PEYTO

Exploration & Development Corp.

ANNUAL INFORMATION FORM

2017

March 16, 2018

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GLOSSARY OF TERMS

"**2008 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among the Trust, its subsidiaries and Unitholders which was completed on January 1, 2008 pursuant to which the Internal Reorganization was completed;

"**2010 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among the Trust, POT, Peyto AdminCo, Peyto Partnership, PEDC, Peyto Exploration (2011) Ltd. and Unitholders which commenced on December 31, 2010 and was completed on January 1, 2011 and resulted in the reorganization of the Trust into a public, dividend paying, oil and natural gas exploration and development company that acquired all of the assets and assumed all of the liabilities of the Trust;

"**2012 Amalgamation**" means the amalgamation of Peyto and Open Range, its wholly-owned subsidiary, effective December 31, 2012 pursuant to subsection 184(1) of the ABCA;

"**2012 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among Peyto, Open Range and the shareholders of Open Range which was completed on August 14, 2012 and resulted in Peyto acquiring all of the issued and outstanding common shares of Open Range;

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**Common Shares**" means the common shares in the capital of Peyto;

"**Direct Royalties**" means royalty interests in petroleum and natural gas rights acquired by Peyto from time to time;

"**InSite**" means InSite Petroleum Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

"**InSite Report**" means the independent engineering evaluation of Peyto's oil, NGL and natural gas interests prepared by InSite dated February 14, 2018 and effective December 31, 2017, a summary of which is contained herein;

"**Internal Reorganization**" means the reorganization of the Trust's subsidiaries effective January 1, 2008, whereby all of the oil and natural gas assets and liabilities of the PEDC entities were transferred to the Peyto Partnership;

"**oil and natural gas properties**" means the working, royalty or other interests of Peyto from time to time in any petroleum and natural gas rights, tangibles and miscellaneous interests, including the properties in which Peyto has an interest as at the date hereof, and properties which may be acquired by Peyto at a future date, and including the Direct Royalties;

"**Open Range**" means Open Range Energy Corp., a corporation incorporated under the ABCA;

"**PEDC**" means Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA and a predecessor to Peyto;

"**Peyto**", the "**Corporation**", "**we**", "**us**" or "**our**" means, as the context requires, (i) Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA on December 31, 2012 pursuant to the 2012 Amalgamation; (ii) Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA on January 1, 2011 pursuant to the 2010 Arrangement; or (iii) the Trust, and its controlled entities on a consolidated basis, prior to the completion of the 2010 Arrangement;

"**Peyto AdminCo**" means Peyto Energy Administration Corp., a corporation incorporated under the ABCA;

"**Peyto Partnership**" or "**Partnership**" means Peyto Energy Limited Partnership, a limited partnership formed pursuant to the laws of the Province of Alberta;

"**POT**" means Peyto Operating Trust, a trust established under the laws of Alberta pursuant to the amended and restated trust indenture dated January 1, 2008 between Valiant Trust Company, the Trust and Peyto AdminCo;

"**Shareholders**" means holders of Common Shares;

"**Trust**" means Peyto Energy Trust, a trust established under the laws of Alberta and predecessor to Peyto. All references to the "Trust", unless the context otherwise requires, are references to Peyto Energy Trust and its controlled entities on a consolidated basis prior to completion of the 2010 Arrangement;

"**Trust Units**" means previously outstanding trust units of the Trust, each unit representing an equal undivided beneficial interest therein;

"**TSX**" means the Toronto Stock Exchange;

"**United States**" or "**U.S.**" means the United States of America; and

"**Unitholders**" means the former holders of the Trust Units.

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2017.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

ABBREVIATIONS

Oil and Natural Gas Liquids		Natural Gas	
bbl	barrels	Mcf	thousand cubic feet
Mbbl	thousand barrels	MMcf	million cubic feet
MMbbl	million barrels	Mcf/d	thousand cubic feet per day
NGLs	natural gas liquids	MMcf/d	million cubic feet per day
Mboe	thousand barrels of oil equivalent	m^3	cubic metres
MMboe	million barrels of oil equivalent	MMbtu	million British Thermal Units
boe/d	barrels of oil equivalent per day	GJ	Gigajoule
bbls/d	barrels of oil per day		

Other

BOE or boe	means barrel of oil equivalent, using the conversion factor of 6 Mcf of natural gas being equivalent to one bbl of oil. **BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 bbl, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indication of value.**
McfGE	means thousand cubic feet of natural gas equivalent, using the conversion factor of one bbl of oil to 6 Mcf of natural gas. **McfGEs may be misleading, particularly if used in isolation. An McfGE conversion ratio of 1 bbl:6 Mcf is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 1 bbl: 6 Mcf, utilizing a conversion on a 1 bbl: 6 Mcf basis may be misleading as an indication of value.**
WTI	means West Texas Intermediate.
°API	means the measure of the density or gravity of liquid petroleum products derived from a specific gravity.
M$	means thousands of dollars.
MM$	means millions of dollars.
km	means kilometres.

CONVERSION

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

To Convert From	To	Multiply By
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
GJ	MMbtu	0.950

NOTICE TO READER

YOU SHOULD NOT RELY ON FORWARD-LOOKING STATEMENTS BECAUSE THEY ARE INHERENTLY UNCERTAIN.

Certain statements contained in this Annual Information Form constitute forward-looking statements or forward-looking information (collectively, "**forward-looking statements**"). These forward-looking statements relate to future events or Peyto's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These statements speak only as of the date of this Annual Information Form.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such forward-looking statements but which may prove to be incorrect. Although Peyto believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Peyto can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this Annual Information Form, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Peyto operates; the timely receipt of any required regulatory approvals; the ability of Peyto to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which Peyto has an interest in to operate the field in a safe, efficient and effective manner; the ability of Peyto to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisitions, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Peyto to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Peyto operates; and the ability of Peyto to successfully market its oil and natural gas products.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- the performance characteristics of the oil and natural gas assets of Peyto;
- oil and natural gas production levels;
- market prices for oil and natural gas, including pricing assumptions used in the Reserves Data (as defined herein);
- the size of Peyto's oil and natural gas reserves;
- projections of market prices and costs and the related sensitivities of dividends;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through exploration and development and, if applicable, acquisitions;
- treatment under governmental regulatory regimes;
- capital expenditures programs;
- the payment of dividends;
- the existence, operation and strategy of Peyto's commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed by Peyto;
- Peyto's future tax horizons;
- the impact of Canadian federal and provincial governmental regulation on Peyto; and
- the goal to grow or sustain production and reserves through prudent exploration, management and acquisitions.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- risks and uncertainties associated with Peyto's oil and natural gas exploration and development program;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling and processing problems;

- fluctuations in foreign exchange or interest rates and stock market volatility;
- restrictions and/or limitations on transportation, including pipeline systems;
- uncertainties associated with changes in legislation, including, but not limited to, changes in income tax laws and oil and natural gas royalty frameworks; and
- the other factors discussed under "*Risk Factors*".

Statements relating to reserves are deemed to be forward-looking statements, as they involve the implied assessment, based on current estimates and assumptions, that the reserves described can be profitably produced in the future. The foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. Peyto does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by applicable securities law.

PEYTO EXPLORATION & DEVELOPMENT CORP.

General

Peyto is a Calgary, Alberta based company founded in 1998. Peyto is a growth oriented, dividend paying publicly traded company engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada. The head and principal office of Peyto is located at Suite 300, 600 – 3rd Avenue S.W., Calgary, Alberta T2P 0G5. The registered office of Peyto is located at Suite 2400, 525 – 8th Avenue S.W., Calgary, Alberta T2P 1G1.

The Common Shares trade on the TSX under the symbol "PEY".

Corporate History

PEDC was founded in 1998 as an oil and natural gas exploration and development company.

The Trust was formed on May 22, 2003 and commenced operations on July 1, 2003 as a result of the completion of an arrangement under the provisions of section 193 of the ABCA among PEDC, Peyto Acquisition Corp. and the Trust which was completed on July 1, 2003 and pursuant to which former holders of common shares of PEDC received Trust Units and PEDC became an indirect subsidiary of the Trust.

On January 1, 2008, the Trust completed the 2008 Arrangement. As a result of the Internal Reorganization, all of the oil and natural gas assets of the Trust were held in the Peyto Partnership, Peyto AdminCo was the administrator of the Trust and POT and PEDC was the general partner of the Partnership prior to completion of the 2010 Arrangement. Certain subsidiaries of the Trust were amalgamated pursuant to the Internal Reorganization.

On January 1, 2011, the Corporation completed the 2010 Arrangement pursuant to which Peyto, directly or indirectly, acquired all of the assets and assumed all of the liabilities of the Trust. Prior to completion of the 2010 Arrangement, the Trust was a reporting issuer in all provinces of Canada and the Trust Units were listed for trading on the TSX. Following completion of the 2010 Arrangement, the Common Shares were listed for trading on the TSX concurrent with the delisting of the Trust Units, the Trust ceased to be a reporting issuer and Peyto became a reporting issuer as successor to the Trust in those jurisdictions in which the Trust was previously a reporting issuer. Pursuant to the terms of the 2010 Arrangement, Unitholders received one Common Share for each Trust Unit held.

On December 31, 2012, Peyto completed the 2012 Amalgamation pursuant to which Peyto amalgamated with Open Range, its wholly-owned subsidiary.

Inter-Corporate Relationships

Peyto does not have any subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

General

Peyto is a Calgary, Alberta based dividend paying energy company which has been engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada since it was founded in 1998. Peyto's strategy is to enhance Shareholder value through the exploration, discovery and low cost development of oil and natural gas in the Western Canadian sedimentary basin. Peyto's portfolio of assets includes exploration, exploitation and development opportunities located primarily in the Deep Basin of Alberta. Management's current model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects;
- Build an asset base which is made up of high quality natural gas reserves; and
- Over time, balance dividends to shareholders paid with earnings, and cash flow, and balance funding for the capital program with cash flow, equity and available bank lines.

Three Year History

The following is a summary of the development of Peyto's business for the periods shown.

2015

During 2015, Peyto drilled or participated in 140 gross (132 net) oil and natural gas wells. Of the 140 gross wells, 139 wells (131 net) reached total depth as at December 31, 2015. All of the wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2015 totalled $594 million. The average production for the year was 85,674 boe/d and the exit rate was 102,000 boe/d.

On April 16, 2015, Peyto completed a public offering of 5,037,000 Common Shares at a price of $34.25 per Common Share for gross proceeds of approximately $172.5 million.

On May 1, 2015, Peyto completed a private placement of an aggregate of $100 million senior unsecured notes (the "**2015 Senior Notes**"). The 2015 Senior Notes have a coupon rate of 4.26%, which interest is payable semi-annually in arrears, and mature in May 2025. The 2015 Senior Notes were issued pursuant to a note purchase agreement dated May 1, 2015 among Peyto and certain institutional investors and rank equally with Peyto's obligations under its bank facility and existing Senior Notes (as defined herein).

On December 15, 2015, Peyto renewed and extended its syndicated $1.0 billion revolving credit facility with a new stated term date of December 4, 2019. In addition, syndicate members of the credit facility agreed to add an accordion provision that allows for the pre-approved increase of the credit facility up to $1.3 billion, at Peyto's request, subject to additional commitments by existing facility lenders or by adding new financial institutions to the syndicate. Any additional amounts will be governed by the same financial covenants as the existing $1.0 billion credit facility with fees being incurred at the time the increase is requested.

In 2015, Peyto had earnings of $137.6 million and paid total dividends to Shareholders of $208.2 million.

2016

During 2016, Peyto drilled or participated in 128 gross (121 net) oil and natural gas wells. Of the 128 gross wells, 128 wells (121 net) reached total depth as at December 31, 2016. All but three wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2016 totalled $469.4 million. The average production for the year was 96,975 boe/d and the exit rate was 105,000 boe/d.

On May 18, 2016, Peyto completed a public offering of 5,390,625 Common Shares at a price of $32.00 per Common Share for gross proceeds of approximately $172.5 million.

On October 24, 2016, Peyto completed a private placement of an aggregate of $100 million senior unsecured notes (the "**2016 Senior Notes**"). The 2016 Senior Notes have a coupon rate of 3.7%, which interest is payable semi-annually in arrears, and mature in October 2023. The 2016 Senior Notes were issued pursuant to an amended and restated note purchase and private shelf agreement dated April 26, 2013 between Peyto and a certain institutional investor and rank equally with Peyto's obligations under its bank facility and existing Senior Notes, including the 2015 Senior Notes.

In 2016, Peyto had earnings of $112.4 million and paid total dividends to Shareholders of $214.9 million.

2017

During 2017, Peyto drilled or participated in 142 gross (138 net) oil and natural gas wells. Of the 142 gross wells, 141 wells (137 net) reached total depth as at December 31, 2017. Seven of the 142 gross wells were drilled vertically with the remaining 135 wells drilled horizontally and completed using multi-stage fracturing technology. Capital expenditures for 2017 totalled $521.2 million. The average production for the year was 102,614 boe/d and the exit rate was 115,000 boe/d.

In 2017, Peyto had earnings of $176.6 million and paid total dividends to Shareholders of $217.6 million.

Recent Developments

On January 2, 2018, Peyto completed a private placement of an aggregate of $100 million senior unsecured notes (the "**2018 Senior Notes**"). The 2018 Senior Notes have a coupon rate of 3.95%, which interest is payable semi-annually in arrears, and mature on January 2, 2028. The 2018 Senior Notes were issued pursuant to a note purchase agreement and a note purchase and private shelf agreement dated January 2, 2018 between Peyto and a certain institutional investor and rank equally with Peyto's obligations under its bank facility and existing Senior Notes, including the 2015 Senior Notes and the 2016 Senior Notes.

On January 11, 2018, Peyto announced that, starting with the January 2018 dividend, the Corporation's monthly dividend would be reduced from $0.11 per Common Share to $0.06 per Common Share.

Additionally on January 11, 2018, Peyto announced its intention to file a notice of intention with the TSX to make a normal course issuer bid to purchase up to 12,158,897 Common Shares (approximately 10% of the public float of the Common Shares at the time of announcement) through the facilities of the TSX. This normal course issuer bid commenced on January 22, 2018 and expires on January 21, 2019. As at the date hereof, there were no Common Shares purchased and cancelled under the normal course issuer bid.

On February 1, 2018, Mr. Jean-Paul Lachance was appointed Vice President, Engineering and Chief Operating Officer and Mr. Scott Robinson was appointed Executive Vice President, New Ventures.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Peyto is a growth oriented, dividend paying publicly traded company engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada.

Principal Properties

See "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties*".

Competitive Conditions

The oil and natural gas industry is competitive in all its phases. Peyto competes with numerous other entities in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Peyto's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Peyto. Peyto's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources. Peyto believes that it has a competitive advantage to that of other oil and natural gas issuers of similar size, involved in similar areas and at a similar stage of development as a result of Peyto's low cost development of its oil and natural gas properties.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and natural gas information set forth below (the "**Statement**") is dated February 14, 2018. The effective date of the Statement is December 31, 2017 and the preparation date of the Statement is March 13, 2018. The Report of Management and Directors on Reserves Data and Other Information on Form 51-101F3 and the Report on Reserves Data by InSite on Form 51-101F2 are attached as Schedules A and B, respectively, to this Annual Information Form.

Disclosure of Reserves Data

The Statement set forth below discloses the Corporation's reserves data (the "**Reserves Data**") is based upon an evaluation by InSite with an effective date of December 31, 2017 contained in the InSite Report. The Reserves Data summarizes the oil, liquids and natural gas reserves of Peyto and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The Reserves Data conforms to the requirements of National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* ("**NI 51-101**") and is in accordance with the COGE Handbook. Additional information not required by

NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. Peyto engaged InSite to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of Peyto's reserves are in Canada, specifically, in the provinces of Alberta and British Columbia. The Corporation's reserves are predominantly in the province of Alberta.

Some values set forth below may not add due to rounding.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2017
FORECAST PRICES AND COSTS

	RESERVES									
	Light and Medium Oil		Solution Gas		Conventional Gas		Natural Gas Liquids		Total BOE	
Reserves Category	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)	Gross (Mboe)	Net (Mboe)
Proved										
Developed Producing	41.6	39.8	-	-	1,479,971.0	1,365,398.9	27,847.5	21,783.3	274,550.9	249,389.5
Developed Non-Producing	-	-	-	-	40,051.2	36,753.7	815.5	644.7	7,490.7	6,770.3
Undeveloped	-	-	-	-	919,421.3	854,113.7	15,995.6	14,237.5	169,232.5	156,589.8
Total Proved	41.6	39.8	-	-	2,439,443.6	2,256,266.2	44,658.6	36,665.5	451,274.1	412,749.6
Probable	13.0	12.0	-	-	1,355,853.2	1,242,924.4	44,433.9	37,247.8	270,422.4	244,413.9
Total Proved Plus Probable	54.6	51.8	-	-	3,795,296.8	3,499,190.7	89,092.4	73,913.3	721,696.5	657,163.5

	NET PRESENT VALUES OF FUTURE NET REVENUE									
	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
Reserves Category	0 (M$)	5 (M$)	10 (M$)	15 (M$)	20 (M$)	0 (M$)	5 (M$)	10 (M$)	15 (M$)	20 (M$)
Proved										
Developed Producing	5,510,190.7	3,588,916.9	2,648,572.7	2,114,165.1	1,774,633.9	4,439,183.8	2,985,463.4	2,259,335.0	1,839,386.3	1,568,301.6
Developed Non-Producing	130,814.8	84,304.9	60,239.5	46,344.5	37,555.7	95,422.1	61,363.9	43,705.8	33,502.9	27,047.5
Undeveloped	2,664,434.4	1,391,697.6	772,711.1	431,932.4	226,943.3	1,938,096.1	977,251.0	504,127.3	242,494.0	85,372.9
Total Proved	8,305,439.8	5,064,919.5	3,481,523.3	2,592,442.0	2,039,132.9	6,472,702.0	4,024,078.2	2,807,168.1	2,115,383.2	1,680,722.0
Probable Additional	5,328,517.0	2,515,939.5	1,384,751.2	836,501.5	534,687.8	3,872,700.3	1,799,715.2	958,392.5	551,288.9	329,169.0
Total Proved Plus Probable	13,633,956.8	7,580,858.9	4,866,274.6	3,428,943.5	2,573,820.7	10,345,402.3	5,823,793.4	3,765,560.6	2,666,672.1	2,009,890.9

Reserves Category	TOTAL FUTURE NET REVENUE (UNDISCOUNTED) AS OF DECEMBER 31, 2017 Revenue (M$)	Royalties (M$)	Operating Costs (M$)	Development Costs (M$)	Abandonment and Reclamation Costs[(1)] (M$)	Future Net Revenue Before Income Taxes (M$)	Income Taxes (M$)	Future Net Revenue After Income Taxes (M$)
Proved Reserves	14,675,476.7	1,338,083.8	3,232,405.5	1,488,297.1	311,250.6	8,305,439.8	1,832,737.8	6,472,702.0
Proved Plus Probable Reserves	24,602,008.3	2,395,412.6	5,160,702.7	2,978,088.0	433,848.3	13,633,956.8	3,288,554.4	10,345,402.3

Note:

(1) Reflects estimated abandonment and reclamation for all wells (both existing and undrilled wells) that reserves have been attributed to. See "*Additional Information Concerning Abandonment and Reclamation Costs*".

