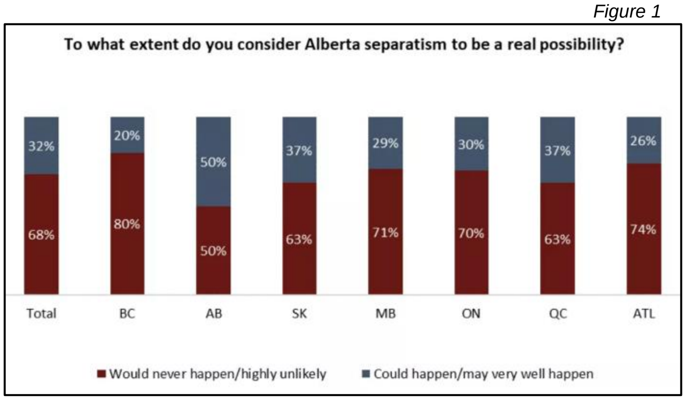
Peyto Exploration & Development Corp.
President's Monthly Report

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

Wet weather continues to plague field operations with road bans in place for much of July (yes, spring road bans in July!). We've been able to drill some wells off pads and get our Montney well completed but no tie-ins or pipeline work done until just last week. The Edson area has had twice the average rainfall during June and July which is really saying something considering the area is normally like a rain forest. Fortunately, the Stampede in Calgary this year didn't get rained out, however, visitors likely received a showering of Alberta separatism instead, as anger towards federal energy policy and its impact on our economy continues to mount. An interesting poll (Figure 1) from Angus Reid in early 2019 sums up the sentiment nicely where "more than half of Albertans (52%) say they believe the west would be better off if it left Canada." I suspect that number has risen since then.

Figure 1



Source: Angus Reid

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)*

	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Jan	Feb	Mar	Q1 19	Apr	May	Jun	Q2 19
Acq/Disp	4	-4	0	0	2	-2	1	0	0	1	0	0	0	0
Land & Seismic	17	1	1	5	2	8	1	1	1	3	1	0	1	2
Drilling	256	14	7	37	57	116	8	6	10	24	4	1	6	11
Completions	134	17	1	18	36	72	6	5	9	20	5	2	7	14
Tie ins	53	4	1	6	11	21	7	1	3	10	1	1	1	3
Facilities	57	4	5	5	4	18	2	2	1	4	1	1	3	5
Total	**521**	**35**	**15**	**70**	**112**	**232**	**24**	**15**	**24**	**62**	**12**	**5**	**17**	**34**

Production ('000 boe/d)*

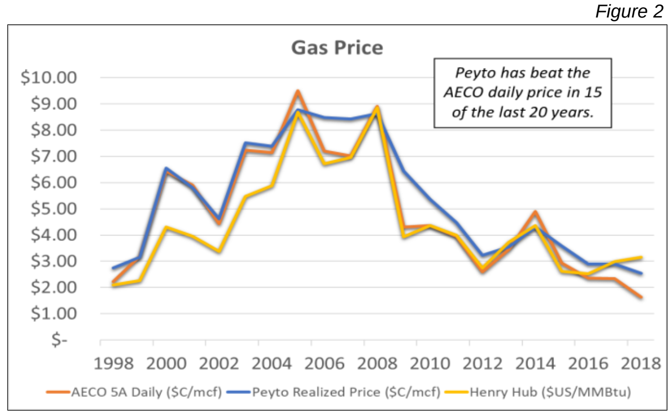
	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Apr	May	June	Q2 19	Jul
Sundance	**57**	56	50	49	50	**51**	50	49	51	48	49	47
Ansell	**21**	20	18	16	16	**18**	18	16	15	14	15	14
Brazeau	**21**	24	19	16	15	**19**	15	14	13	12	13	12
Kakwa	**2**	2	2	2	2	**2**	2	2	2	2	2	2
Other	**2**	3	2	2	3	**3**	3	2	3	2	2	2
Total	**103**	**105**	**92**	**85**	**87**	**92**	**88**	**83**	**83**	**79**	**82**	**78**
Deferral			**2**	**0**				**1**	**-**	**3**	**1**	**1**
Capability	**103**	**105**	**94**	**86**	**87**	**92**	**88**	**84**	**83**	**81**	**83**	**79**
Liquids %		9.5%	10.1%	10.6%	11.5%	10.4%	12.0%	13.0%	14.0%	13.6%	13.5%	13.3%

