



PEYTO

Exploration & Development Corp.



2016

Sustainability Report



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About PEYTO



Peyto Exploration & Development Corp.

is an industry leading, natural gas exploration, development, and production company based in Calgary, Alberta, Canada. Our asset base is concentrated in one of the largest resource plays in the Western Canadian Sedimentary Basin, called the Alberta Deep Basin, and is comprised of sweet, liquids rich natural gas.

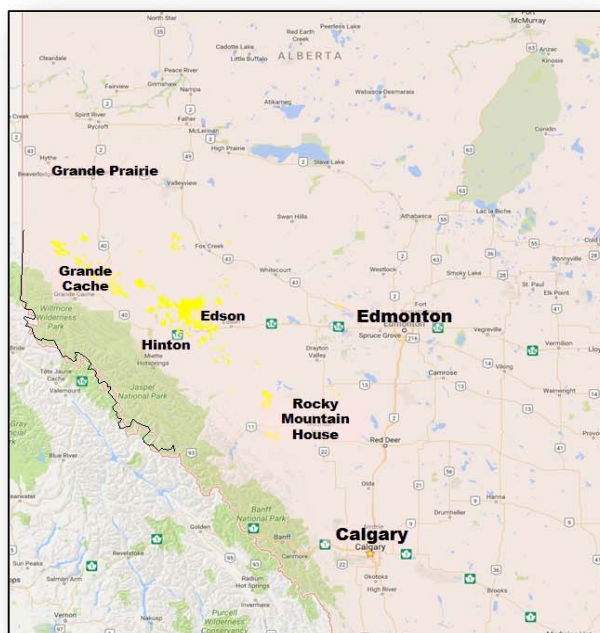
- ✦ Pure Play, Alberta Deep Basin > 100,000 boe/d of Gas & NGLs
- ✦ Returns Focused Strategy – ROCE 17%, ROE 32% over last 17 yrs
- ✦ Long Reserve Life Asset - 7 yrs PDP, 17 yrs P+P
- ✦ Lowest Cost Producer - \$0.81/mcfe (\$4.87/boe) 2015 total cash costs
- ✦ Own and Control - Operate 99% of production, Own all of our operated gas plants
- ✦ Exciting Growth Profile – >25% production/share compounded annual growth rate over last 6 yrs

“Over the company’s 17 year history, Peyto has invested over \$4.7 billion of capital in the development of Alberta’s natural gas resources, resulting in the payment of over \$760 million in royalties to the people of Alberta and over \$1.8 billion in dividend (and distribution) payments to shareholders whose capital has been at risk.”

Message to Our Stakeholders

Peyto Exploration & Development Corp. was founded in 1998 with a strategy to enhance shareholder value through the exploration, discovery and low cost development of oil, natural gas and natural gas liquids in the Western Canadian Sedimentary Basin. The company chose the sweet gas bearing, sandstone resource plays within Alberta's Deep Basin as its resource platform. This platform has remained the company's sole focus and is largely responsible for Peyto consistently achieving a record of economically and environmentally sustainable development. The company's operations are executed in a manner that stresses cost control and efficiency which, by its very nature, leads to less land disturbance, reduced emissions, and an industry leading workplace safety record. Cost performance and impact minimization go hand-in-hand.

Through its activities over the past 17 years, Peyto has established effective working relationships with regulatory agencies and become a trusted partner with other stakeholders across its areas of operation, in particular, in the Edson, Hinton, Grande Cache, Drayton Valley and Rocky Mountain House communities. Working collaboratively with these stakeholders, Peyto has achieved positive results through the adoption of appropriate, efficient and effective resource development and production practices. With a strict focus within its core areas and on its core competencies, Peyto has developed expertise that will continue to enable the company to achieve responsible development in a low cost and profitable manner in this ever-increasingly competitive global hydrocarbon marketplace. Working together, we are excited about the company's future and the benefits for all stakeholders.



 Peyto Acreage

"The company's operations are executed in a manner that stresses cost control and efficiency which, by its very nature, leads to less land disturbance, reduced emissions, and an industry leading workplace safety record. The two go hand-in-hand."



Environment

Land use and footprint minimization has always been at the forefront of the Peyto design. This is reflected in the careful selection of surface leases and pipeline right-of-ways that minimize forest and ecosystem disturbance. Peyto has collaborated with forest management companies (West Fraser Mills and Weyerhaeuser Canada), government agencies (Alberta Energy Regulator, Alberta Environment and Parks), local trappers, First Nations and other stakeholders and has achieved the harmonious development of Alberta's natural resources with a minimum impact on land use.



Peyto drilling lease in existing cut block

Wellsite footprints are getting smaller over time on both a well and unit of production basis. Peyto uses, when practical, small single lease footprints to host many wellbores of different depths and geological formations. This reduces capital requirements for lease construction, equipping and pipelining while placing 4 or more wells on a space that traditionally hosted only a single well. It also contributes favorably to the reduction in disturbance and emissions.