Reserves Category	FUTURE NET REVENUE BY PRODUCT TYPE AS OF DECEMBER 31, 2017 Product Type	Future Net Revenue Before Income Taxes (Discounted At 10%/Year) (M$)	($/bbl or $/Mcf)
Proved Reserves	Light and Medium Crude Oil[(1)]	1,378.5	34.87
	Heavy Oil[(1)]	-	-
	Natural Gas Liquids	-	-
	Conventional Natural Gas[(2)]	3,339,484.5	1.48
Proved Plus Probable Reserves	Light and Medium Crude Oil[(1)]	1,807.5	35.09
	Heavy Oil[(1)]	-	-
	Natural Gas Liquids	-	-
	Conventional Natural Gas[(2)]	4,644,290.9	1.33

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Net revenue does not include other income (i.e. processing income).

Definitions and Other Notes

In the tables set forth in this Statement and elsewhere in this Annual Information Form, the following definitions and other notes are applicable.

1. "**Gross**" means:

   (a) in relation to Peyto's interest in production and reserves, its "Peyto gross reserves", which are Peyto's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of Peyto;

   (b) in relation to wells, the total number of wells in which Peyto has an interest; and

   (c) in relation to properties, the total area of properties in which Peyto has an interest.

2. "**Net**" means:

   (a) in relation to Peyto's interest in production and reserves, its "Peyto net reserves", which are Peyto's interest (operating and non-operating) share after deduction of royalties obligations, plus Peyto's royalty interest in production or reserves;

   (b) in relation to wells, the number of wells obtained by aggregating Peyto's working interest in each of its gross wells; and

(c) in relation to Peyto's interest in a property, the total area in which Peyto has an interest multiplied by the working interest owned by Peyto.

3. Definitions used for reserve categories are as follows:

The following definitions apply to both estimates of individual reserves entities and the aggregate of reserves for multiple entities.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on:

(a) analysis of drilling, geological, geophysical and engineering data;

(b) the use of established technology; and

(c) specified economic conditions (see the discussion of "*Economic Assumptions*" below).

Reserves are classified according to the degree of certainty associated with the estimates:

(a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.

(b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

"Economic Assumptions" will be the prices and costs used in the estimate, namely:

(a) constant prices and costs as at the last day of Peyto's financial year; and

(b) forecast prices and costs.

Development and Production Status

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

(a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing:

    (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

    (ii) Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

(b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

(a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and

(b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

4. Forecast prices and costs

Future prices and costs that are:

(a) generally acceptable as being a reasonable outlook of the future; and

(b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which Peyto is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table under "*Statement of Reserves Data and Other Oil and Gas Information – Pricing Assumptions*" identifies benchmark reference pricing that apply to Peyto.

5. Future income tax expenses estimate:

(a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes;

(b) without deducting estimated future costs that are not deductible in computing taxable income;

(c) taking into account estimated tax credits and allowances; and

(d) applying to the future pre-tax net cash flows relating to Peyto's oil and natural gas activities the appropriate year-end statutory rates, taking into account future tax rates already legislated.

6. "**Development costs**" means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and natural gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:

(a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;

(b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;

(c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and

(d) provide improved recovery systems.

7. "**Development well**" means a well drilled inside the established limits of an oil and natural gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.

8. "**Exploration costs**" means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and natural gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:

(a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;

(b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;

(c) dry hole contributions and bottom hole contributions;

(d) costs of drilling and equipping exploratory wells; and

(e) costs of drilling exploratory type stratigraphic test wells.

9. "**Exploration well**" means a well that is not a development well, a service well or a stratigraphic test well.

10. "**Service well**" means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.

11. Numbers may not add due to rounding.

12. The estimates of future net revenue presented in the tables above do not represent fair market value.

Pricing Assumptions

The following sets forth the benchmark reference prices, as at December 31, 2017, reflected in the Reserves Data. These price assumptions were provided to Peyto by InSite, Peyto's independent qualified reserves evaluator.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS AS OF DECEMBER 31, 2017
FORECAST PRICES AND COSTS

	OIL					NATURAL GAS LIQUIDS					
Year	WTI Cushing Oklahoma ($US/bbl)	Edmonton Par Price 40° API ($Cdn/bbl)	Hardisty Heavy 12° API ($Cdn/bbl)	Hardisty Heavy 25° API ($Cdn/bbl)	Natural Gas Aeco Gas Price ($Cdn/MMBtu)	Condensate ($Cdn/bbl)	Butane ($Cdn/bbl)	Propane ($Cdn/bbl)	Ethane ($Cdn/bbl)	Inflation Rates[1] %/Year	Exchange Rate[2] ($US/$Cdn)
Forecast											
2018	60.00	71.36	42.86	52.86	2.52	74.93	51.38	35.68	7.25	2.0	1.27
2019	62.50	73.44	45.94	55.94	2.93	77.12	52.88	36.72	8.50	2.0	1.25
2020	65.00	75.47	48.97	58.97	3.22	79.25	54.34	35.85	9.43	2.0	1.23
2021	70.00	80.49	54.99	64.99	3.51	84.52	57.96	36.22	10.33	2.0	1.22
2022	72.50	82.38	57.88	67.88	3.75	86.50	59.31	37.07	11.07	2.0	1.20
2023	75.00	84.22	59.72	69.72	3.85	88.43	60.64	37.90	11.40	2.0	1.19
2024	77.50	86.01	61.51	71.51	3.95	90.31	61.93	38.70	11.71	2.0	1.18
2025	80.00	88.85	64.32	74.35	4.11	93.29	63.97	39.98	12.20	2.0	1.18
2026	81.60	90.62	66.12	76.12	4.27	95.15	65.25	40.78	12.69	2.0	1.18
2027	83.23	92.43	67.93	77.93	4.35	97.06	66.55	41.60	12.95	2.0	1.18
Thereafter	2%/yr	2%/yr	2%/yr	2%/yr	2%/yr	2%/yr	2%/yr	2%/yr	2%/yr		

Notes:

(1) Inflation rates for forecasting prices and costs.
(2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized by Peyto for the year-ended December 31, 2017 were $2.89/Mcf for conventional natural gas and $50.02/bbl for crude oil and natural gas liquids.

Reconciliations of Changes in Reserves and Future Revenue

RECONCILIATION OF PEYTO GROSS (WORKING INTEREST) RESERVES BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

	Light and Medium Crude Oil[1]			Conventional Natural Gas[2]			Natural Gas Liquids		
Factors	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)	Proved (MMcf)	Probable (MMcf)	Proved Plus Probable (MMcf)	Proved (Mbbl)	Probable (Mbbl)	Proved Plus Probable (Mbbl)
December 31, 2016	78.5	35.3	113.8	2,189,371.8	1,344,497.9	3,533,869.6	39,408.7	26,250.6	65,659.3
Extensions	-	-	-	152,587.3	245,658.0	398,245.3	1,951.5	6,191.4	8,142.9
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revision	8.4	-6.4	2.0	59,246.2	-51,014.5	8,231.8	2,733.0	14,272.3	17,005.3
Discoveries	-	-	-	129,909.3	-6,354.1	123,555.2	2,289.6	711.0	3,000.6
Acquisitions	-	-	-	3,179.5	1,782.5	4,962.0	72.0	69.1	141.1
Dispositions	-	-	-	-10,270.0	-7,130.1	-17,400.1	-139.8	-93.6	-233.4
Category Transfer	-	-	-	143,576.6	-143,576.6	-	2,184.1	-2184.1	-
Economic Factors	-	-	-	-24,100.0	-28,100.0	-52,200.0	-441.2	-783.8	-1,225.0
Production	-11.6	-	-11.6	-204,243.1	-	-204,243.1	-3402.0	-	-3,402.0
December 31, 2017	75.3	28.9	104.2	2,439,257.6	1,355,763.1	3,795,020.7	44,655.9	44,432.9	89,088.8

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Numbers may not add due to rounding.

RECONCILIATION OF PEYTO NET RESERVES (NET OF ROYALTIES) BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

	Light and Medium Crude Oil[1]			Conventional Natural Gas[2]			Natural Gas Liquids		
Factors	Net Proved (Mbbl)	Net Probable (Mbbl)	Net Proved Plus Probable (Mbbl)	Net Proved (MMcf)	Net Probable (MMcf)	Net Proved Plus Probable (MMcf)	Net Proved (Mbbl)	Net Probable (Mbbl)	Net Proved Plus Probable (Mbbl)
December 31, 2016	72.7	32.2	104.9	2,026,765.6	1,224,923.6	3,251,689.3	31,508.1	21,792.4	53,300.4
Extensions	-	-	-	143,393.0	228,326.1	371,719.1	1,781.5	5,459.0	7,240.5
Improved Recovery	-	-	-	-	-	-	-	-	-
Technical Revision	9.3	-5.7	3.6	47,369.3	-36,600.5	10,768.8	2,726.2	12,171.3	14,897.5
Discoveries	-	-	-	122,689.5	-8,446.4	114,243.1	1,990.6	574.8	2,565.4
Acquisitions	-	-	-	2,909.5	4,983.3	7,892.8	59.0	57.8	116.8
Dispositions	-	-	-	-9,709.2	-6,580.3	-16,289.5	-127.9	-78.3	-206.2
Category Transfer	-	-	-	137,927.5	-137,927.5	-	2,075.7	-2,075.7	-
Economic Factors	-	-	-	-22,290.3	-25,837.1	-48,127.4	-362.2	-654.1	-1,016.3
Production	-12.0	-	-12.0	-192,959.7	-	-192,959.7	-2,987.4	-	-2,987.4
December 31, 2017	70.0	26.5	96.5	2,256,095.2	1,242,841.3	3,498,936.5	36,663.5	37,247.2	73,910.7

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Numbers may not add due to rounding.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to the Corporation in the three most recent financial years.

Proved Undeveloped Reserves

Peyto's proved undeveloped reserves are comprised mainly of wells that are budgeted and scheduled to be drilled in the next five years. Peyto also has proved undeveloped reserves behind pipe (mostly up-hole zones) which will be brought on production once the primary zones have been depleted. Where there is economical justification to accelerate production from secondary zones, Peyto will often proceed to re-complete the subject well bores or drill twin wells for secondary zones.

	Light and Medium Crude Oil[1] (Mbbl)		Conventional Natural Gas[2] (MMcf)		Natural Gas Liquids (Mbbl)	
Year	1st Attributed	Cumulative at Year-End [1]	1st Attributed	Cumulative at Year-End [1]	1st Attributed	Cumulative at Year-End [1]
2015	-	-	159,345.6	714,849.9	1,419.5	10,298.1
2016	-	-	164,759.2	753,255.2	1,784.2	12,447.5
2017	-	-	225,751.4	854,113.7	3,018.8	14,237.5

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Cumulative at Year-End = Residual Cumulative of Previous Year plus 1st Attributed.

Probable Undeveloped Reserves

Peyto's probable additional reserves are comprised of performance wedges from producing wells (approximately 19%), step out drilling locations and bypassed zones, which are deemed too probabilistic to be classified as proved. Peyto typically assigns probable reserves to undrilled locations that are scheduled to be drilled in the next five to six years. Peyto has historically been successful converting these probable assignments to proven producing entities.

Year	Light and Medium Crude Oil[1] (Mbbl) 1st Attributed	Light and Medium Crude Oil[1] (Mbbl) Cumulative at Year-End [1]	Conventional Natural Gas[2] (MMcf) 1st Attributed	Conventional Natural Gas[2] (MMcf) Cumulative at Year-End [1]	Natural Gas Liquids (Mbbl) 1st Attributed	Natural Gas Liquids (Mbbl) Cumulative at Year-End [1]
2015	-	-	204,563.8	726,944.6	2,062.3	8,511.4
2016	-	-	246,848.2	853,823.4	4,177.2	13,082.3
2017	-	-	201,158.7	865,620.1	4,179.8	18,161.4

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Cumulative at Year-End = Residual Cumulative of Previous Year plus 1st Attributed.

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and natural gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

While we do not anticipate any significant economic factors or significant uncertainties will affect any particular components of the reserves data, the reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond our control. See "*Risk Factors*".

Future Development Costs

The following table sets forth development costs deducted in the estimation of Peyto's future net revenue attributable to the reserve categories noted below.

	Forecast Prices and Costs			
	Proved Reserves		Proved Plus Probable Reserves	
Year	0% (MM$)	10% (MM$)	0% (MM$)	10% (MM$)
2018	215.3	204.4	250.2	236.9
2019	470.9	410.9	524.7	456.9
2020	359.4	284.2	694.5	547.9
2021	342.6	248.4	662.8	479.4
2022	71.4	46.5	560.5	365.1
Thereafter	28.7	7.0	285.4	154.3
Total Undiscounted	1,488.3	1,201.4	2,978.1	2,240.5
Change from 2016	183.3	104.7	415.2	170.6

Peyto anticipates that funding for the future development costs will include internally generated cash flow, debt and equity financing.

2017 Finding, Development and Acquisition Costs
Company Interest Reserves
(Forecast Prices and Costs)

Finding, Development and Acquisition Costs Including Changes in Future Development Capital ("**FDC**")	Proved Developed Producing Reserves	Proved Reserves	Proved Plus Probable Reserves
Exploration and Development Capital Expenditures (M$)	517,397.8	517,397.8	517,397.8
Exploration and Development Change in FDC (M$)	-	183,300.0	415,200.0
Exploration and Development Capital including Change in FDC (M$)	517,397.8	700,697.8	932,597.8
Exploration and Development Reserve Additions including Revisions (Mboe)(1)	63,732.8	83,743.9	103,431.1
Finding and Development Cost ($/BOE)(1)	8.12	8.37	9.02
Net Acquisition Capital (M$)	3,812.7	3,812.7	3,812.7
Net Acquisition Reserve Additions (Mboe)(1)	145.3	601.9	968.1
Net Acquisition Cost ($/BOE)(1)	26.24	6.33	3.94
Total Capital Expenditures including Net Acquisitions (M$)	521,210.5	521,210.5	521,210.5
Total Changes in FDC (M$)	-	183,300.0	415,200.0
Total Capital including Change in FDC (M$)	521,210.5	704,510.5	936,410.5
Reserve Additions including Revisions and Net Acquisitions (Mboe)(1)	63,878.1	84,345.8	104,399.2
Finding, Development and Acquisition Cost including Change in FDC ($/BOE)(1)	8.16	8.35	8.97

Note:

(1) Natural gas has been converted to barrels of oil equivalent on the basis of 6 Mcf of natural gas being equal to one barrel of oil.

Three Year Historical Finding, Development and Acquisition Costs
$/BOE

Year	Proved Developed Producing	Total Proved	Total Proved Plus Probable
2015	9.83	4.33	3.21
2016	8.62	6.04	3.74
2017	8.16	8.35	8.97
Three Year Average	8.87	6.24	5.31

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. The use of boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6 Mcf:1 bbl, utilizing a conversion on a 6 Mcf:1 bbl basis may be misleading as an indication of value.

Other Oil and Gas Information

Oil and Gas Properties

The following is a description of Peyto's principal oil and natural gas properties on production or under development as at December 31, 2017. The term "net", when used to describe Peyto's share of production, means the total of Peyto's working interest share before deduction of royalties owned by others. Reserve amounts are stated, before deduction of royalties, at December 31, 2017, based on escalating cost and price assumptions (gross) as evaluated in the InSite Report (see "*Statement of Reserves Data and Other Oil and Gas Information*"). Unless otherwise specified, gross and net acres and well count information are as at December 31, 2017. Information in respect of current production is average production, net to Peyto, for the month of February 2018, except where otherwise indicated. The estimate of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

General

Peyto operates in three core areas, namely the Greater Sundance, Brazeau River areas and Northern area of Alberta. Within the Greater Sundance area there are four sub-areas, Sundance, Nosehill, Wildhay and Ansell, all of which have Peyto operated gas processing facilities that are interconnected. Total capital expenditures for 2017 were $521 million. In total, Peyto anticipates investing $200 to $250 million and drilling approximately 50 to 60 net wells in 2018.

Greater Sundance Area

The Greater Sundance area is located 50 kilometers west of Edson, Alberta, from Township 50–56 and Range 19-24 west of the fifth meridian. Peyto began its operations in this area in the spring of 1999. This area now encompasses the Sundance, Wildhay, Nosehill and Ansell fields and is generally referred to as the "Greater Sundance area".

Peyto has an average 78.5% working interest in 271,200 gross (212,821 net) acres of land and operates 99% of its production in the area.

The geology of the area is characterized by multi-zone potential for liquids-rich natural gas. Peyto currently produces gas from the Belly River, Cardium, Viking, Notikewin, Falher, Wilrich, Bluesky and Cadomin formations.

During 2017, Peyto spent $297 million in capital to drill, case, complete, equip and tie-in 86 new net wells in the Greater Sundance area. Included in this capital is Peyto's proportionate share of land and seismic acquisition costs as well as plant costs. Peyto is currently producing approximately 76,000 boe/d of natural gas and natural gas liquids from this area. The Greater Sundance area includes several properties that collectively accounted for:

- 57% of 2017 capital expenditures
- 76% of 2017 production volume
- 77% of proved and probable reserves at December 31, 2017
- 34% of undeveloped land holding at December 31, 2017

Peyto currently plans to invest the majority of the 2018 capital budget drilling horizontal wells in the Cardium, Wilrich and Notikewin formations in this area.

Peyto owns and operates five 100% working interest gas processing plants and one joint plant (89% working interest at December 31, 2017) located in the Greater Sundance area. Two of the plants are located in Oldman (55-21W5), the third one is located in Wildhay (55-23W5), the fourth one is located in Nosehill (55-20W5) and the fifth and sixth plants are located in Ansell (53-20W5 and 53-19W5). The majority of Peyto's production is processed through these plants, with 1,340 gross (1,198 net) producing zones currently tied-in. Gross natural gas production at the facilities is approximately 445 MMcf/d, with gross natural gas liquids production being approximately 7,624 bbls/d.

Brazeau River

The Brazeau River area is located 180 km southwest of Edmonton, Alberta, from Township 41-44 and Range 11-14 west of the fifth meridian. Peyto began operations in this area in late 2013.

Peyto has an average 94% working interest in 124,480 gross (117,001 net) acres of land and operates 99% of its production in the area.

The geology of the area indicates multi-zone potential for liquids-rich natural gas. Peyto currently produces gas from the Notikewin, Belly River, Wilrich, Falher and Cardium formations.

In 2017, Peyto drilled and completed 45 gross (45 net) wells in Brazeau. Peyto is currently producing approximately 23,000 boe/d of gross natural gas and natural gas liquids from this area. The Brazeau area accounted for:

- 32% of 2017 capital expenditures
- 21% of 2017 production volume
- 16% of proved and probable reserves at December 31, 2017
- 31% of undeveloped land holding at December 31, 2017

Peyto owns a 100% working interest in and operates its gas processing plant in Brazeau. The majority of the production from the area is processed through this plant with 103 producing zones currently tied in. Gross production from this facility is approximately 126 MMcf/d of natural gas with approximately 2,003 bbls/d of natural gas liquids.