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.*

Market Diversification

In January of 2018, Peyto announced a new market diversification strategy for our natural gas production. For the 19 years up until that point, all our gas was simply sold at AECO-NIT on either the monthly (85%+) or daily index (15%). This allowed us to minimize our transportation costs and any physical delivery risk. Our hedging strategy back then was to use simple fixed-price swaps to secure a fixed price, which we did on a rolling basis to achieve a sort of "dollar cost average" secured price. It wasn't designed to win or lose, but merely smooth out the volatility in the future price so we could plan our capital programs with the confidence of known cashflows. We entered into those swaps with banks from our syndicate of lenders in order to reduce any counter-party risk. It was a simple marketing strategy but worked very well and with it we generally beat the daily AECO price (see Figure 2).

Figure 2



Source: Peyto, EIA, Enerdata

The natural gas world today, however, has changed. Back then we were in a demand driven market, and consumers came to the door of Alberta asking for all we could deliver. We didn't worry about how it got to market, they did. Now, we are in a supply driven market and the US, our biggest customer, has become self-sufficient, even a net exporter, so now we must compete against them for the same markets. It requires more sophisticated marketing strategies because now we have to push our gas to the market and to those consumers. We not only have to determine which markets to target but we also must contract the pipeline capacity, ensure physical delivery, and then float on that market price or forward sell into that market for a fixed price.

Today, the only market available to Canadian gas producers is the North American market. Hopefully, by 2024 we'll also have the Asian market through BC LNG exports. In North America, however, Canada consumes around 11 BCF/d (7 BCF/d in BC&AB). The US consumes close to 85 BCF/d (about 40 in the western half and 45 in the eastern half), and Mexico around 9 BCF/d. So, the main markets we can target are either:

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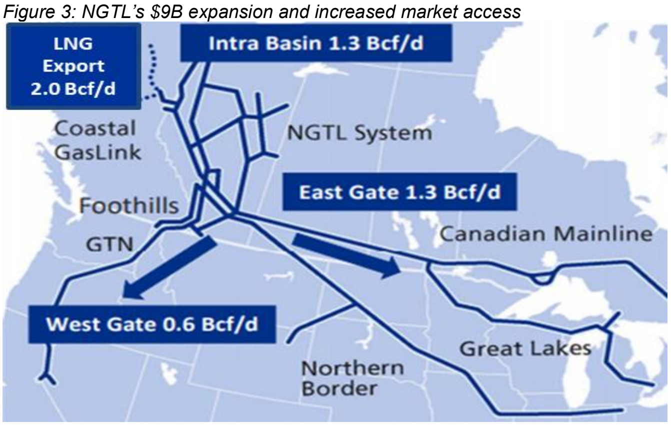
1. Local (AECO, direct connect)
2. Eastern Canada/NE US (Dawn) via TCPL mainline
3. Midwest US (Chicago/Vent.) via Northern Border/Alliance
4. Western US (Malin/SoCal) – via GTN/Spectra/PGE
5. Gulf Coast US (Henry Hub) – via ANR from Chicago/GL

Figure 3: NGTL's $9B expansion and increased market access



Source: TC Energy

Since the start of 2018, this is exactly what Peyto's marketing group has been focused on. We've been securing access to these markets through direct pipeline contracts or through synthetic transportation via basis deals.

For 2019, we have a total of 395 mmcf/d of our gas marketed (out of our total gas production today of 410+mmcf/d). Meaning we have directed it to a market and/or hedged it.

