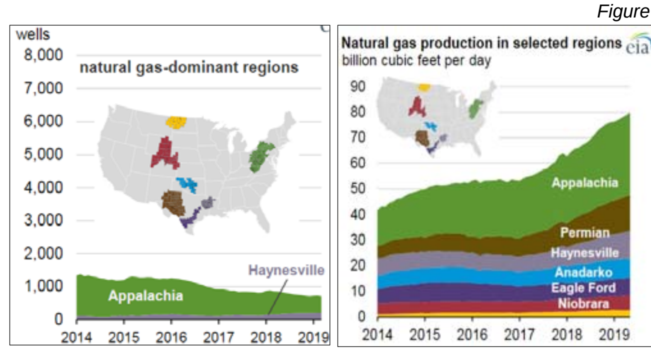
Figure 6



Source: Baker Hughes

Despite the US gas rigs operating at a steady pace, it seems their completion activity might be slowing down. The number of Drilled UnCompleted wells (DUCs) has been shrinking over the last few years, particularly in the major US shale plays. I wonder if this will result in a slowing of US shale gas production growth. New pipeline capacity which unlocked congestion in areas like the Marcellus (Appalachian basin) allowed them to catch up on completions that were waiting. Now perhaps, there will be a more direct link between drilling rig count and production additions going forward.

Figure 7



Source: EIA

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.