Northern Area

The Northern area includes producing properties in the following regions: Smoky, Kakwa, Chime, Kiskiu, Chicken and Cutbank and it encompasses Townships 57-64 and Ranges 2-7 west of the sixth meridian. The Kakwa gas plant, which services producing properties in Smoky, Kakwa, Chime and Kiskiu (together referred to as "**Greater Kakwa**") is located 40 km northeast of Grande Cache, Alberta. Peyto began operations in this area in the winter of 2002/2003.

Peyto has an average 91% working interest in 99,840 gross (90,591 net) acres of land and operates 97% of its production in the area.

The geology of the area indicates multi-zone potential for liquids-rich natural gas. Peyto currently produces gas from the Belly River, Dunvegan, Chinook and Cardium formations. The majority of Peyto's current production comes from the Cardium formation, which exists as a low permeability blanket sand.

In 2017, Peyto did not drill any wells in the Northern area. Peyto is currently producing approximately 2,300 boe/d of gross natural gas and natural gas liquids from this area. The Northern area accounted for:

- 0% of 2017 capital expenditures
- 2% of 2017 production volume
- 3% of proved and probable reserves at December 31, 2017
- 22% of undeveloped land holding at December 31, 2017

Peyto owns a 100% working interest in and operates its gas processing plant in Smoky/Kakwa. The majority of Peyto's production from the area is processed through this plant with 65 producing zones currently tied in. Gross production from this facility is approximately 11 MMcf/d of natural gas with approximately 498 bbls/d of natural gas liquids.

Peyto owns a 100% working interest in and operates its gas processing plant in Cutbank. The majority of the production around the Cutbank area is processed through this plant with 21 producing zones currently tied in. Gross production from this facility is approximately 1,045 Mcf/d of natural gas with approximately 15 bbls/d of natural gas liquids.

Miscellaneous

Peyto has a number of minor working interests in non-operated wells throughout Alberta. These properties account for less than 1% of Peyto's current production. The anticipated capital spending for these areas is minimal.

Oil and Gas Wells

The following table sets forth the number and status of wells in which Peyto had a working interest as at December 31, 2017.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing(1)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	4.0	2.65	5.0	1.22	1,504.0	1,303.95	133.0	101.57
British Columbia	-	-	-	-	1.0	0.01	6.0	0.31
Total	4.0	2.65	5.0	1.22	1,505.0	1,303.96	139.0	101.88

Note:

(1) The non-producing oil wells and natural gas wells capable of production but which are not currently producing will be re-evaluated with respect to future product prices, proximity to facility infrastructure, design of future exploration and development programs and access to capital.

Land Holdings

The following table sets out Peyto's developed and undeveloped land holdings as at December 31, 2017.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	210,240	170,697	355,040	309,563	565,280	480,260
British Columbia	4,792	265	3,773	147	8,565	412
Total	215,032	170,962	358,813	309,709	573,845	480,672

Note:

(1) Numbers may not add due to rounding.

Peyto expects that rights to explore, develop and exploit 11,200 net acres of its undeveloped land holdings will expire by December 31, 2018.

Forward Contracts

Peyto is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. Peyto enters into these contracts with well established counter-parties, all of which are members of its banking syndicate, for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices.

A summary of contracts outstanding, as at the date hereof, in respect of the hedging activities are as follows.

Natural Gas Period Hedged - Monthly Index	**Type**	**Daily Volume**	**Average Price (CAD)**
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.54/GJ
April 1, 2016 to March 31, 2018	Fixed Price	60,000 GJ	$2.59/GJ
April 1, 2016 to October 31, 2018	Fixed Price	35,000 GJ	$2.38/GJ
May 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.29/GJ
July 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.38/GJ
August 1, 2016 to October 31, 2018	Fixed Price	25,000 GJ	$2.43/GJ
November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.51/GJ
April 1, 2017 to March 31, 2018	Fixed Price	110,000 GJ	$2.84/GJ
April 1, 2017 to October 31, 2018	Fixed Price	10,000 GJ	$2.67/GJ
October 1, 2017 to March 31, 2018	Fixed Price	25,000 GJ	$2.40/GJ
November 1, 2017 to March 31, 2018	Fixed Price	185,000 GJ	$2.83/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.92/GJ
December 1, 2017 to March 31, 2018	Fixed Price	45,000 GJ	$2.29/GJ
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	$2.02/GJ
April 1, 2018 to October 31, 2018	Fixed Price	105,000 GJ	$2.05/GJ
April 1, 2018 to March 31, 2019	Fixed Price	180,000 GJ	$2.35/GJ
April 1, 2018 to October 31, 2019	Fixed Price	5,000 GJ	$1.90/GJ
April 1, 2018 to March 31, 2020	Fixed Price	10,000 GJ	$1.44/GJ
November 1, 2018 to March 31, 2019	Fixed Price	70,000 GJ	$1.84/GJ
November 1, 2018 to March 31, 2020	Fixed Price	5,000 GJ	$1.57/GJ
April 1, 2019 to October 31, 2019	Fixed Price	15,000 GJ	$1.30/GJ
April 1, 2019 to March 31, 2020	Fixed Price	75,000 GJ	$1.78/GJ
November 1, 2019 to March 31, 2020	Fixed Price	15,000 GJ	$2.03/GJ
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.30/GJ
April 1, 2020 to March 31, 2021	Fixed Price	5,000 GJ	$1.64/GJ

Natural Gas Period Hedged - Daily Index	**Type**	**Daily Volume**	**Average Price (CAD)**
April 1, 2018 to October 31, 2018	Fixed Price	15,000 GJ	$1.59/GJ
April 1, 2018 to March 31, 2019	Fixed Price	40,000 GJ	$1.54/GJ

Tax Horizon

No material cash income taxes were paid by Peyto for the year ended December 31, 2017. Within the context of current commodity prices and capital spending plans, Peyto does not expect to be taxable before 2020. This future tax horizon will also fluctuate depending on the ultimate nature and timing of Peyto's acquisitions and dispositions. If crude oil and natural gas prices were to strengthen beyond the levels anticipated by the current forward market, Peyto's tax pools would be utilized more quickly and it may experience higher than expected cash taxes or payment of such taxes in an earlier time period. However, it is difficult to give guidance on future taxability as Peyto operates within an industry that constantly changes given acquisitions, divestments, capital spending, dividends and overall commodity prices. See "*Risk Factors*".

Additional Information Concerning Abandonment and Reclamation Costs

Peyto bases its estimates for the costs of abandonment and reclamation of surface leases, wells and facilities on previous experience of management with similar well sites and facility locations. As at December 31, 2017, management expected to incur such costs on 1,409.7 net wells and 8.9 net facilities. The total of such costs, net of estimated salvage value, expected to be incurred is $289.7 million (undiscounted) and $143.8 million (discounted at 2.26%). These estimated abandonment and reclamation costs do not include any locations for undrilled wells. Within the next three financial years, it is expected such abandonment and reclamation costs will total approximately $0.7 million (undiscounted) in aggregate.

For the purposes of estimating the Reserves Data, abandonment and reclamation costs for all wells (both existing and undrilled wells) that have been attributed reserves have been taken into account. No allowance was made, however, for the abandonment and reclamation of any pipelines or facilities or for wells with no attributed reserves. Future net revenue figures set forth in this Statement only include abandonment and reclamation liabilities for wells that have been assigned reserves.

Using public data and the Corporation's own experience, Peyto estimates the amount and timing of future abandonment and reclamation expenditures at an operating area level. Wells within each operating area are assigned an average cost per well to abandon and reclaim the well. The estimated expenditures are based on current regulatory standards and actual abandonment and reclamation cost history.

Additional information related to our estimated share of future environmental and reclamation obligations for the working interest properties (including all abandonment and reclamation costs associated with all existing wells, facilities, pipelines and leases) can be found in Peyto's audited financial statements for the year ended December 31, 2017 and the accompanying management's discussion and analysis, which are available on SEDAR at www.sedar.com.

Capital Expenditures

The following table summarizes capital expenditures (net of incentives and net of certain proceeds and including capitalized general and administrative expenses) related to Peyto's activities for the year-ended December 31, 2017.

Property acquisition (disposition) costs			
Proved properties	MM	$	3.8
Unproved properties			10.3
Exploration costs			33.9
Development costs			473.2
Total	MM	$	521.2

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells in which Peyto participated during the year-ended December 31, 2017.

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Oil	-	-	-	-
Natural Gas	7.0	7.0	135.0	130.5
Service	-	-	-	-
Dry	-	-	-	-
Total:	7.0	7.0	135.0	130.5

For a description of Peyto's most important current and likely exploration and development activities, see "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties*".

Production Estimates

The following table sets out the volume of Peyto's production before royalties estimated for the year-ended December 31, 2018 which is reflected in the estimate of gross proved reserves and probable reserves disclosed in the tables contained under "*Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data*".

	Light and Medium Crude Oil(1)	Conventional Natural Gas(2)	Natural Gas Liquids	BOE
	(bbls/d)	*(MMcf/d)*	*(bbls/d)*	*(boe/d)*
Proved				
Greater Sundance	7	381	6,623	70,092
Brazeau	-	111	1,923	20,393
Northern Area	9	9	400	1,937
Other	-	14	147	2,535
Total Proved 2018	16	515	9,093	94,957
Proved Plus Probable				
Greater Sundance	7	391	6,832	71,985
Brazeau	-	119	2,067	21,918
Northern Area	9	9	403	1,951
Other	-	18	185	3,206
Total Proved Plus Probable 2018	16	537	9,486	99,060

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Numbers may not add due to rounding.

Production History and Prices Received

The following table summarizes certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below.

	2017			
	Quarter Ended			
	Dec. 31	Sept. 30	June 30	March 31
Average Daily Production(1)				
Light and Medium Crude Oil (bbls/d)(2)	-	-	-	-
Conventional Natural Gas (Mcf/d)(3)	595,885	557,958	535,274	549,037
NGLs (bbls/d)	10,479	8,958	8,319	9,586
Combined (boe/d)	109,793	101,951	97,531	101,093
Average Price Received				
Light and Medium Crude Oil ($/bbl)(2)	-	-	-	-
Conventional Natural Gas ($/Mcf)(3)	2.87	2.81	2.92	2.96
NGLs ($/bbl)	56.52	45.92	48.33	48.14
Combined ($/McfGE)	3.50	3.24	3.36	3.44
Royalties Paid ($/McfGE)	0.15	0.09	0.17	0.19
Production Costs including Transportation ($/McfGE)	0.44	0.43	0.42	0.46
Netback Received ($/McfGE)	2.91	2.72	2.77	2.79

Notes:

(1) Before deduction of royalties.
(2) Including solution gas and other by-products.
(3) Including by-products, but excluding solution gas and by-products from oil wells.
(4) Unit values are based on net reserve volumes.
(5) Numbers may not add due to rounding.

The following table indicates Peyto's average daily production from its important fields, and in total, for the year-ended December 31, 2017.

	Light and Medium Crude Oil[1]	Conventional Natural Gas[2]	NGLs	BOE
	(bbls/d)	(MMcf/d)	(bbls/d)	(boe/d)
Greater Sundance	7	428	6,973	78,247
Brazeau	-	115	1,854	21,036
Northern Area	9	10	419	2,099
Other Properties	-	7	75	1,232
Total Alberta	16	560	9,321	102,614
Total British Columbia	-	-	-	-
Total	16	560	9,321	102,614

Notes:

(1) Including solution gas and other by-products.
(2) Including by-products, but excluding solution gas and by-products from oil wells.
(3) Unit values are based on net reserve volumes.
(4) Numbers may not add due to rounding.

DIVIDENDS

In conjunction with the completion of the 2010 Arrangement, the board of directors of the Corporation established a dividend policy of paying monthly dividends to the holders of Common Shares. The payment of dividends by the Corporation commenced with the first dividend declared to Shareholders of record on January 31, 2011 in the amount of $0.06 per Common Share, made payable February 15, 2011. It is expected that cash dividends will continue to be made by the Corporation on approximately the 15th day of each month to holders of Common Shares of record on the immediately preceding dividend record date.

Peyto's policy is to balance dividends to Shareholders with earnings and cash flow; and balance funding for the capital program with cash flow, equity and available bank lines. The board of directors of the Corporation is prepared to adjust the payout ratio levels (dividends declared divided by funds from operations) to achieve the desired dividends while maintaining an appropriate capital structure. See "*Risk Factors – Dividends*".

The Corporation's credit facility and the terms of its outstanding senior unsecured notes ("**Senior Notes**") of the Corporation, including the 2015 Senior Notes, the 2016 Senior Notes and the 2018 Senior Notes, provide that if the Corporation is in default under the credit facility or the Senior Notes, as applicable, the indebtedness may be accelerated by the lenders, and the ability to pay dividends to Shareholders may be restricted. Dividends are only permitted under the credit facility and the terms of the Senior Notes when no event of default under the credit facility or the Senior Notes, as applicable, has occurred and is continuing.

Dividend History

Following the 2010 Arrangement, the following dividends were paid by the Corporation to Shareholders for the periods indicated:

For the Year Ended	Aggregate Annual Dividend per Common Share
2011	$0.72
2012	$0.72
2013	$0.88
2014	$1.14
2015	$1.32
2016	$1.32
2017	$1.32

On January 11, 2018, Peyto announced that, starting with the January 2018 dividend, the Corporation's monthly dividend would be reduced from $0.11 per Common Share to $0.06 per Common Share.

DESCRIPTION OF SHARE CAPITAL

Peyto is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per share at meetings of Shareholders, to receive dividends if, as and when declared by the board of directors of Peyto and to receive pro rata the remaining property and assets of Peyto upon its dissolution or winding-up, subject the rights of shares having priority over the Common Shares.

MARKET FOR SECURITIES

Common Shares

The Common Shares commenced trading on the TSX under the symbol "PEY" on January 7, 2011 following completion of the 2010 Arrangement. The following table sets forth the trading history of the Common Shares for the periods indicated as reported by the TSX.

	Price Range		
	High ($)	Low ($)	Volume
2018			
January	15.83	11.10	30,231,738
February	12.13	9.83	20,258,075
March (1 to 15)	10.76	9.93	11,918,888
2017			
January	33.63	27.20	18,692,422
February	29.04	26.71	13,438,186
March	28.66	26.25	12,952,949
April	28.68	24.79	8,490,957
May	26.64	23.58	9,563,212
June	25.17	22.96	10,003,857
July	23.95	21.80	7,862,915
August	22.19	19.55	9,245,081
September	22.78	19.57	15,182,561
October	20.70	16.71	22,651,826
November	19.83	15.00	43,349,989
December	15.66	13.75	24,153,531

ESCROWED SECURITIES

There are no securities of the Corporation currently held in escrow.

DIRECTORS AND OFFICERS OF PEYTO

The name, municipality of residence, principal occupation for the current year and prior years of each of the current directors and officers of Peyto are set forth below.

Name and Municipality of Residence	Position with Peyto	Principal Occupation
Donald Gray Scottsdale, Arizona United States	Director since 1998 and Chairman of the Board since 2009	Private Investor; Chairman of Gear Energy Ltd., a public oil and natural gas company, since January 2010; Chairman of the Board of Petrus Resources Ltd., a public oil and gas company, since 2010; Mr. Gray was the President of EIQ Capital Corp., a private capital management company, from May 2007 to September 2017; prior thereto, Mr. Gray was the Chief Executive Officer of Peyto from August 2006 to January 2007; prior thereto, Mr. Gray was the President and Chief Executive Officer of Peyto from October 1998 to August 2006
Michael MacBean(1)(2)(3) Calgary, Alberta Canada	Director since 2003 and Lead Independent Director since 2009	Senior Managing Director of TriWest Capital Partners since May 12, 2010; prior thereto, Chief Executive Officer of Diamond Energy Services LP, an oil services partnership, since October 1998
Brian Davis(1)(2)(3) Houston, Texas United States	Director since 2006	Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994
Gregory Fletcher(1)(2)(3) Calgary, Alberta Canada	Director since 2007	President of Sierra Energy Inc., a private oil and gas production company, since 1997
Darren Gee Calgary, Alberta Canada	President, Chief Executive Officer and Director since 2007	President and Chief Executive Officer of Peyto since January 2007 and President of Peyto since August 2006; prior thereto, Mr. Gee was the Vice-President, Engineering of Peyto from March 2001 to August 2006
Stephen J. Chetner Calgary, Alberta Canada	Corporate Secretary since 2000 and Director since 2009	Partner of Burnet, Duckworth & Palmer LLP
Scott Robinson Calgary, Alberta Canada	Executive Vice President, New Ventures since February 1, 2018 and Director since May 2010	Executive Vice President, New Ventures of Peyto since February 1, 2018; prior thereto, Executive Vice-President and Chief Operating Officer of Peyto from August 2006 to February 1, 2018; prior thereto, Mr. Robinson was the Vice-President, Operations of Peyto from January 2004 to August 2006
Timothy Louie Calgary, Alberta Canada	Vice President, Land	Vice President, Land of Peyto since January 2012; prior thereto, Mr. Louie was Land Manager of Daylight Energy Ltd. from April 2005 to December 2011
Jean-Paul (JP) Lachance Calgary, Alberta Canada	Vice President, Engineering and Chief Operating Officer	Vice President, Engineering and Chief Operating Officer since February 1, 2018; prior thereto, Vice President, Exploitation of Peyto from September 2011 to February 1, 2018; prior thereto, Mr. Lachance was the Vice-President, Engineering of ProspEx Resources Ltd. from October 2004 to May 2011
Kathy Turgeon Calgary, Alberta Canada	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer since November 30, 2007; prior thereto Vice-President, Finance of Peyto from January 2006 to November 2007; prior thereto, Ms. Turgeon was the Controller of Peyto from April 2004 to January 2006
David Thomas Calgary, Alberta Canada	Vice President, Exploration	Vice President, Exploration of Peyto since November 1, 2010; prior thereto, Senior Geologist with Peyto since 2005

Name and Municipality of Residence	Position with Peyto	Principal Occupation
Lee Curran Calgary, Alberta Canada	Vice President, Drilling and Completions	Vice President, Drilling and Completions of Peyto since January 1, 2015; prior thereto, drilling engineer with Peyto since 2006; promoted to Drilling Manager with Peyto from May 2011 to January 2015
Todd Burdick Calgary, Alberta Canada	Vice President, Production	Vice President, Production of Peyto since January 1, 2015; prior thereto, production engineer with Peyto since 2004; promoted to Production Manager with Peyto from January 2010 to January 2015

Notes:

(1) Member of the Audit Committee.
(2) Member of the Compensation and Nominating Committee.
(3) Member of the Reserves Committee.
(4) Peyto does not have an executive committee.
(5) Peyto directors shall hold office until the next annual general meeting of the Shareholders or until each director's successor is appointed or elected pursuant to the ABCA.
(6) The period of time served as a director or officer of Peyto includes the period of time served as a director of Peyto AdminCo or an officer of PEDC, where and as applicable, prior to the completion of the 2010 Arrangement.