1. Local - 230 mmcf/d hedged at AECO
2. Eastern – 38 mmcf/d at Dawn (13% hedged)
3. Midwest – 14 mmcf/d at Ventura (78% hedged)
4. Gulf Coast – 113 mmcf/d at Henry Hub (84% hedged)

For 2020 and beyond, we have directed and/or hedged the following volumes at the various markets outside of Alberta:

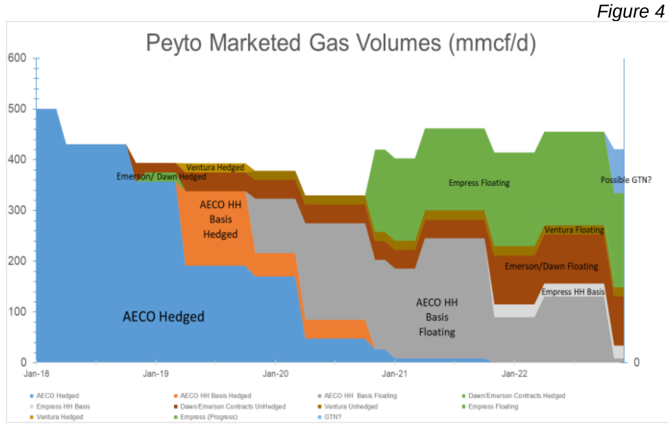
Peyto Marketed Gas Volumes (mmcf/d)

	2018	2019	2020	2021	2022
Local (AECO hedged/direct connected)	436 hedged	230 hedged	75 hedged	7 hedged	0
Unhedged AECO	58	?	?	?	?
Eastern Canada/NE US (Dawn)	7	38 (13% hedged)	38	48	99
Empress Floating (to be directed)			26	165	200
Midwest US (Chicago/Ventura)	0	14 (78% hedged)	18	18	18
Gulf Coast US (Henry Hub)	0	113 (84% hedged)	191 (17% hedged)	203	129
Outside AB	7	164	273	434	446
Total Marketed Gas	**443**	**395**	**348**	**441**	**446**

Beyond 2022, and in addition to many of the above initiatives, we have contracts to directly connect to local power generation and hopefully, we'll even be able to direct gas to West Coast LNG markets. All additional gas production will be sold locally in the Alberta market, but may be more seasonally restricted, like we have been these last two summers, depending on market connectivity and realized pricing. The Alberta government initiatives to encourage market connectivity through supply management/pipeline management should help provide more stable AECO prices going forward.

This ongoing market diversification and hedging activity has become a much more significant component of Peyto's business and going forward we will be constantly updating it in our corporate presentation on our website (Figure 4).

Figure 4



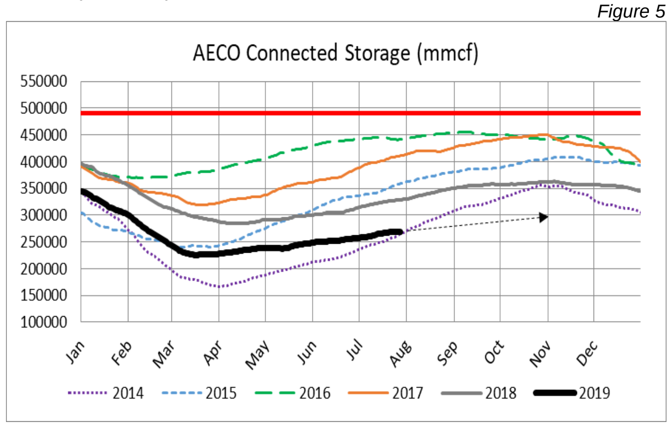
Source: Peyto

As with the natural gas world, our gas marketing has also changed and evolved. Being dynamic here has become increasingly important and is one of Peyto's greatest strengths.

Activity Levels and Commodity Prices

Alberta gas storage hasn't filled much this summer (+45 BCF), even though we aggressively emptied it last winter (-125 BCF). It looks like we won't be very well prepared for a cold winter if one arrives, especially as freeze off season impacts the industry's ability to respond with new production (Figure 5).

Figure 5



Source: Peyto, NGTL

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.