As at March 16, 2018, the directors and executive officers of Peyto, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 4.9 million Common Shares, or approximately 3% of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Other than as disclosed below, no director or officer of Peyto, or a shareholder holding a sufficient number of securities of Peyto to affect materially the control of Peyto is, as at the date hereof, or has been within the 10 years before the date hereof, a director, or executive officer of any company that: (i) while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) while such person was acting in that capacity or within a year of such person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Mr. Darren Gee, a director, President and Chief Executive Officer of Peyto, was a director of Endurance Energy Ltd. ("**Endurance**"), a corporation engaged in the exploration and production of natural gas. Mr. Gee resigned as a director of Endurance on September 1, 2015. Nine months after Mr. Gee's resignation, Endurance filed for creditor protection under the *Companies Creditors' Arrangement Act* on May 30, 2016.

No director or officer of Peyto, or a shareholder holding a sufficient number of securities of Peyto to affect materially the control of Peyto (or any personal holding company of such person), has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

No director or officer of Peyto, or a shareholder holding sufficient securities of Peyto to affect materially the control of Peyto, or a personal holding company of any such persons, has, within the 10 years preceding the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of Peyto will be subject in connection with the operations of Peyto. In particular, certain of the directors and officers of Peyto are involved in managerial or director positions with other oil and natural gas companies whose operations may, from time to time, be in direct competition with those of Peyto or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Peyto. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided in the ABCA. As at the date hereof, Peyto is not aware of any existing material conflicts of interest between Peyto and any director or officer of Peyto.

Personnel

As at December 31, 2017, Peyto, directly or indirectly, employed 53 head office employees. Contract operators are retained for all field operations.

Audit Committee

Members

The Audit Committee currently has three members, Michael MacBean (Chairman), Brian Davis and Gregory Fletcher, none of whom have a direct or indirect material relationship with Peyto and each of whom is financially literate, meaning the individual has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can be expected to be raised by Peyto's financial statements.

The following is a description of the education and experience of each member of the Audit Committee.

Michael MacBean

Mr. MacBean is the Chairman of the Audit Committee. Mr. MacBean is primarily engaged as a Senior Managing Director of TriWest Capital Partners and, prior thereto, was Chief Executive Officer of Diamond Energy Services LP, a partnership engaged in the energy services sector. From 1995 through 1998, Mr. MacBean served as Controller and subsequently Senior Investment Analyst for ARC Financial Corporation. During this time Mr. MacBean also served as Vice-President, Finance for ARC Energy Trust. Prior to 1995, Mr. MacBean was the Manager of Financial Reporting and Taxation for Mannville Oil & Gas Ltd. Mr. MacBean received his Bachelor of Commerce Degree from the University of Saskatchewan in 1990. In 1993, Mr. MacBean received his Chartered Accountant designation from the Institute of Chartered Accountants of Alberta. In February 2007, Mr. MacBean received his Chartered Directors (C.Dir) designation from McMaster University.

Brian Davis

Mr. Davis is the Chairman of the Reserves Committee. Mr. Davis is primarily engaged as the Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994. In his role, Mr. Davis has acquired significant experience and exposure to accounting and financial issues. Mr. Davis holds a BSc in petroleum engineering from Texas A&M University.

Gregory Fletcher

Mr. Fletcher is the Chairman of the Compensation & Nominating Committee. Mr. Fletcher is primarily engaged as the President of Sierra Energy Inc., a private oil and gas production company that he founded in 1997. Mr. Fletcher is also a director of Calfrac Well Services Ltd., a public oilfield service company, and a director of Whitecap Resources Inc., a public oil and gas company. In these roles, Mr. Fletcher has acquired significant experience and exposure to accounting and financial reporting issues. Mr. Fletcher holds a BSc in geology from the University of Calgary. In January 2009, Mr. Fletcher graduated from the Directors' Education Program sponsored by the Institute of Corporate Directors and the Haskayne School of Business.

Charter

The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities for financial matters. It performs this function by serving as an independent and objective party to monitor Peyto's financial reporting process and internal control system; reviewing and assessing audit efforts of Peyto's independent auditors; providing an avenue of open communication among Peyto's independent auditors, financial and senior management and board of directors; and reviewing the independence and performance of the independent auditor. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist in the conduct of any investigation. Attached as Schedule C hereto is the complete text of the Audit Committee's Charter.

Audit Fees

The table below provides disclosure of the fees billed to Peyto by its external auditors in fiscal 2017 and fiscal 2016, dividing the services into the categories of work performed.

Type of Work	2017 Fees	2017 Percentage	2016 Fees	2016 Percentage
Audit Fees	$180,000	60%	$165,000	59%
Audit Related Fees				
Review of interim financial statements and MD&A, reviewing prospectus disclosures	$54,000	18%	$100,000	36%
Extractive Sector Transparency Measures Act (ESTMA)	$13,725	5%	$9,375	3%
Insurance Advisory	$44,800	15%	-	-
Tax Fees				
Tax compliance services, tax advice, tax planning and annual filings	$5,450	2%	$6,100	2%
Total	$297,975		$280,475	

All non-audit services are disclosed and approved by the Audit Committee.

INDUSTRY CONDITIONS

Companies carrying on business in the crude oil and natural gas sector in Canada are subject to extensive controls and regulations imposed through legislation of the federal government and the provincial governments where the companies have assets or operations. While these regulations do not affect the Corporation's operations in any manner that is materially different than they affect other similarly-sized industry participants with similar assets and operations, investors should consider such regulations carefully. Although governmental legislation is a matter of public record, the Corporation is unable to predict what additional legislation or amendments governments may enact in the future.

The Corporation holds interests in crude oil and natural gas properties, along with related assets, primarily in the Canadian provinces of Alberta and British Columbia. The Corporation's assets and operations are regulated by administrative agencies deriving authority from underlying legislation. Regulated aspects of the Corporation's upstream crude oil and natural gas business include all manner of activities associated with the exploration for and production of crude oil and natural gas, including, among other matters: (i) permits for the drilling of wells; (ii) technical drilling and well requirements; (iii) permitted locations and access of operation sites; (iv) operating standards regarding conservation of produced substances and avoidance of waste, such as restricting flaring and venting; (v) minimizing environmental impacts; (vi) storage, injection and disposal of substances associated with production operations; and (vii) the abandonment and reclamation of impacted sites. In order to conduct crude oil and natural gas operations and remain in good standing with the applicable provincial regulatory scheme, producers must comply with applicable legislation, regulations, orders, directives and other directions (all of which are subject to governmental oversight, review and revision, from time to time). Compliance in this regard can be costly and a breach of the same may result in fines or other sanctions. The discussion below outlines certain pertinent conditions and regulations that impact the crude oil and natural gas industry in Western Canada.

Pricing and Marketing in Canada

Crude Oil

Producers of crude oil are entitled to negotiate sales contracts directly with crude oil purchasers, which results in the market determining the price of crude oil. Worldwide supply and demand factors primarily determine crude oil prices; however, regional market and transportation issues also influence prices. The specific price depends, in part, on crude oil quality, prices of competing fuels, distance to market, availability of transportation, value of refined products, supply/demand balance and contractual terms of sale.

Natural Gas

The price of natural gas sold in intra-provincial, interprovincial and international trade is determined by negotiation between buyers and sellers. The price received by a natural gas producer depends, in part, on the price of competing natural gas supplies and other fuels, natural gas quality, distance to market, availability of transportation, length of contract term, weather conditions, supply/demand balance and other contractual terms. Spot and future prices can also be influenced by supply and demand fundamentals on various trading platforms.

Natural Gas Liquids

The price of condensate and other natural gas liquids such as ethane, butane and propane ("**NGLs**") sold in intra-provincial, interprovincial and international trade is determined by negotiation between buyers and sellers. Such price depends, in part, on the quality of the NGLs, price of competing chemical stock, distance to market, access to downstream transportation, length of contract term, supply/demand balance and other contractual terms.

Exports from Canada

Crude oil, natural gas and NGLs exports from Canada are subject to the *National Energy Board Act* (Canada) (the "**NEB Act**") and the *National Energy Board Act Part VI (Oil and Gas) Regulation* (the "**Part VI Regulation**"). The NEB Act and the Part VI Regulation authorize crude oil, natural gas and NGLs exports under either short-term orders or long-term licences. To obtain a crude oil export licence, a mandatory public hearing with the National Energy Board (the "**NEB**") is required, which is no longer the case for natural gas and NGLs. For natural gas and NGLs, the NEB uses a written process that includes a public comment period for impacted persons. Following the comment period, the NEB completes its assessment of the application and either approves or denies the application. For natural gas, the maximum duration of an export licence is 40 years and, for crude oil and other gas substances (e.g. NGLs), the maximum term is 25 years. All crude oil, natural gas and NGLs licences require the approval of the cabinet of the Canadian federal government.

Orders from the NEB provide a short-term alternative to export licences and may be issued more expediently, since they do not require a public hearing or approval from the cabinet of the Canadian federal government. Orders are issued pursuant to the Part VI Regulation for up to one or two years depending on the substance, with the exception of natural gas (other than NGLs) for which an order may be issued for up to twenty years for quantities not exceeding 30,000 m^3 per day.

As to price, exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts continue to meet certain other criteria prescribed by the NEB and the federal government.

Pursuant to the draft legislation introduced by the Government of Canada on February 8, 2018, if enacted the NEB will be replaced by the Canadian Energy Regulator ("**CER**") who will take on the NEB's responsibilities with respect to exports of crude oil, natural gas and NGL exports from Canada; however, at the present time it is not proposed that the legislative regime relating to exports of crude oil, natural gas and NGL exports from Canada will substantively change under the new regime.

The Corporation does not directly enter into contracts to export its production outside of Canada.

As discussed in more detail below, one major constraint to the export of crude oil, natural gas and NGLs outside of Canada is the deficit of overall pipeline and other transportation capacity to transport production from Western Canada to the United States and other international markets. Although certain pipeline or other transportation projects are underway, many contemplated projects have been cancelled or are delayed due to regulatory hurdles, court challenges and economic and political factors. The transportation capacity deficit is not likely to be resolved quickly given the significant length of time required to complete major pipeline or other transportation projects once all regulatory and other hurdles have been cleared. In addition, production of crude oil, natural gas and NGLs in Canada is expected to continue to increase, which may further exacerbate the transportation capacity deficit.

Transportation Constraints and Market Access

Producers negotiate with pipeline operators (or other transport providers) to transport their products, which may be done on a firm or interruptible basis. Due to growing production and a lack of new and expanded pipeline and rail infrastructure capacity, producers in Western Canada have experienced low pricing relative to other markets in the last several years. Transportation availability is highly variable across different areas and regions, which can determine the nature of transportation commitments available, the numbers of potential customers that can be reached in a cost-effective manner and the price received.

Developing a strong network of transportation infrastructure for crude oil, natural gas and NGLs, including by means of pipelines, rail, marine and trucks, in order to obtain better access to domestic and international markets has been a significant challenge to the Canadian crude oil and natural gas industry. Improved means of access to global markets, especially the Midwest United States and export shipping terminals on the west coast of Canada, would help to alleviate the pressures of pricing discussed. Several proposals have been announced to increase pipeline capacity out of Western Canada, to reach Eastern Canada, the United States and international markets via export shipping terminals on the west coast of Canada. While certain projects are proceeding, the regulatory approval process as well as economic and political factors for transportation and other export infrastructure has led to the delay of many pipeline projects or their cancellation altogether.

Under the Canadian constitution, interprovincial and international pipelines fall within the federal government's jurisdiction and require approval by both the NEB and the cabinet of the federal government. However, recent years have seen a perceived lack of policy and regulatory certainty at a federal level. Although the current federal government recently introduced draft legislation to amend the current federal approval processes, it is uncertain when the new legislation will be brought into force and whether any changes to the draft legislation will be made before the legislation is brought into force. It is also uncertain whether any new approval process adopted by the federal government will result in a more efficient approval process. The lack of regulatory certainty is likely to have an influence on investment decisions for major projects. Even when projects are approved on a federal level, such projects often face further delays due to interference by provincial and municipal governments as well as court challenges on various issues such as indigenous title, the government's duty to consult and accommodate indigenous peoples and the sufficiency of environmental review processes, which creates further uncertainty. Export pipelines from Canada to the United States face additional uncertainty as such pipelines require approvals of several levels of government in the United States.

Natural gas prices in Alberta and British Columbia have also been constrained in recent years due to increasing North American supply, limited access to markets and limited storage capacity. While companies that secure firm access to transport their natural gas production out of Western Canada may be able to access more markets and obtain better pricing, other companies may be forced to accept spot pricing in Western Canada for their natural gas, which in the last several years has generally been depressed (at times producers have received negative pricing for their natural gas production). Required repairs or upgrades to existing pipeline systems have also led to further reduced capacity and apportionment of firm access, which in Western Canada may be further exacerbated by natural gas storage limitations. Additionally, while a number of liquefied natural gas export plants have been proposed for the west coast of Canada, government decision-making, regulatory uncertainty, opposition from environmental and indigenous groups, and changing market conditions, have resulted in the cancellation or delay of many of these projects.

The North American Free Trade Agreement and Other Trade Agreements

The North American Free Trade Agreement ("**NAFTA**") among the governments of Canada, the United States and Mexico came into force on January 1, 1994. Under the terms of NAFTA, Canada remains free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of Canada as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply. Further, all three signatory countries are prohibited from imposing a minimum or maximum price requirement on exports (where any other form of quantitative restriction is prohibited) and imports (except as permitted in the enforcement of countervailing and anti-dumping orders and undertakings). NAFTA also requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes and to ensure that the application of such changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements.

In 2017, the United States government announced its intention to renegotiate NAFTA. As a result, Canada, the United States and Mexico began renegotiating the terms of NAFTA in mid-2017. The United States has also suggested that it might give notice of the termination of NAFTA if it is not satisfied with the outcome of the renegotiations. If the United States does give notice of its intent to terminate or withdraw from NAFTA, the earliest such termination or withdrawal could occur would be six months after such notice is given. The renegotiations are still underway and the outcome of such negotiations remain unclear, but as the United States remains by far Canada's largest trade partner and the largest international market for the export of crude oil, natural gas and NGLs from Canada, any changes to, or termination of, NAFTA could have an impact on Western Canada's crude oil and natural gas industry at large, including the Corporation's business.

Canada has also pursued a number of other international free trade agreements with other countries around the world. As a result, a number of free trade or similar agreements are in force between Canada and certain other countries while in other circumstances Canada has been unsuccessful in its efforts. Canada and the European Union recently agreed to the Comprehensive Economic and Trade Agreement ("**CETA**"), which provides for duty-free, quota-free market access for Canadian oil and gas products to the European Union. Although CETA remains subject to ratification by certain national legislatures in the European Union, provisional application of CETA commenced on September 21, 2017. In addition, Canada and ten other countries recently concluded discussions and agreed on the draft text of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("**CPTPP**"), which is intended to allow for preferential market access among the countries that are parties to the CPTPP. The text of CPTPP has not been finalized or published and the agreement remains subject to ratification by the governments of each of the countries involved. While it is uncertain what effect CETA, CPTPP or any other trade agreements will have on the oil and gas industry in Canada, the lack of available infrastructure for the offshore export of oil and gas may limit the ability of Canadian oil and gas producers to benefit from such trade agreements.

Land Tenure

The respective provincial governments (i.e. the Crown), predominantly own the mineral rights to crude oil and natural gas located in Western Canada, with the exception of Manitoba (which only owns 20% of the mineral rights). Provincial governments grant rights to explore for and produce crude oil and natural gas pursuant to leases, licences and permits for varying terms, and on conditions set forth in provincial legislation, including requirements to perform specific work or make payments. The provincial governments in Western Canada's provinces conduct regular land sales where crude oil and natural gas companies bid for leases to explore for and produce crude oil and natural gas pursuant to mineral rights owned by the respective provincial governments. The leases generally have a fixed term; however, a lease may generally be continued after the initial term where certain minimum thresholds of production have been reached, all lease rental payments have been paid on time and other conditions are satisfied.

To develop crude oil and natural gas resources, it is necessary for the mineral estate owner to have access to the surface lands as well. Each province has developed its own process for obtaining surface access to conduct operations that operators must follow throughout the lifespan of a well, including notification requirements and providing compensation for affected persons for lost land use and surface damage.

Each of the provinces of Alberta and British Columbia have implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or licence. Additionally, the provinces of Alberta and British Columbia have shallow rights reversion for shallow, non-productive geological formations for new leases and licences.

In addition to Crown ownership of the rights to crude oil and natural gas, private ownership of crude oil and natural gas (i.e. freehold mineral lands) also exists in the provinces of Alberta and British Columbia. In each of the provinces of Alberta and British Columbia approximately 19% and 6%, respectively, of the mineral rights are owned by private freehold owners. Rights to explore for and produce such crude oil and natural gas are granted by a lease or other contract on such terms and conditions as may be negotiated between the owner of such mineral rights and crude oil and natural gas explorers and producers.

An additional category of mineral rights ownership includes ownership by the Canadian federal government of some legacy mineral lands and within indigenous reservations designated under the *Indian Act* (Canada). Indian Oil and Gas Canada ("**IOGC**"), which is a federal government agency, manages subsurface and surface leases, in consultation with the applicable indigenous peoples, for exploration and production of crude oil and natural gas on indigenous reservations.

Royalties and Incentives

General

Each province has legislation and regulations that govern royalties, production rates and other matters. The royalty regime in a given province is a significant factor in the profitability of oil sands projects and crude oil, natural gas and NGLs production. Royalties payable on production from lands where the Crown does not hold the mineral rights are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum substance produced.

Occasionally the governments of Western Canada's provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays or royalty tax credits and are often introduced when commodity prices are low to encourage exploration and development activity. In addition, such programs may be introduced to encourage producers to undertake initiatives using new technologies that may enhance or improve recovery of crude oil, natural gas and NGLs.

Producers and working interest owners of crude oil and natural gas rights may also carve out additional royalties or royalty-like interests through non-public transactions, which include the creation of instruments such as overriding royalties, net profits interests and net carried interests.

Alberta

In Alberta, the provincial government royalty rates apply to Crown-owned mineral rights. In 2016, Alberta adopted a modernized Alberta royalty framework (the "**Modernized Framework**") that applies to all wells drilled after January 1, 2017. The previous royalty framework (the "**Old Framework**") will continue to apply to wells drilled prior to January 1, 2017 for a period of ten years ending on December 31, 2026. After the expiry of this ten-year period, these older wells will become subject to the Modernized Framework.

The Modernized Framework applies to all hydrocarbons other than oil sands which will remain subject to their existing royalty regime. Royalties on production from non-oil sands wells under the Modernized Framework are determined on a "revenue-minus-costs" basis with the cost component based on a Drilling and Completion Cost Allowance formula for each well, depending on its vertical depth and/or horizontal length. The formula is based on the industry's average drilling and completion costs as determined by the Alberta Energy Regulator (the "**AER**") on an annual basis.

Producers pay a flat royalty rate of 5% of gross revenue from each well that is subject to the Modernized Framework until the well reaches payout. Payout for a well is the point at which cumulative gross revenues from the well equals the Drilling and Completion Cost Allowance for the well set by the AER. After payout, producers pay an increased post-payout royalty on revenues of between 5% and 40% determined by reference to the then current commodity prices of the various hydrocarbons. Similar to the Old Framework, the post-payout royalty rate under the Modernized Framework varies with commodity prices. Once production in a mature well drops below a threshold level where the rate of production is too low to sustain the full royalty burden, its royalty rate is adjusted downward towards a minimum of 5% as the mature well's production declines. As the Modernized Framework uses deemed drilling and completion costs in calculating the royalty and not the actual drilling and completion costs incurred by a producer, low cost producers benefit if their well costs are lower than the Drilling and Completion Cost Allowance and, accordingly, they continue to pay the lower 5% royalty rate for a period of time after their wells achieve actual payout.

The Old Framework is applicable to all conventional crude oil and natural gas wells drilled prior to January 1, 2017 and bitumen production. Subject to certain available incentives, effective from the January 2011 production month, royalty rates for conventional crude oil production under the Old Framework range from a base rate of 0% to a cap of 40%. Subject to certain available incentives, effective from the January 2011 production month, royalty rates for natural gas production under the Old Framework range from a base rate of 5% to a cap of 36%. The Old Framework also includes a natural gas royalty formula which provides for a reduction based on the measured depth of the well below 2,000 metres deep, as well as the acid gas content of the produced gas. Under the Old Framework, the royalty rate applicable to NGLs is a flat rate of 40% for pentanes and 30% for butanes and propane. Currently, producers of crude oil and natural gas from Crown lands in Alberta are also required to pay annual rental payments, at a rate of $3.50 per hectare, and make monthly royalty payments in respect of crude oil and natural gas produced.

The Government of Alberta has from time to time implemented drilling credits, incentives or transitional royalty programs to encourage crude oil and natural gas development and new drilling. In addition, the Government of Alberta has implemented certain initiatives intended to accelerate technological development and facilitate the development of unconventional resources, including as applied to coalbed methane wells, shale gas wells and horizontal crude oil and natural gas wells.

Freehold mineral taxes are levied for production from freehold mineral lands on an annual basis on calendar year production. Freehold mineral taxes are calculated using a tax formula that takes into consideration, among other things, the amount of production, the hours of production, the value of each unit of production, the tax rate and the percentages that the owners hold in the title. On average, in Alberta the tax levied is 4% of revenues reported from freehold mineral title properties. The freehold mineral taxes would be in addition to any royalty or other payment paid to the owner of such freehold mineral rights, which are established through private negotiation.

British Columbia

Producers of crude oil in British Columbia receive royalty invoices each month for every well or unitized tract that is producing and/or reporting sales. The royalty calculation takes into account the production of crude oil on a well-by-well basis, which can be up to 40%, based on factors such as the volume of crude oil produced by the well or tract and the crude oil vintage, which depends on density of the substance and when the crude oil pool was located. Royalty rates are reduced on low-productivity wells and other wells with applicable royalty exemptions to reflect higher per-unit costs of exploration and extraction.

Producers of natural gas and NGLs in British Columbia receive royalty invoices each month for every well or unitized tract that is producing and/or reporting sales. Different royalty rates apply for natural gas, NGLs and natural gas by-products. For natural gas, the royalty rate can be up to 27% of the value of the natural gas and is based on whether the gas is classified as conservation gas or non-conservation gas, as well as reference prices and the select price. For NGLs and condensates, the royalty rate is fixed at 20%.

The royalties payable by each producer will thus vary depending on the types of wells and the characteristics of the substances being produced. Additionally, the Government of British Columbia maintains a number of targeted royalty programs for key resource areas intended to increase the competitiveness of British Columbia's low productivity natural gas wells. These include both royalty credit and royalty reduction programs.

Producers of crude oil and natural gas from freehold lands in British Columbia are required to pay monthly freehold production taxes. For crude oil, the applicable freehold production tax is based on the volume of monthly production, which is either a flat rate, or, beyond a certain production level, is determined using a sliding scale formula based on the production level. For natural gas, the applicable freehold production tax is a flat rate, or, at certain production levels, is determined using a sliding scale formula based on a reference price, and depends on whether the natural gas is conservation gas or non-conservation gas. The production tax rate for freehold NGLs is a flat rate of 12.25%. Additionally, owners of mineral rights in British Columbia must pay an annual mineral land tax that is equivalent to $4.94 per hectare of producing lands. Non-producing lands are taxed on a sliding scale depending on the total number of hectares owned by the entity.

Freehold and Other Types of Non-Crown Royalties

Royalties on production from privately-owned freehold lands are negotiated between the mineral freehold owner and the lessee under a negotiated lease or other contract.

In addition to the royalties payable to the mineral owners, producers of crude oil and natural gas from freehold lands in each of the Western Canadian provinces are required to pay freehold mineral taxes or production taxes. Freehold mineral taxes or production taxes are taxes levied by a provincial government on crude oil and natural gas production from lands where the Crown does not hold the mineral rights. A description of the freehold mineral taxes payable in each of the Western Canadian provinces is included in the above descriptions of the royalty regimes in such provinces.

IOGC is a special agency responsible for managing and regulating the crude oil and natural gas resources located on indigenous reservations across Canada. IOGC's responsibilities include negotiating and issuing the crude oil and natural gas agreements between indigenous groups and crude oil and natural gas companies, as well as collecting royalty revenues on behalf of indigenous groups and depositing the revenues in their trust accounts. While certain standards exist, the exact terms and conditions of each crude oil and natural gas lease dictate the calculation of royalties owed, which may vary depending on the involvement of the specific indigenous group. Ultimately, the relevant indigenous group must approve the terms.

Regulatory Authorities and Environmental Regulation

General

The crude oil and natural gas industry is currently subject to environmental regulation under a variety of Canadian federal, provincial, territorial and municipal laws and regulations, all of which are subject to governmental review and revision from time to time. Such regulations provide for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with certain crude oil and natural gas industry operations, such as sulphur dioxide and nitrous oxide. The regulatory regimes set out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites. Compliance with such regulations can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licences and authorizations, civil liability and the imposition of material fines and penalties. In addition to these specific, known requirements, future changes to environmental legislation, including anticipated legislation for air pollution and greenhouse gas ("**GHG**") emissions, may impose further requirements on operators and other companies in the crude oil and natural gas industry.

Federal

Canadian environmental regulation is the responsibility of both the federal and provincial governments. Where there is a direct conflict between federal and provincial environmental legislation in relation to the same matter, the federal law will prevail. However, such conflicts are uncommon. The federal government has primary jurisdiction over federal works, undertakings and federally regulated industries such as railways, aviation and interprovincial transport including interprovincial pipelines.

On June 20, 2016, the federal government launched a review of current environmental and regulatory processes. On February 8, 2018, the Government of Canada introduced draft legislation to overhaul the existing environmental assessment process and replace the NEB with the CER. Pursuant to the draft legislation, the Impact Assessment Agency of Canada (the "**Agency**") would replace the Canadian Environmental Assessment Agency. It appears that additional categories of projects may be included within the new impact assessment process, such as large-scale wind power facilities and in-situ oilsands facilities. The revamped approval process for applicable major developments will have specific legislated timelines at each stage of the formal impact assessment process. The Agency's process would focus on: (i) early engagement by proponents to engage the Agency and all stakeholders such as the public and indigenous groups prior to the formal impact assessment process; (ii) potentially increased public participation where the project undergoes a panel review; (iii) providing analysis of the potential impacts and effects of a project without making recommendations, to support a public-interest approach to decision-making, with cost-benefit determinations and approvals made by the Minister of Environment and Climate Change or the cabinet of the federal government; (iv) analyzing further specified factors for projects such as alternatives to the project and social and indigenous issues in addition to health, environmental and economic impacts; and (v) overseeing an expanded follow-up, monitoring and enforcement process with increased involvement of indigenous peoples and communities. As to the proposed CER, many of its activities would be similar to the NEB, albeit with a different structure and the notable exception that the CER would no longer have primary responsibility in the consideration of the new major projects, instead focusing on the lifecycle regulation (e.g. overseeing construction, tolls and tariffs, operations and eventual winding down) of approved projects, while providing for expanded participation by communities and indigenous peoples. It is unclear when the new regulatory scheme will come into force or whether any amendments will be made prior to coming into force. Until then, the federal government's interim principles released on January 27, 2016 will continue to guide decision-making authorities for projects currently undergoing environmental assessment. The eventual effects of the proposed regulatory scheme on proponents of major projects remains unclear.

On May 12, 2017, the federal government introduced the *Oil Tanker Moratorium Act* in Parliament. This legislation is aimed at providing coastal protection in northern British Columbia by prohibiting crude oil tankers carrying more than 12,500 metric tonnes of crude oil or persistent crude oil products from stopping, loading, or unloading crude oil in that area. Parliament is still considering the bill, which passed second reading on October 4, 2017. If implemented, the legislation may prevent the building of pipelines to, and export terminals located on, the portion of the British Columbia coast subject to the moratorium and, as a result, negatively affect the ability of producers to access global markets.

Alberta

The AER is the single regulator responsible for all resource development in Alberta. The AER is responsible for ensuring the safe, efficient, orderly and environmentally responsible development of hydrocarbon resources including allocating and conserving water resources, managing public lands, and protecting the environment. The AER's responsibilities exclude the functions of the Alberta Utilities Commission and the Surface Rights Board, as well as Alberta Energy's responsibility for mineral tenure. The objective behind a single regulator is an enhanced regulatory regime that is intended to be efficient, attractive to business and investors and effective in supporting public safety, environmental management and resource conservation while respecting the rights of landowners.

The Government of Alberta relies on regional planning to accomplish its responsible resource development goals. Its approach to natural resource management provides for engagement and consultation with stakeholders and the public and examines the cumulative impacts of development on the environment and communities by incorporating the management of all resources, including energy, minerals, land, air, water and biodiversity. While the AER is the primary regulator for energy development, several other governmental departments and agencies may be involved in land use issues, including Alberta Environment and Parks, Alberta Energy, the Policy Management Office, the Aboriginal Consultation Office and the Land Use Secretariat.

The Government of Alberta's land-use policy for surface land in Alberta sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of seven region-specific land-use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans. As a result, several regional plans have been implemented and others are in the process of being implemented. These regional plans may affect further development and operations in such regions.

British Columbia

In British Columbia, the *Oil and Gas Activities Act* (the "**OGAA**") impacts conventional crude oil and natural gas producers, shale gas producers and other operators of crude oil and natural gas facilities in the province. Under the OGAA, the British Columbia Oil and Gas Commission (the "**Commission**") has broad powers, particularly with respect to compliance and enforcement and the setting of technical safety and operational standards for crude oil and natural gas activities. The *Environmental Protection and Management Regulation* establishes the government's environmental objectives for water, riparian habitats, wildlife and wildlife habitat, old-growth forests and cultural heritage resources. The OGAA requires the Commission to consider these environmental objectives in deciding whether or not to authorize a crude oil or natural gas activity. In addition, although not an exclusively environmental statute, the *Petroleum and Natural Gas Act*, in conjunction with the OGAA, requires proponents to obtain various approvals before undertaking exploration or production work, such as geophysical licences, geophysical exploration project approvals, permits for the exclusive right to do geological work and geophysical exploration work, and well, test hole and water-source well authorizations. Such approvals are given subject to environmental considerations and licences and project approvals can be suspended or cancelled for failure to comply with this legislation or its regulations.

Liability Management Rating Program

Alberta

The AER administers the Licensee Liability Rating Program (the "**AB LLR Program**"). The AB LLR Program is a liability management program governing most conventional upstream crude oil and natural gas wells, facilities and pipelines. Alberta's *Oil and Gas Conservation Act* (the "**OGCA**") establishes an orphan fund (the "**Orphan Fund**") to pay the costs to suspend, abandon, remediate and reclaim a well, facility or pipeline included in the AB LLR Program if a licensee or working interest participant ("**WIP**") becomes insolvent or is unable to meet its obligations. The Orphan Fund is funded by licensees in the AB LLR Program through a levy administered by the AER. The AB LLR Program is designed to minimize the risk to the Orphan Fund posed by unfunded liability of licensees and to prevent the taxpayers of Alberta from incurring costs to suspend, abandon, remediate and reclaim wells, facilities or pipelines. The AB LLR Program requires a licensee whose deemed liabilities exceed its deemed assets to provide the AER with a security deposit. The ratio of deemed assets to deemed liabilities is assessed once each month and where a security deposit is deemed to be required, the failure to post any required amounts may result in the initiation of enforcement action by the AER. The AER publishes the liability management rating for each licensee on a monthly basis on its public website.

In *Redwater Energy Corporation (Re)* ("**Redwater**"), the Court of Queen's Bench of Alberta found that there was an operational conflict between the abandonment and reclamation provisions of the OGCA, including the AB LLR Program, and the *Bankruptcy and Insolvency Act* (the "**BIA**"). This ruling meant that receivers and trustees have the right to renounce assets within insolvency proceedings, which was affirmed by a majority of the Alberta Court of Appeal. Such a conflict renders the AER's legislated authority unenforceable to impose abandonment orders against licensees or to require a licensee to pay a security deposit before approving a transfer when such a licensee is insolvent. Effectively, this means that abandonment costs will be borne by the industry-funded Orphan Well Fund or the province in these instances because any financial resources of the insolvent licensee will first be used to satisfy secured creditors under the BIA. This decision is currently under appeal to the Supreme Court of Canada, with final resolution expected in 2018.

In response to Redwater, the AER issued several bulletins and interim rule changes to govern while the case is appealed and to allow the Government of Alberta to develop appropriate regulatory measures to adequately address environmental liabilities. The AER's *Directive 067: Eligibility Requirements for Acquiring and Holding Energy Licences and Approvals*, which deals with licence eligibility to operate wells and facilities, was amended and now requires extensive corporate governance and shareholder information, with a particular focus on any previous companies of directors and officers that have been subject to insolvency proceedings in the last five years. All transfers of well, facility and pipeline licences in the province are subject to AER approval. As a condition of transferring existing AER licences, approvals and permits, all are assessed on a non-routine basis and the AER now requires all transferees to demonstrate that they have a liability management rating ("**LMR**"), being the ratio of a licensee's assets to liabilities, of 2.0 or higher immediately following the transfer, or to otherwise prove that it can satisfy its abandonment and reclamation obligations. The AER may make further rule changes in response to Redwater at any time, especially as the case heads towards a final determination, which means that additional obligations and/or different requirements may be forthcoming.

The AER has also implemented the Inactive Well Compliance Program (the "**IWCP**") to address the growing inventory of inactive wells in Alberta and to increase the AER's surveillance and compliance efforts under *Directive 013: Suspension Requirements for Wells* ("**Directive 013**"). The IWCP applies to all inactive wells that are noncompliant with Directive 013 as of April 1, 2015. The objective is to bring all inactive noncompliant wells under the IWCP into compliance with the requirements of Directive 013 within five years. As of April 1, 2015, each licensee is required to bring 20% of its inactive wells into compliance every year, either by reactivating or by suspending the wells in accordance with Directive 013 or by abandoning them in accordance with *Directive 020: Well Abandonment*. The list of current wells subject to the IWCP is available on the AER's Digital Data Submission system. The AER has announced that from April 1, 2015 to April 1, 2016, the number of noncompliant wells subject to the IWCP fell from 25,792 to 17,470, with 76% of licensees operating in the province having met their annual quota. The IWCP completed its second year on March 31, 2017. Overall, the AER has announced that licensees brought 19% of non-compliant wells in the IWCP into compliance with AER requirements in the second year of the IWCP.

British Columbia

The Commission oversees a similar Liability Management Rating Program (the "**BC LMR Program**"), which is designed to manage public liability exposure related to crude oil and natural gas activities by ensuring that permit holders carry the financial risks and regulatory responsibility of their operations through to regulatory closure. Under the BC LMR Program, the Commission determines the required security deposits for permit holders under the OGAA. The LMR is the ratio of a permit holder's deemed assets to deemed liabilities. Permit holders whose deemed liabilities exceed deemed assets (i.e., an LMR of below a ratio of 1.0) will be considered at-risk and reviewed for a security deposit. Permit holders that fail to comply with security deposit requirements are deemed non-compliant under the OGAA and enter the compliance and enforcement framework. The Commission has announced that it is working to determine how best to manage risks in light of the Redwater decision, so changes may be forthcoming.

Climate Change Regulation

Climate change regulation at both the federal and provincial level has the potential to significantly affect the regulatory environment of the crude oil and natural gas industry in Canada.

In general, there is some uncertainty with regard to the impacts of federal or provincial climate change and environmental laws and regulations, as it is currently not possible to predict the extent of future requirements. Any new laws and regulations, or additional requirements to existing laws and regulations, could have a material impact on the Corporation's operations and cash flow.

Federal

Canada has been a signatory to the United Nations Framework Convention on Climate Change (the "**UNFCCC**") since 1992. Since its inception, the UNFCCC has instigated numerous policy experiments with respect to climate governance. On April 22, 2016, 197 countries signed the Paris Agreement, committing to prevent global temperatures from rising more than 2° Celsius above pre-industrial levels and to pursue efforts to limit this rise to no more than 1.5° Celsius. As of February 1, 2018, 174 of the 197 parties to the convention have ratified the Paris Agreement.

Following the Paris Agreement and its ratification in Canada, the Government of Canada pledged to cut its emissions by 30% from 2005 levels by 2030. Further, on December 9, 2016, the Government of Canada released the Pan-Canadian Framework on Clean

Growth and Climate Change (the "**Framework**"). The Framework provided for a carbon-pricing strategy, with a carbon tax starting at $10/tonne, increasing annually until it reaches $50/tonne in 2022. A draft legislative proposal for the federal carbon pricing system was released on January 15, 2018. This system would apply in provinces and territories that request it and in those that do not have a carbon pricing system in place that meets the federal standards in 2018. Four provinces currently have carbon pricing systems in place that would meet federal requirements (Alberta, British Columbia, Ontario and Quebec). The federal government will accept comments on the draft legislative proposals to implement the federal carbon pricing system until February 12, 2018.

On May 27, 2017, the federal government published draft regulations to reduce emissions of methane from the crude oil and natural gas sector. The proposed regulations aim to reduce unintentional leaks and intentional venting of methane, as well as ensuring that crude oil and natural gas operations use low-emission equipment and processes, by introducing new control measures. Among other things, the proposed regulations limit how much methane upstream oil and gas facilities are permitted to vent. These facilities would need to capture the gas and either re-use it, re-inject it, send it to a sales pipeline, or route it to a flare. In addition, in provinces other than Alberta and British Columbia (which already regulate such activities), well completions by hydraulic fracturing would be required to conserve or destroy gas instead of venting. The federal government anticipates that these actions will reduce annual GHG emissions by about 20 megatonnes by 2030.

Alberta

On November 22, 2015, the Government of Alberta introduced its Climate Leadership Plan (the "**CLP**"). The CLP has four areas of focus: implementing a carbon price on GHG emissions, phasing out coal-generated electricity and developing renewable energy, legislating an oil sands emission limit, and introducing a new methane emissions reduction plan. The Government of Alberta has since introduced new legislation to give effect to these initiatives. The *Climate Leadership Act* came into force on January 1, 2017 and enabled a carbon levy that increased from $20 to $30 per tonne on January 1, 2018. The levy is anticipated to increase again in 2021 in line with the federal legislation. On December 14, 2016, the *Oil Sands Emissions Limit Act* came into force, establishing an annual 100 megatonne limit for GHG emissions from all oil sands sites, excluding some attributable to upgraders, the electric energy portion of cogeneration and other prescribed emissions.

The *Carbon Competitiveness Incentives Regulation* (the "**CCIR**"), which replaces the *Specified Gas Emitters Regulation*, came into effect on January 1, 2018. Unlike the previous regulation, which set emission reduction requirements, the CCIR imposes an output-based benchmark on competitors in the same emitting industry. The aim is to reduce annual GHG emissions by 20 megatonnes by 2020 and 50 megatonnes by 2030, and targets facilities that emit more than 100,000 tonnes of GHGs per year and mandates quarterly and final reporting requirements. The CCIR compliance obligations will be reduced by 50% and 25% for 2018 and 2019, respectively, with no reduction for 2020 onward. In addition to the industry-specific benchmarks, each benchmark will decrease annually at a rate of 1%, beginning in 2020. The Government of Alberta intends for this strategy to align with the federal Framework.

The Government of Alberta also signaled its intention through its CLP to implement regulations that would lower annual methane emissions by 45% by 2025. Regulations are planned to take effect in 2020 to ensure the 2025 target is met.

Alberta was also the first jurisdiction in North America to direct dedicated funding to implement carbon capture and storage technology across industrial sectors. Alberta has committed $1.24 billion over 15 years to fund two large-scale carbon capture and storage projects that will begin commercializing the technology on the scale needed to be successful. On December 2, 2010, the Government of Alberta passed the *Carbon Capture and Storage Statutes Amendment Act, 2010*. It deemed the pore space underlying all land in Alberta to be, and to have always been the property of the Crown and provided for the assumption of long-term liability for carbon sequestration projects by the Crown, subject to the satisfaction of certain conditions.

British Columbia

On August 19, 2016, the Government of British Columbia launched its Climate Leadership Plan, which aims to reduce British Columbia's net annual emissions by up to 25 million tonnes below current forecasts by 2050 and recommit the province to achieving its target of reducing emissions by 80% below 2007 levels by 2050. Additionally, British Columbia seeks to generate at least 93% of its electricity from clean or renewable sources and build the infrastructure necessary to transmit it. The legislation established no date for this target.

British Columbia was also the first Canadian province to implement a revenue-neutral carbon tax. In 2012, the carbon tax was frozen at $30/tonne. However, in its September update to the 2017/2018 Budget, the Government signalled raising the carbon tax to $35/tonne in April 2018.

On January 1, 2016, the Greenhouse Gas Industrial Reporting and Control Act (the "**GGIRCA**") came into effect, which streamlined the regulatory process for large emitting facilities. The GGIRCA sets out various performance standards for different industrial sectors and provides for emissions offsets through the purchase of credits or through emission offsetting projects.

Accountability and Transparency

In 2015, the federal government's *Extractive Sector Transparency Measures Act* (the "**ESTMA**") came into effect, which imposed mandatory reporting requirements on certain entities engaged in the "commercial development of oil, gas or minerals", including exploration, extraction and holding permits. All companies subject to ESTMA must report payments over CAD$100,000 made to any level of a Canadian or foreign government (including indigenous groups), including royalty payments, taxes (other than consumption taxes and personal income taxes), fees, production entitlements, bonuses, dividends (other than ordinary dividends paid to shareholders), infrastructure improvement payments and other prescribed categories of payments.

RISK FACTORS

Investors should carefully consider the risk factors set out below and consider all other information contained herein and in Peyto's other public filings before making an investment decision. The risks set out below are not an exhaustive list, and should not be taken as a complete summary or description of all the risks associated with Peyto's business and the oil and natural gas business generally.

Exploration, Development and Production Risks

Peyto's future performance may be affected by the financial, operational, environmental and safety risks associated with the exploration, development and production of oil and natural gas

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Peyto depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, Peyto's existing reserves, and the production from them, will decline over time as Peyto produces from such reserves. A future increase in Peyto's reserves will depend on both the ability of Peyto to explore and develop its existing properties and its ability to select and acquire suitable producing properties or prospects. There is no assurance that Peyto will be able continue to find satisfactory properties to acquire or participate in. Moreover, management of Peyto may determine that current markets, terms of acquisition, participation or pricing conditions make potential acquisitions or participation uneconomic. There is also no assurance that Peyto will discover or acquire further commercial quantities of oil and natural gas.

Future oil and natural gas exploration may involve unprofitable efforts from dry wells as well as from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, completing (including hydraulic fracturing), operating and other costs. Completion of a well does not ensure a profit on the investment or recovery of drilling, completion and operating costs.

Drilling hazards, environmental damage and various field operating conditions could greatly increase the cost of operations and adversely affect the production from successful wells. Field operating conditions include, but are not limited to, delays in obtaining governmental approvals or consents, shut-ins of wells resulting from extreme weather conditions, insufficient storage or transportation capacity or geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, it is not possible to eliminate production delays and declines from normal field operating conditions, which can negatively affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including, but not limited to, fire, explosion, blowouts, cratering, sour gas releases, spills and other environmental hazards. These typical risks and hazards could result in substantial damage to oil and natural gas wells, production facilities, other property, the environment and personal injury. Particularly, Peyto may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Peyto.

Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

As is standard industry practice, Peyto is not fully insured against all risks, nor are all risks insurable. Although Peyto maintains liability insurance in an amount that it considers consistent with industry practice, liabilities associated with certain risks could exceed policy limits or not be covered. In either event Peyto could incur significant costs.

Weakness in the Oil and Natural Gas Industry

Weakness and volatility in the market conditions for the oil and gas industry may affect the value of Peyto's reserves, restrict its cash flow and its ability to access capital to fund the development of it properties

Recent market events and conditions, including global excess oil and natural gas supply, recent actions taken by the Organization of the Petroleum Exporting Countries ("**OPEC**"), slowing growth in emerging economies, market volatility and disruptions in Asia, sovereign debt levels and political upheavals in various countries have caused significant weakness and volatility in commodity prices. These events and conditions have caused a significant decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax, royalty changes and environmental regulation. In addition, the inability to get the necessary approvals to build pipelines, liquefied natural gas plants and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional downward price pressure on oil and gas produced in Western Canada and uncertainty and reduced confidence in the oil and gas industry in Western Canada. Lower commodity prices may also affect the volume and value of Peyto's reserves, rendering certain reserves uneconomic. In addition, lower commodity prices restrict Peyto's cash flow resulting in less funds from operations being available to fund Peyto's capital expenditure budget. Consequently, Peyto may not be able to replace its production with additional reserves and both Peyto's production and reserves could be reduced on a year over year basis. Any decrease in value of Peyto's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of Peyto's indebtedness, could result in Peyto having to repay a portion of its indebtedness. In addition to possibly resulting in a decrease in the value of Peyto's economically recoverable reserves, lower commodity prices may also result in a decrease in the value of Peyto's infrastructure and facilities, all of which could also have the effect of requiring a write down of the carrying value of Peyto's oil and gas assets on its balance sheet and the recognition of an impairment charge in its income statement. Given the current market conditions and the lack of confidence in the Canadian oil and gas industry, Peyto may have difficulty raising additional funds or if it is able to do so, it may be on unfavourable and highly dilutive terms.

Prices, Markets and Marketing

Various factors may adversely impact the marketability of oil and natural gas, affecting net production revenue, production volumes and development and exploration activities

Numerous factors beyond the Corporation's control do, and will continue to, affect the marketability and price of oil and natural gas acquired, produced, or discovered by the Corporation. The Corporation's ability to market its oil and natural gas may depend upon its ability to acquire capacity on pipelines that deliver natural gas to commercial markets or contract for the delivery of crude oil by rail. Deliverability uncertainties related to the distance the Corporation's reserves are from pipelines, railway lines, processing and storage facilities; operational problems affecting pipelines, railway lines and facilities; and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business may also affect the Corporation.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of the Corporation. These factors include economic and political conditions in the United States, Canada, Europe, China and emerging markets, the actions of OPEC and other oil and gas exporting nations, governmental regulation, political stability in the Middle East, Northern Africa and elsewhere, the foreign supply and demand of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Prices for oil and natural gas are also subject to the availability of foreign markets and the Corporation's ability to access such markets. A material decline in prices could result in a reduction of the Corporation's net production revenue. The economics of producing from some wells may change because of lower prices, which could result in reduced production of oil or natural gas and a reduction in the volumes and the value of the Corporation's reserves. The Corporation might also elect not to produce from certain wells at lower prices.

All these factors could result in a material decrease in the Corporation's expected net production revenue and a reduction in its oil and natural gas production, development and exploration activities. Any substantial and extended decline in the price of oil and natural gas would have an adverse effect on the Corporation's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects.

Oil and natural gas prices are expected to remain volatile for the near future because of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, increased growth of shale oil production in the United States, OPEC actions, political uncertainties, sanctions imposed on certain oil producing nations by other countries and ongoing credit and liquidity concerns. Volatile oil and natural gas prices make it difficult to estimate the value of producing properties for acquisitions and often cause disruption in the market for oil and natural gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for, and project the return on, acquisitions and development and exploitation projects.

See "*Weakness in the Oil and Gas Industry*".

Market Price

The trading price of the Common Shares may be adversely affected by factors related and unrelated to the oil and natural gas industry

The trading price of securities of oil and natural gas issuers is subject to substantial volatility often based on factors related and unrelated to the financial performance or prospects of the issuers involved. Factors unrelated to Peyto's performance could include macroeconomic developments nationally, within North America or globally, domestic and global commodity prices, or current perceptions of the oil and natural gas market. In certain jurisdictions institutions, including government sponsored entities, have determined to decrease their ownership in oil and gas entities which may impact the liquidity of certain securities and may put downward pressure on the trading price of those securities. Similarly, the market price of the Common Shares could be subject to significant fluctuations in response to variations in Peyto's operating results, financial condition, liquidity and other internal factors. Accordingly, the price at which the Common Shares will trade cannot be accurately predicted.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

The anticipated benefits of acquisitions may not be achieved and Peyto may dispose of non-core assets for less than their carrying value on the financial statements as a result of weak market conditions

Peyto considers acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and Peyto's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Peyto. The integration of acquired businesses may require substantial management effort, time and resources diverting management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided by third parties and assets required to provide such services. In this regard, non-core assets may be periodically disposed of so Peyto can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of Peyto, if disposed of, may realize less on disposition than their carrying value on the financial statements of Peyto.

Political Uncertainty

Peyto's business may be adversely affected by recent political and social events and decisions made in Canada, the United States, Europe and elsewhere

In the last several years, the United States and certain European countries have experienced significant political events that have cast uncertainty on global financial and economic markets. During the 2016 presidential campaign a number of election promises were made and the new American administration has begun taking steps to implement certain of these promises. The administration has announced withdrawal of the United States from the Trans-Pacific Partnership and Congress has passed sweeping tax reform, which, among other things, significantly reduces US corporate tax rates. This may affect competitiveness of other jurisdictions, including Canada. The North American Free Trade Agreement is currently under renegotiation and the result is uncertain at this time. The administration has also taken action with respect to reduction of regulation which may also affect relative competitiveness of other jurisdictions. It is unclear exactly what other actions the administration in the United States will implement, and if implemented, how these actions may impact Canada and in particular the oil and gas industry. Any actions taken by the new United States administration may have a negative impact on the Canadian economy and on the businesses, financial conditions, results of operations and the valuation of Canadian oil and gas companies, including Peyto.

In addition to the political disruption in the United States, the citizens of the United Kingdom recently voted to withdraw from the European Union and the Government of the United Kingdom has begun taken steps to implement such withdrawal. Some European countries have also experienced the rise of anti-establishment political parties and public protests held against open-door immigration policies, trade and globalization. To the extent that certain political actions taken in North America, Europe and elsewhere in the world result in a marked decrease in free trade, access to personnel and freedom of movement it could have an adverse effect on Peyto's ability to market its products internationally, increase costs for goods and services required for Peyto's operations, reduce access to skilled labour and negatively impact Peyto's business, operations, financial conditions and the market value of the Common Shares.

A change in federal, provincial or municipal governments in Canada may have an impact on the directions taken by such governments on matters that may impact the oil and gas industry including the balance between economic development and environmental policy such as the potential impact of the recent change of government in British Columbia and announcements and actions by the government of British Columbia that may impact the completion of the Trans-Mountain Pipeline project and other infrastructure projects.

Operational Dependence

The successful operation of a portion of Peyto's properties is dependent on third parties

Other companies operate approximately 2% of the assets in which Peyto has an interest. Peyto has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Peyto's financial performance. Peyto's return on assets operated by others depends upon a number of factors that may be outside of Peyto's control, including, but not limited to, the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

In addition, due to the current low and volatile commodity prices, many companies, including companies that may operate some of the assets in which the Corporation has an interest, may be in financial difficulty, which could impact their ability to fund and pursue capital expenditures, carry out their operations in a safe and effective manner and satisfy regulatory requirements with respect to abandonment and reclamation obligations. If companies that operate some of the assets in which the Corporation has an interest fail to satisfy regulatory requirements with respect to abandonment and reclamation obligations the Corporation may be required to satisfy such obligations and to seek reimbursement from such companies. To the extent that any of such companies go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in such assets being shut-in, the Corporation potentially becoming subject to additional liabilities relating to such assets and the Corporation having difficulty collecting revenue due from such operators or recovering amounts owing to the Corporation from such operators for their share of abandonment and reclamation obligations. Any of these factors could have a material adverse affect on the Corporation's financial and operational results.

Project Risks

The success of Peyto's operations may be negatively impacted by factors outside of its control resulting in operational delays, cost overruns and marketing challenges

Peyto manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost overruns could make a project uneconomic. Peyto's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Peyto's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;

- the availability of, and the ability to acquire, water supplies needed for drilling, hydraulic fracturing and waterfloods, or Peyto's ability to dispose of water used or removed from strata at a reasonable cost and in accordance with applicable environmental regulations;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- regulatory changes;
- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Peyto could be unable to execute projects on time, on budget, or at all, and may be unable to market the oil and natural gas that it produces effectively.

Gathering and Processing Facilities and Pipeline Systems

Lack of capacity and/or regulatory constraints on gathering and processing facilities and pipeline systems may have a negative impact on Peyto's ability to produce and sell its oil and natural gas

Peyto delivers its products through gathering and processing facilities and pipeline systems some of which it does not own. The amount of oil and natural gas that the Corporation can produce and sell is subject to the accessibility, availability, proximity and capacity of these gathering and processing facilities and pipeline systems. The lack of availability of capacity in any of the gathering and processing facilities and pipeline systems, and in particular the processing facilities, could result in the Corporation's inability to realize the full economic potential of its production or in a reduction of the price offered for the Corporation's production. In 2015 and 2016, Peyto experienced temporary interruptible and firm service curtailments on TransCanada's Nova Gas Transmission system. The lack of firm pipeline capacity continues to affect the oil and natural gas industry and limit the ability to produce and market oil and natural gas production. In addition, the pro-rationing of capacity on inter-provincial pipeline systems continues to affect the ability to export oil and natural gas. Pipeline constraints or changes in service priorities can, amongst other things, have a negative effect on commodity prices in the near and future term, which may have a negative effect on the operations and financial condition of Peyto. Unexpected shut downs or curtailment of capacity of pipelines for maintenance or integrity work or because of actions taken by regulators could also affect the Corporation's production, operations and financial results. Furthermore, producers are increasingly turning to rail as an alternative means of transportation. Any significant change in market factors or other conditions affecting these infrastructure systems and facilities, as well as any delays or uncertainty in constructing new infrastructure systems and facilities could harm the Corporation's business and, in turn, the Corporation's financial condition, operations and cash flows. Announcements and actions taken by the governments of British Columbia and Alberta relating to approval of infrastructure projects may continue to intensify, leading to increased challenges to interprovincial and international infrastructure projects moving forward. In addition, while the federal government has recently introduced draft legislation to overhaul the existing environmental assessment process and replace the NEB with a new regulatory agency, the impact of the new proposed regulatory scheme on proponents and the timing of receipt of approvals of major projects remains unclear.

A portion of the Corporation's production may, from time to time, be processed through facilities owned by third parties and over which the Corporation does not have control. From time to time, these facilities may discontinue or decrease operations either as a result of normal servicing requirements or as a result of unexpected events. A discontinuation or decrease of operations could have a materially adverse effect on the Corporation's ability to process its production and deliver the same for sale. Midstream and pipeline companies may take actions to maximize their return on investment which may in turn adversely affect producers and shippers, especially when combined with a regulatory framework that may not always align with the interests of particular shippers.

Competition

Peyto competes with other oil and natural gas companies, some of which have greater financial and operational resources

The petroleum industry is competitive in all of its phases. Peyto competes with numerous other entities in the exploration, development, production and marketing of oil and natural gas. Peyto's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Peyto. Some of these companies not only explore for, develop and produce oil and natural gas, but also carry on refining operations and market oil and natural gas on an international basis. As a result of these complementary activities, some of these competitors may have greater and more diverse competitive resources to draw on than Peyto. Peyto's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price, process, and reliability of delivery and storage.

Information Technology Systems and Cyber-Security

Breaches of Peyto's cyber-security and loss of, or access to, electronic data may adversely impact its operations and financial position

Peyto has become increasingly dependent upon the availability, capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. Peyto depends on various information technology systems to estimate reserve quantities, process and record financial data, manage our land base, manage financial resources, analyze seismic information, administer our contracts with our operators and lessees and communicate with employees and third-party partners.

Further, Peyto is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of Peyto's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to our business activities or our competitive position. In addition, cyber phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, and credit card details (and money) by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years. If Peyto becomes a victim to a cyber phishing attack it could result in a loss or theft of Peyto's financial resources or critical data and information or could result in a loss of control of Peyto's technological infrastructure or financial resources. Peyto applies technical and process controls in line with industry-accepted standards to protect our information assets and systems, including SCADA operating systems at our operations, and regularly review policies, procedures and protocols to ensure data and system integrity; however, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on our performance and earnings, as well as on our reputation. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on Peyto's business, financial condition and results of operations.

Cost of New Technologies

Peyto's ability to successfully implement new technologies into its operations in a timely and efficient manner will affect its ability to compete

The oil industry is characterized by rapid and significant technological advancements and introductions of new products and services utilizing new technologies. Other companies may have greater financial, technical and personnel resources that allow them to enjoy technological advantages and may in the future allow them to implement new technologies before Peyto. There can be no assurance that Peyto will be able to respond to such competitive pressures and implement such technologies on a timely basis or at an acceptable cost. If the Corporation does implement such technologies, there is no assurance that the Corporation will do so successfully. One or more of the technologies currently utilized by Peyto or implemented in the future may become obsolete. In such case, Peyto's business, financial condition and results of operations could be affected adversely and materially. If Peyto is unable to utilize the most advanced commercially available technology, or is unsuccessful in implementing certain technologies, its business, financial condition and results of operations could also be adversely affected in a material way.

Alternatives to and Changing Demand for Petroleum Products

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect Peyto's financial condition, results of operations and cash flow

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation devices could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of fossil fuels and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. In addition, advancements in energy efficient products have a similar effect on the demand for oil and gas products. Peyto cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Peyto's business, financial condition, results of operations and cash flows by decreasing Peyto's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

Regulatory

Modification to current or implementation of additional regulations may reduce the demand for oil and natural gas and/or increase Peyto's costs and/or delay planned operations

Various levels of governments impose extensive controls and regulations on oil and natural gas operations (including exploration, development, production, pricing, marketing and transportation). Governments may regulate or intervene with respect to exploration and production activities, prices, taxes, royalties and the exportation of oil and natural gas. Amendments to these controls and regulations may occur from time to time in response to economic or political conditions. See: "*Industry Conditions*". The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase Peyto's costs, either of which may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Recently, the federal government and certain provincial governments have taken steps to initiate protocols and regulations to limit the release of methane from oil and gas operations. Such draft regulations and protocols may require additional expenditures or otherwise negatively impact Peyto's operations, which may affect Peyto's profitability. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulations*".

In order to conduct oil and natural gas operations, Peyto will require regulatory permits, licences, registrations, approvals and authorizations from various governmental authorities at the municipal, provincial and federal level. There can be no assurance that Peyto will be able to obtain all of the permits, licences, registrations, approvals and authorizations that may be required to conduct operations that it may wish to undertake. In addition, certain federal legislation such as the *Competition Act* (Canada) and the *Investment Canada Act* (Canada) could negatively affect the Corporation's business, financial condition and the market value of the Common Shares or its assets, particularly when undertaking, or attempting to undertake, acquisition or disposition activity.

Royalty Regimes

Changes to royalty regimes may negatively impact Peyto's cash flows

There can be no assurance that the governments in the jurisdictions in which Peyto has assets will not adopt new royalty regimes or modify the existing royalty regimes which may have an impact on the economics of Peyto's projects. An increase in royalties would reduce Peyto's earnings and could make future capital investments, or Peyto's operations, less economic. On January 29, 2016, the Government of Alberta adopted a new royalty regime which took effect on January 1, 2017. See "*Industry Conditions - Royalties and Incentives*".

Hydraulic Fracturing

Implementation of new regulations on hydraulic fracturing may lead to operational delays, increased costs and/or decreased production volumes, adversely affecting Peyto's financial position

Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate the production of oil and natural gas. Specifically, hydraulic fracturing enables the production of commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs, third party or governmental claims, and could increase Peyto's costs of compliance and doing business as well as delay the development of oil and natural gas resources from shale formations, which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that Peyto is ultimately able to produce from its reserves.

Due to seismic activity reported in the Fox Creek area of Alberta, the AER announced in February 2015 seismic monitoring and reporting requirements for hydraulic fracturing operators in the Duvernay zone in the Fox Creek area. These requirements include, among others, an assessment of the potential for seismicity prior to operations, the implementation of a response plan to address potential events, and the suspension of operations if a seismic event above a particular threshold occurs. The AER continues to monitor seismic activity around the province and may extend these requirements to other areas of the province if necessary.

Environmental

Compliance with environmental regulations requires the dedication of a portion of Peyto's financial and operational resources

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on the spill, release or emission of various substances produced in association with oil and natural gas industry operations. In addition, such legislation sets out the requirements with respect to oilfield waste handling and storage, habitat protection and the satisfactory operation, maintenance, abandonment and reclamation of well and facility sites.

Compliance with environmental legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Peyto to incur costs to remedy such discharge. Although Peyto believes that it will be in material compliance with current applicable environmental legislation, no assurance can be given that environmental compliance requirements will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Liability Management

Liability management programs enacted by regulators in the western provinces may prevent or interfere with Peyto's ability to acquire properties or require a substantial cash deposit with the regulator

Alberta has developed liability management programs designed to prevent taxpayers from incurring costs associated with suspension, abandonment, remediation and reclamation of wells, facilities and pipelines in the event that a licencee or permit holder unable to satisfy its obligation. These programs generally involve an assessment of the ratio of a licensee's deemed assets to deemed liabilities. If a licensee's deemed liabilities exceed its deemed assets, a security deposit is required. Changes to the required ratio of the Corporation's deemed assets to deemed liabilities or other changes to the requirements of liability management programs may result in significant increases to the Corporation's compliance requirement. In addition, the liability management system may prevent or interfere with the Corporation's ability to acquire or dispose of assets as both the vendor and the purchaser of oil and natural gas assets must be in compliance with the liability management programs (both before and after the transfer of the assets) for the applicable regulatory agency to allow for the transfer of such assets. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Liability Management Rating Programs*".

Climate Change

Compliance with greenhouse gas emissions regulations may result in increased operational costs to Peyto

Peyto's exploration and production facilities and other operations and activities emit greenhouse gases which may require Peyto to comply with GHG emissions legislation at the provincial or federal level. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As a signatory to the UNFCCC and a signatory to the Paris Agreement, which was ratified in Canada on October 3, 2016, the Government of Canada pledged to cut its GHG emissions by 30 per cent from 2005 levels by 2030. One of the pertinent policies announced to date by the Government of Canada to reduce GHG emission is the planned implementation of a nation-wide price on carbon emissions. Provincially, the Government of Alberta has already implemented a carbon levy on almost all sources of GHG emissions, now at a rate of $30 per tonne. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Some of Peyto's significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions. In addition, concerns about climate change have resulted in a number of environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the affect of increasing Peyto's operating expenses and in the long-term reducing the demand for oil and gas production resulting in a decrease in Peyto's profitability and a reduction in the value of its assets or asset write-offs. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation*".

Variations in Foreign Exchange Rates and Interest Rates

Variations in foreign exchange rates and interest rates could adversely affect Peyto's financial condition

World oil and natural gas prices are quoted in United States dollars. The Canadian/United States dollar exchange rate, which fluctuates over time, consequently affects the price received by Canadian producers of oil and natural gas. Material increases in the value of the Canadian dollar relative to the United States dollar will negatively affect Peyto's production revenues. Accordingly, exchange rates between Canada and the United States could affect the future value of Peyto's reserves as determined by independent evaluators. Although a low value of the Canadian dollar relative to the United States dollar may positively affect the price the Corporation receives for its oil and natural gas production, it could also result in an increase in the price for certain goods used for the Corporation's operations, which may have a negative impact on the Corporation's financial results.

To the extent that Peyto engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Peyto may contract.

An increase in interest rates could result in a significant increase in the amount Peyto pays to service debt, resulting in a reduced amount available to fund its exploration and development activities, and if applicable, the cash available for dividends and could negatively impact the market price of the Common Shares of Peyto.

Substantial Capital Requirements

Peyto's access to capital may be limited or restricted as a result of factors related and unrelated to it, impacting its ability to conduct future operations, acquire and develop reserves

Peyto anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. As future capital expenditures will be financed out of cash generated from operations, borrowings and possible future equity sales, Peyto's ability to do so is dependent on, among other factors:

- the overall state of the capital markets;
- Peyto's credit rating (if applicable);
- commodity prices;
- interest rates;
- royalty rates;
- tax burden due to current and future tax laws; and
- investor appetite for investments in the energy industry and Peyto's securities in particular.

Further, if the Corporation's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. The current conditions in the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to the Corporation. The Corporation may be required to seek additional equity financing on terms that are highly dilutive to existing shareholders. The inability of the Corporation to access sufficient capital for its operations could have a material adverse effect on the Corporation's business financial condition, results of operations and prospects.

Additional Funding Requirements

Peyto may require additional financing from time to time to fund the acquisition, exploration and development of properties and its ability to obtain such financing in a timely fashion and on acceptable terms may be negatively impacted by the current economic and global market volatility

Peyto's cash flow from its reserves may not be sufficient to fund its ongoing activities at all times and from time to time, the Corporation may require additional financing in order to carry out its oil and natural gas acquisition, exploration and development activities. Failure to obtain financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. Due to the conditions in the oil and natural gas industry and/or global economic and political volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. The current conditions in the oil and natural gas industry have negatively impacted the ability of oil and natural gas companies to access additional financing.

As a result of global economic and political volatility, the Corporation may from time to time have restricted access to capital and increased borrowing costs. Failure to obtain such financing on a timely basis could cause the Corporation to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations. If the Corporation's revenues from its reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect the Corporation's ability to expend the necessary capital to replace its reserves or to maintain its production. To the extent that external sources of capital become limited, unavailable or available on onerous terms, the Corporation's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be affected materially and adversely as a result. In addition, the future development of the Corporation's petroleum properties may require additional financing and there are no assurances that such financing will be available or, if available, will be available upon acceptable terms. Alternatively, any available financing may be highly dilutive to existing shareholders. Failure to obtain any financing necessary for the Corporation's capital expenditure plans may result in a delay in development or production on the Corporation's properties. See "*Weakness in the Oil and Natural Gas Industry*".

Credit Facility Arrangements

Failing to comply with covenants under Peyto's credit facility could result in restricted access to capital or being required to repay all amounts owing thereunder

Peyto currently has a credit facility, the authorized amount of which is determined by its lenders based on Peyto's asset value and ability to pay, and is required to comply with covenants under its credit facility and in the event that Peyto does not comply with these covenants, Peyto's access to capital could be restricted or repayment could be required. Events beyond Peyto's control may contribute to the failure of Peyto to comply with such covenants. A failure to comply with covenants could result in default under Peyto's credit facility, which could result in Peyto being required to repay amounts owing thereunder. Even if Peyto is able to obtain new financing, it may not be on commercially reasonable terms or terms that are acceptable to Peyto. If Peyto is unable to repay amounts owing under credit facilities, the lenders under the credit facility could proceed to foreclose or otherwise realize upon the collateral granted to them to secure the indebtedness. The acceleration of Peyto's indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross default or cross-acceleration provisions. In addition, Peyto's credit facility may impose operating and financial restrictions on Peyto that could include restrictions on, the payment of dividends, repurchase or making of other distributions with respect to Peyto's securities, incurring of additional indebtedness, the provision of guarantees, the assumption of loans, making of capital expenditures, entering into of amalgamations, mergers, take-over bids or disposition of assets, among others.

Issuance of Debt

Increased debt levels may impair Peyto's ability to borrow additional capital on a timely basis to fund opportunities as they arise

From time to time, Peyto may enter into transactions to acquire assets or shares of other entities. These transactions may be financed in whole or in part with debt, which may increase Peyto's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Peyto may require additional debt financing that may not be available or, if available, may not be available on favourable terms. Neither Peyto's articles nor its by-laws limit the amount of indebtedness that Peyto may incur. The level of Peyto's indebtedness from time to time, could impair Peyto's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

Hedging activities expose Peyto to the risk of financial loss and counter-party risk

From time to time, Peyto may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline. However, to the extent that Peyto engages in price risk management activities to protect itself from commodity price declines, it may also be prevented from realizing the full benefits of price increases above the levels of the derivative instruments used to manage price risk. In addition, Peyto's hedging arrangements may expose it to the risk of financial loss in certain circumstances, including instances in which:

- production falls short of the hedged volumes or prices fall significantly lower than projected;
- there is a widening of price-basis differentials between delivery points for production and the delivery point assumed in the hedge arrangement;
- the counterparties to the hedging arrangements or other price risk management contracts fail to perform under those arrangements; or
- a sudden unexpected event materially impacts oil and natural gas prices.

Similarly, from time to time Peyto may enter into agreements to fix the exchange rate of Canadian to United States dollars or other currencies in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to other currencies. However, if the Canadian dollar declines in value compared to such fixed currencies, Peyto will not benefit from the fluctuating exchange rate. The Corporation hedges its risk management activities in accordance with the hedging policy approved by the board of directors of Peyto.

Availability of Drilling Equipment and Access

Restrictions on the availability of and access to drilling equipment may impede Peyto's exploration and development activities

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) as well as skilled personnel trained to use such equipment in the areas where such activities will be conducted. Demand for such limited equipment and skilled personnel, or access restrictions, may affect the availability of such equipment and skilled personnel to the Corporation and may delay exploration and development activities.

Title to Assets

Defects in the title to Peyto's properties may result in a financial loss

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise. The actual interest of Peyto in properties may, accordingly, vary from Peyto's records. If a title defect does exist, it is possible that Peyto may lose all or a portion of the properties to which the title defect relates, which may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. There may be valid challenges to title or legislative changes, which affect Peyto's title, to the oil and natural gas properties Peyto controls that could impair Peyto's activities on them and result in a reduction of the revenue received by Peyto.

Reserves Estimates

Peyto's estimated proved and proved plus probable reserves are based on numerous factors and assumptions which may prove incorrect and which may affect Peyto

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in this document are estimates only. Generally, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from such estimated reserves are based upon a number of variable factors and assumptions, such as:

- historical production from the properties;

- production rates;
- ultimate reserve recovery;
- timing and amount of capital expenditures;
- marketability of oil and natural gas;
- royalty rates; and
- the assumed effects of regulation by governmental agencies and future operating costs (all of which may vary materially from actual results).

For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times may vary. Peyto's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates and such variations could be material.

The estimation of proved reserves that may be developed and produced in the future is often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas are often estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves. Such variations could be material.

In accordance with applicable securities laws, Peyto's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from Peyto's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities Peyto intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom and contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and, except as may be specifically stated, has not been updated and therefore does not reflect changes in Peyto's reserves since that date.

Insurance

Not all risks of conducting oil and natural gas opportunities are insurable and the occurrence of an uninsurable event may have a materially adverse effect on Peyto

Peyto's involvement in the exploration for and development of oil and natural gas properties may result in Peyto becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although Peyto maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, certain risks are not, in all circumstances, insurable or, in certain circumstances, Peyto may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Peyto. The occurrence of a significant event that Peyto is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Geopolitical Risks

Global political events may adversely affect commodity prices which in turn affect Peyto's cash flow

Political events throughout the world that cause disruptions in the supply of oil continuously affect the marketability and price of oil and natural gas acquired or discovered by Peyto. Conflicts, or conversely peaceful developments, arising outside of Canada, including changes in political regimes or the parties in power, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and result in a reduction of Peyto's net production revenue.

Eco-Terrorism Risks

Peyto's properties may be subject to terrorist attack

Peyto's oil and natural gas properties, wells and facilities could be the subject of a terrorist attack. If any of Peyto's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Peyto does not have insurance to protect against the risk from terrorism.

Dilution

Peyto may issue additional Common Shares, diluting current Shareholders

Peyto may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Peyto which may be dilutive.

Management of Growth

Peyto may not be able to effectively manage the growth of its business

Peyto may be subject to growth related risks including capacity constraints and pressure on its internal systems and controls. The ability of Peyto to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of Peyto to deal with this growth may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Expiration of Licences and Leases

Peyto or its working interest partners may fail to meet the requirements of a licence or lease, causing its termination or expiry

Peyto's properties are held in the form of licences and leases and working interests in licences and leases. If Peyto or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of Peyto's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Dividends

The amount of and frequency at which future cash dividends are paid may vary and there is no assurance that Peyto will pay dividends in the future

The amount of future cash dividends paid by Peyto, if any, will be subject to the discretion of the board of directors of the Corporation and may vary depending on a variety of factors and conditions existing from time to time, including fluctuations in commodity prices, production levels, capital expenditure requirements, debt service requirements, operating costs, royalty burdens, foreign exchange rates and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which will be beyond the control of Peyto, the dividend policy of Peyto from time to time and, as a result, future cash dividends could be reduced or suspended entirely.

The market value of the Common Shares may deteriorate if cash dividends are reduced or suspended. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by Peyto and potential legislative and regulatory changes. Dividends may be reduced during periods of lower funds from operations, which result from lower commodity prices and any decision by Peyto to finance capital expenditures using funds from operations.

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, the ability of Peyto to make the necessary capital investments to maintain or expand petroleum and natural gas reserves and to invest in assets, as the case may be, will be impaired. To the extent that Peyto is required to use funds from operations to finance capital expenditures or property acquisitions, the cash available for dividends may be reduced.

Litigation

Peyto may be involved in litigation in the course of its normal operations and the outcome of the litigation may adversely affect Peyto and its reputation

In the normal course of Peyto's operations, it may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, including resulting from exposure to hazardous substances, property damage, property taxes, land and access rights, environmental issues, including claims relating to contamination or natural resource damages and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the Corporation, and as a result, could have a material adverse effect on the Corporation's assets, liabilities, business, financial condition and results of operations. Even if the Corporation prevails in any such legal proceedings, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from business operations, which could have an adverse affect on the Corporation's financial condition. Also see "*Legal Proceedings and Regulatory Actions*".

Aboriginal Claims

Aboriginal claims may affect Peyto

Aboriginal peoples have claimed aboriginal title and rights in portions of Western Canada. Peyto is not aware that any claims have been made in respect of its properties and assets; however, if a claim arose and was successful, such claim may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. In addition, the process of addressing such claims, regardless of the outcome, is expensive and time consuming and could result in delays which could have a material adverse effect on the Corporation's business and financial results.

Breach of Confidentiality

Breach of confidentiality by a third party could impact Peyto's competitive advantage or put it at risk of litigation

While discussing potential business relationships or other transactions with third parties, Peyto may disclose confidential information relating to the business, operations or affairs of Peyto. Although confidentiality agreements are generally signed by third parties prior to the disclosure of any confidential information, a breach could put Peyto at competitive risk and may cause significant damage to its business. The harm to Peyto's business from a breach of confidentiality cannot presently be quantified, but may be material and may not be compensable in damages. There is no assurance that, in the event of a breach of confidentiality, Peyto will be able to obtain equitable remedies, such as injunctive relief, from a court of competent jurisdiction in a timely manner, if at all, in order to prevent or mitigate any damage to its business that such a breach of confidentiality may cause.

Income Taxes

Taxation authorities may reassess Peyto's tax returns

Peyto files all required income tax returns and believes that it is in full compliance with the provisions of the *Income Tax Act* (Canada) and all other applicable provincial tax legislation. However, such returns are subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of Peyto, whether by re-characterization of exploration and development expenditures or otherwise, such reassessment may have an impact on current and future taxes payable.

Income tax laws relating to the oil and natural gas industry, such as the treatment of resource taxation or dividends, may in the future be changed or interpreted in a manner that adversely affects Peyto. Furthermore, tax authorities having jurisdiction over Peyto may disagree with how Peyto calculates its income for tax purposes or could change administrative practices to Peyto's detriment.

Seasonality and Extreme Weather Conditions

Oil and natural gas operations are subject to seasonal and extreme weather conditions and Peyto may experience significant operational delays as a result

The level of activity in the Canadian oil and natural gas industry is influenced by seasonal weather patterns. Wet weather and spring thaw may make the ground unstable. Consequently, municipalities and provincial transportation departments enforce road bans that restrict the movement of rigs and other heavy equipment, thereby reducing activity levels. Roads bans and other restrictions generally result in a reduction of drilling and exploratory activities and may also result in the shut-in of some of Peyto's production if not otherwise tied-in. Certain oil and natural gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the sites in these areas consists of swampy terrain. In addition, extreme cold weather, heavy snowfall and heavy rainfall may restrict Peyto's ability to access its properties, cause operational difficulties including damage to machinery or contribute to personnel injury because of dangerous working conditions.

Third Party Credit Risk

Peyto is exposed to credit risk of third party operators or partners of properties in which it has an interest

Peyto may be exposed to third party credit risk through its contractual arrangements with its current or future joint venture partners, marketers of its petroleum and natural gas production and other parties. In addition, the Corporation may be exposed to third party credit risk from operators of properties in which the Corporation has a working or royalty interest. In the event such entities fail to meet their contractual obligations to the Corporation, such failures may have a material adverse effect on the Corporation's business, financial condition, results of operations and prospects. In addition, poor credit conditions in the industry and of joint venture partners may affect a joint venture partner's willingness to participate in the Corporation's ongoing capital program, potentially delaying the program and the results of such program until the Corporation finds a suitable alternative partner. To the extent that any of such third parties go bankrupt, become insolvent or make a proposal or institute any proceedings relating to bankruptcy or insolvency, it could result in the Corporation being unable to collect all or portion of any money owing from such parties. Any of these factors could materially adversely affect the Corporation's financial and operational results.

Conflicts of Interest

Conflicts of interest may arise for Peyto's directors and officers who are also involved with other industry participants

Certain directors or officers of Peyto may also be directors or officers of other oil and natural gas companies and as such may, in certain circumstances, have a conflict of interest. Conflicts of interest, if any, will be subject to and governed by procedures prescribed by the ABCA which require a director of officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with Peyto to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA. See "*Directors and Officers of Peyto – Conflicts of Interest*".

Reliance on Key Personnel

Loss of key personnel would negatively impact Peyto's operations

Peyto's success depends in large measure on certain key personnel. The loss of the services of such key personnel may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Peyto does not have any key person insurance in effect for Peyto. The contributions of the existing management team to the immediate and near term operations of Peyto are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that Peyto will be able to continue to attract and retain all personnel necessary for the development and operation of its business. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Peyto.

Expansion into New Activities

Expanding Peyto's business exposes it to new risks and uncertainties

The operations and expertise of Peyto's management are currently focused primarily on oil and natural gas production, exploration and development in the Western Canada Sedimentary Basin. In the future Peyto may acquire or move into new industry related activities or new geographical areas, may acquire different energy related assets, and as a result may face unexpected risks or alternatively, significantly increase Peyto's exposure to one or more existing risk factors, which may in turn result in the Corporation's future operational and financial conditions being adversely affected.

Forward-Looking Information

Forward-Looking Information May Prove Inaccurate

Shareholders and prospective investors are cautioned not to place undue reliance on Peyto's forward-looking information. By its nature, forward-looking information involves numerous assumptions, known and unknown risk and uncertainties, of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking information or contribute to the possibility that predictions, forecasts or projections will prove to be materially inaccurate.

Additional information on the risks, assumption and uncertainties are found under the heading "*Notice to Reader*" in this Annual Information Form.

Waterflood

Regulatory water use restrictions and/or limited access to water or other fluids may impact Peyto's production volumes from its waterflood

Peyto undertakes or intends to undertake certain waterflooding programs which involve the injection of water or other liquids into an oil reservoir to increase production from the reservoir and to decrease production declines. To undertake such waterflooding activities Peyto needs to have access to sufficient volumes of water, or other liquids, to pump into the reservoir to increase the pressure in the reservoir. There is no certainty that Peyto will have access to the required volumes of water. In addition, in certain areas there may be restrictions on water use for activities such as waterflooding. If Peyto is unable to access such water it may not be able to undertake waterflooding activities, which may reduce the amount of oil and natural gas that Peyto is ultimately able to produce from its reservoirs. In addition, Peyto may undertake certain waterflood programs that ultimately prove unsuccessful in increasing production from the reservoir and as a result have a negative impact on Peyto's results of operations.

Disposal of Fluids Used in Operations

Regulations regarding the disposal of fluids used in Peyto's operations may increase its costs of compliance or subject it to regulatory penalties or litigation

The safe disposal of the hydraulic fracturing fluids (including the additives) and water recovered from oil and natural gas wells is subject to ongoing regulatory review by the federal and provincial governments, including its effect on fresh water supplies and the ability of such water to be recycled, amongst other things. While it is difficult to predict the impact of any regulations that may be enacted in response to such review, the implementation of stricter regulations may increase Peyto's costs of compliance.

Carbon Pricing Risk

Taxes on carbon emissions affect the demand for oil and natural gas, Peyto's operating expenses and may impair Peyto's ability to compete

The majority of countries across the globe have agreed to reduce their carbon emissions in accordance with the Paris Agreement. See "*Industry Conditions – Regulatory Authorities and Environmental Regulation – Climate Change Regulation*". In Canada, the federal and certain provincial governments have implemented legislation aimed at incentivizing the use of alternatives fuels and in turn reducing carbon emissions. The taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing Peyto's operating expenses, each of which may have a material adverse effect on Peyto's profitability and financial condition. Further, the imposition of carbon taxes puts Peyto at a disadvantage with its counterparts who operate in jurisdictions where there are less costly carbon regulations.

Reputational Risk Associated with Peyto's Operations

Peyto relies on its reputation to continue its operations and to attract and retain investors and employees

Any environmental damage, loss of life, injury or damage to property caused by Peyto's operations could damage Peyto's reputation in the areas in which Peyto operates. Negative sentiment towards Peyto could result in a lack of willingness of municipal authorities being willing to grant the necessary licenses or permits for Peyto to operate its business and in residents in the areas where Peyto is doing business opposing further operations in the area by Peyto. If Peyto develops a reputation of having an unsafe work site it may impact the ability of Peyto to attract and retain the necessary skilled employees and consultant to operate its business. Further, Peyto's reputation could be affected by actions and activities of other corporations operating in the oil and gas industry, over which Peyto has no control. In addition, environmental damage, loss of life, injury or damage to property caused by Peyto's operations caused by Peyto's operations could result in negative investor sentiment towards Peyto, which may result in limiting Peyto's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares.

Changing Investor Sentiment

Changing investor sentiment towards the oil and gas industry may impact Peyto's access to, and cost of, capital

A number of factors, including the concerns of the effects of the use of fossil fuels on climate change, concerns of the impact of oil and gas operations on the environment, concerns of environmental damage relating to spills of petroleum products during transportation and concerns of indigenous rights, have affected certain investors' sentiments towards investing in the oil and gas industry. As a result of these concerns, some institutional, retail and public investors have announced that they no longer are willing to fund or invest in oil and gas properties or companies or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust social, environmental and governance policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the board of directors of the Corporation, management and employees of Peyto. Failing to implement the policies and practices as requested by institutional investors may result in such investors reducing their investment in Peyto or not investing in Peyto at all. Any reduction in the investor base interested or willing to invest in the oil and gas industry and more specifically, Peyto, may result in limiting Peyto's access to capital, increasing the cost of capital, and decreasing the price and liquidity of the Common Shares.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Other than as described below, during the financial year-ended December 31, 2017, Peyto was not a party to any legal proceeding, nor was it a party to, nor is or was any of its property the subject of any legal proceeding, involving claims for damages where the amount involved, exclusive of interest and costs, is in excess of ten percent (10%) of the current assets of Peyto, nor are there any such proceedings known to be contemplated.

During the financial year-ended December 31, 2017, there were no (i) penalties or sanctions imposed against Peyto by a court relating to securities legislation or by a securities regulatory authority; (ii) penalties or sanctions imposed by a court or regulatory body against Peyto that would likely be considered important to a reasonable investor in making an investment decision, or (iii) settlement agreements Peyto entered into before a court relating to securities legislation or with a securities regulatory authority.

On October 1, 2013, two shareholders (the "**Plaintiffs**") of Poseidon Concepts Corp. ("**Poseidon**") filed an application to seek leave of the Alberta Court of Queen's Bench (the "**Court**") to pursue a class action lawsuit against the Corporation, as a successor to new Open Range Energy Corp. ("**New Open Range**"). The proposed action contains various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not New Open Range), which claims are also alleged in class action lawsuits filed in Alberta, Ontario, and Quebec earlier in 2013 against Poseidon and certain of its current and former directors and officers, and underwriters involved in the public offering of common shares of Poseidon completed in February 2012. The proposed class action seeks various declarations and damages including compensatory damages which the Plaintiffs estimate at $651 million and punitive damages which the Plaintiffs estimate at $10 million, which damage amounts appear to be duplicative of damage amounts claimed in the class actions against Poseidon, certain of its current and former directors and officers, and underwriters.

New Open Range was incorporated on September 14, 2011 solely for purposes of participating in a plan of arrangement with Poseidon (formerly named Open Range Energy Corp. ("**Old Open Range**")), which was completed on November 1, 2011. Pursuant to such arrangement, Poseidon completed a corporate reorganization resulting in two separate publicly-traded companies: Poseidon, which continued to carry on the energy service and supply business; and New Open Range, which carried on Poseidon's former oil and natural gas exploration and production business. Peyto acquired all of the issued and outstanding common shares of New Open Range on August 14, 2012. On April 9, 2013, Poseidon obtained creditor protection under the *Companies' Creditor Protection Act*.

On October 31, 2013, Poseidon filed a lawsuit with the Court naming the Corporation as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of Old Open Range and the former directors and officers of New Open Range (the "**Poseidon Action**"). Poseidon claims, among other things, that the Corporation is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range.

On July 3, 2014, the Plaintiffs filed a lawsuit with the Court against KPMG LLP, Poseidon's and Old Open Range's former auditors, making allegations substantially similar to those in the other claims. On July 29, 2014, KPMG LLP filed a statement of defense and a third party claim against Poseidon, the Corporation and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP.

On September 24, 2014, Poseidon amended its claim in the Poseidon Action to add Poseidon's auditor, KPMG LLP, as a defendant.

On May 4, 2016, KPMG LLP issued a third party claim in the Poseidon Action against Poseidon's former officers and directors and Peyto for any liability KPMG LLP is determined to have to Poseidon. Peyto is not required to deliver a defence to this claim at this time.

The allegations against New Open Range contained in the claims described above are based on factual matters that pre-existed the Corporation's acquisition of New Open Range. The Corporation has not yet been required to defend either of the actions. If it is required to defend the actions, the Corporation intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors or executive officers of Peyto, any securityholder who directly or indirectly beneficially owns, or exercises control or direction over, more than 10% of the outstanding voting securities of Peyto or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or will materially affect Peyto.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Deloitte LLP, Chartered Professional Accountants, Chartered Accountants, the auditor of Peyto, is independent within the meaning of the Rules of Professional Conduct of the applicable Chartered Accountants, Chartered Professional Accountants provincial regulator of Alberta.

Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta and Toronto, Ontario, is the transfer agent and registrar for the Common Shares.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, Peyto has not entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year which are still in effect.

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a report, valuation statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 – *Continuous disclosure Obligations* by Peyto during, or related to, Peyto's most recently completed financial year other than InSite, Peyto's independent engineering evaluators, and Deloitte LLP, Chartered Professional Accountants, Chartered Accountants, the auditor of Peyto. To the knowledge of Peyto, none of the designated professionals of InSite, had any registered or beneficial interests, direct or indirect, in any securities or other property of Peyto or of Peyto's associates or affiliates either at the time they prepared the statement, report or valuation prepared by them, at any time thereafter or to be received by them. Deloitte LLP, Chartered Professional Accountants, Chartered Accountants, is independent within the meaning of the Rules of Professional Conduct of the applicable Chartered Accountants, Chartered Professional Accountants provincial regulator of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Peyto or of any associate or affiliate of Peyto, except for Stephen J. Chetner, the Corporate Secretary and a Director of Peyto, who is a partner of Burnet, Duckworth & Palmer LLP, which law firm renders legal services to Peyto.

ADDITIONAL INFORMATION

Additional information relating to Peyto may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Peyto's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the information circular of Peyto for its most recent annual meeting of securityholders that involved the election of directors. Additional financial information is contained in Peyto's audited consolidated financial statements and management's discussion and analysis for the year-ended December 31, 2017.

SCHEDULE A – FORM 51-101F3
REPORT ON MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION

Management of Peyto is responsible for the preparation and disclosure of information with respect to the oil and gas activities of Peyto in accordance with securities regulatory requirements. This information includes reserves data.

An independent qualified reserves evaluator has evaluated Peyto's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors of Peyto, on behalf of Peyto, has

(a) reviewed Peyto's procedures for providing information to the independent qualified reserves evaluator;

(b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and

(c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors of Peyto has reviewed Peyto's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserve Committee, approved

(a) the content and filing with securities regulatory authorities of Form 51-101F1 reserves data and other oil and gas information;

(b) the filing of Form 51-101F2 report of the independent qualified reserves evaluator on the reserves data, contingent resources data or prospective resources data; and

(c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material.

(signed) "*Darren Gee*"
Darren Gee
President and Chief Executive Officer

(signed) "*Jean-Paul Lachance*"
Jean-Paul Lachance
Vice-President, Engineering and Chief Operating Officer

(signed) "*Brian Davis*"
Brian Davis
Director and Chairman of the Reserves Committee

(signed) "*Michael MacBean* "
Michael MacBean
Director and Member of the Reserves Committee

March 16, 2018

SCHEDULE B – FORM 51-101F2
REPORT ON RESERVES DATA

To the Board of Directors of Peyto Exploration & Development Corp. (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2017. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2017, estimated using forecast prices and costs.

2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

3. We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook, as amended from time to time (the "**COGE Handbook**") maintained by the Society of Petroleum Evaluation Engineers (Calgary Chapter).

4. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.

5. The following table shows the net present value of future net revenue (before deduction of income taxes) attributed to proved plus probable reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated for the year ended December 31, 2017 and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Effective Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue ($ thousands CDN - before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
InSite Petroleum Consultants Ltd.	Evaluation of Oil & Gas Properties of Peyto Exploration & Development Corp. as at December 31, 2017, effective February 14, 2018	Canada	-	4,866,274.6	-	4,866,274.6

6. Contingent and prospective resources were not evaluated in this report as per the request of the Company.

7. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.

8. We have no responsibility to update our reports referred to in paragraph 5 for events and circumstances occurring after the effective date of our reports.

9. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

INSITE PETROLEUM CONSULTANTS LTD.
Calgary, Alberta, Canada

Execution Date: March 13, 2018

(signed) "*Peter P. Hadala*"
Peter P. Hadala, P.Eng.
Managing Director

SCHEDULE C – AUDIT COMMITTEE CHARTER

PEYTO EXPLORATION & DEVELOPMENT CORP.

AUDIT COMMITTEE

AUDIT COMMITTEE CHARTER

This charter governs the operations of the audit committee (the "**Committee**") of Peyto Exploration & Development Corp. ("**Peyto**"). The Committee shall report to the board of directors (the "**Board**") of Peyto.

I. PURPOSE

(a) The primary function of the Committee is to assist the Board in fulfilling its responsibilities regarding the integrity of Peyto's financial statements including the financial reporting process and systems of internal controls, the compliance by Peyto with legal and regulatory requirements and the qualifications, performance and independence of Peyto's external auditor by reviewing:

(i) the financial information that will be provided to the shareholders, regulatory authorities and others;

(ii) the systems of internal controls management has established;

(iii) all audit processes;

(iv) all reporting from the external auditors.

(b) Primary responsibility for the financial reporting, information systems, risk management and internal controls of Peyto is vested in management and is overseen by the Board. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that Peyto's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. These are the responsibilities of management and the external auditor. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the external auditor or to assure compliance with laws and regulations.

II. COMPOSITION AND OPERATIONS

(a) The Committee shall be composed of not fewer than three directors, none of whom shall be officers, employees or consultants to Peyto or any of its related legal entities. The Committee shall only be comprised of unrelated directors. An unrelated director is a director who is independent of management and is free from any interest or other relationship which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of Peyto, other than interests and relationships arising from shareholding.

(b) The Committee shall review and reassess this Charter annually.

(c) All Committee members shall be financially literate (as defined by the TSX or other regulatory authority), or shall become financially literate within a reasonable period of time after appointment to the Committee, and at least one member shall have appropriate financial management experience or expertise.

(d) Peyto's auditors shall be advised of the names of the Committee members and when appropriate will receive notice of and be invited to attend meetings of the Committee and to be heard at those meetings on matters relating to the auditor's duties.

(e) The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or shareholders.

(f) The Committee shall meet at least four times each year.

(g) The Committee shall have access to Peyto's senior management and documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.

(h) The Committee shall provide open avenues of communication among management, employees, external auditors and the Board.

(i) The secretary to the Committee shall be the Corporate Secretary or an appointee of the Corporate Secretary.

(j) Notice of the time and place of every meeting shall be given to each Committee member at least 48 hours prior to the meeting.

(k) A majority of the voting membership of the Committee present in person or by telephone or other electronic telecommunication device shall constitute a quorum.

(l) The Chief Executive Officer, Vice-President, Finance and Chief Financial Officer and external auditor would be expected to be available to attend meetings or portions thereof. The external auditors would meet at least twice annually with the Committee. Others may or may not attend the meetings at the sole discretion of the Committee.

(m) Minutes of Committee meetings shall be approved by the Committee and sent to all directors of the Board.

III. DUTIES AND RESPONSIBILITIES

(a) Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

(i) Peyto's annual and quarterly financial statements;

(ii) Peyto's press releases and reports as they relate to the finances of Peyto;

(iii) the Management Discussion and Analysis;

(iv) the financial content of the Annual Report;

(v) the Annual Information Form and any Prospectus or Private Placement Memorandums; and

(vi) any reports required by regulatory or government authorities as they relate to the finances of Peyto.

The Committee will review and discuss:

(i) the appropriateness of accounting policies and financial reporting practices to be adopted by Peyto;

(ii) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by Peyto:

(iii) any new or pending developments in accounting and reporting standards that may affect Peyto;

(iv) ascertain compliance with the covenants under loan agreements;

(v) management's key estimates and judgments that may be material to financial reporting; and

(vi) any other matters required to be reviewed under applicable legal, regulatory or stock exchange requirements.

(b) Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

(i) review Peyto's risk management controls and policies;

(ii) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management and the external auditor;

(iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies;

(iv) review adequacy of security of information, information systems and recovery plans;

(v) monitor compliance with statutory and regulatory obligations;

(vi) review the appointment of the Vice-President, Finance and Chief Financial Officer; and

(vii) review the adequacy of accounting and finance resources.

(c) External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

(i) review and recommend to the Board, for shareholder approval, engagement of the external auditor including, as part of such review and recommendation, an evaluation of the external auditors qualifications, independence and performance;

(ii) review and recommend to the Board the annual external audit plan, including but not limited to the following:

1. engagement letter;
2. objectives and scope of the external audit work;
3. procedures for quarterly review of financial statements;
4. materiality limit;
5. areas of audit risk;
6. staffing;
7. timetable; and
8. proposed fees.

(iii) meet with the external auditor to discuss Peyto's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;

(iv) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:

1. any difficulties encountered, or restrictions imposed by management during the annual audit;

2. any significant accounting or financial reporting issue including the resolution of any disagreement between management and the external auditors;
3. the auditor's evaluation of Peyto's system of internal controls, procedures and documentation;
4. the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weakness;
5. assess the performance and consider the annual appointment of external auditors for recommendation to the Board.

(v) review and receive assurances on the independence of the external auditor;

(vi) review the non-audit services to be provided by the external auditor's firm and consider the impact on the independence of the external audit; and

(vii) meet periodically with the external auditor without management present.

(d) Other

(i) review material litigation and its impact on financial reporting; and

(ii) establish procedures for the receipt, retention and treatment of complaints received by Peyto regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by distributing the minutes of its meetings and where appropriate, by oral report at the next Board meeting.

V. STANDARDS OF LIABILITY

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory, regulatory or other legal requirements for the Board or members of the Committee. The purposes and responsibilities outlined in these terms of reference are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.