Peyto Oldman Gas Plant

Peyto's philosophies and practices surrounding major facility development are also consistent with land disturbance minimization. The company constructs compact, modular facilities that are "right-sized" and expandable with the resource development and production growth. This ensures minimal land use per unit of energy produced while simultaneously minimizing fuel consumption and emissions. Peyto situates its facilities in the heart of the resources, not miles away where distant transport of products would lead to inefficiencies and significantly higher levels of fuel consumption and emissions.



Peyto 4 well pad site

Health and Safety

The safety of people and the integrity of assets (wells and facilities) are vitally important to Peyto and rank above all else. We have an operations culture amongst our talented work force that minimizes risk taking and insists upon carefully thought out procedures and execution. A strong core training program and progression plan for operations personnel is at the heart of this culture and provides a solid foundation of organizational competence for future growth. We have very high employee and contractor retention. Additionally, the intelligent design and the ongoing maintenance of the company's equipment and facilities has ensured equipment runs safely and reliably delivering strong business and safety performance.

The safety culture is strengthened and propagated throughout the organization through a multi-faceted, active and ongoing plan that involves regular audits, education, emergency practice drills and information dissemination to all personnel working within the organization. These two focuses – personnel safety and equipment maintenance - protect not only our employees and contractors but also the public at large and the environment.

Peyto has successfully obtained a Certificate of Recognition (COR) from their Certifying Partner (Enform) and the Government of Alberta. The COR shows that our health and safety management systems have been assessed by a certified auditor and meet the current provincial standards.

These standards are set by Alberta Occupational Health and Safety (OH&S).



Continuous Improvement

Peyto continues to attend to all facets of health, safety, and environmental protection throughout its properties and across all disciplines. The company has several current focuses as it strives for continuous improvements of key measures. These include:

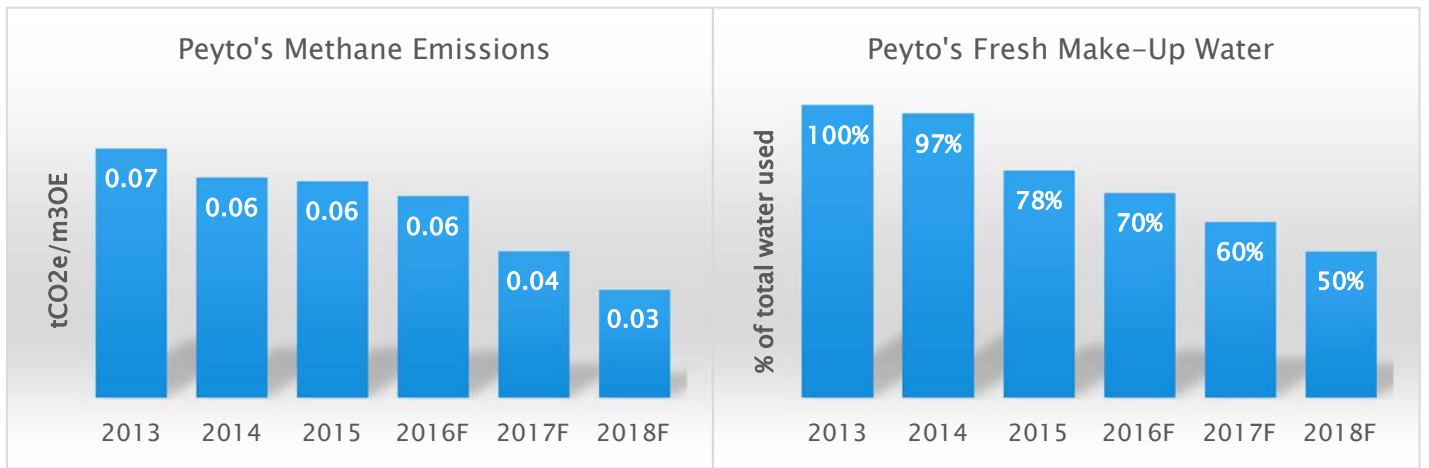
1. Measuring both direct and indirect emissions of CO₂ and other greenhouse gases with a goal to reduce the intensity level of emissions as a ratio of the total hydrocarbon energy produced and delivered to market.
2. Quantifying and reducing releases of other pollutants including SO₂ and NO_x on the basis of total marketable energy produced.
3. Effectively managing the use of water resources to conduct well drilling and well completion (fracture stimulating) activities.
4. Preserving and improving upon an already low level of personnel accident and lost time incidents.

Our report card on these measures is included in the Performance Summary Table that follows. We outline a number of important measures that we hope other companies will also adopt and report on as time goes on. We will expand upon the number and nature of parameters we measure and report as we further our progress on all of our initiatives.

The methods and standards for determination of many of the reported metrics such as the GHG emissions are still in the infancy stage and will continue to be refined with the passage of time. Some elements of emissions quantification are rigorously measured whereas others may be estimated very approximately from what can be very weak, indirect correlations or broad-based rules of thumb. Furthermore, different reporting companies may have different levels of rigour in what components of emissions they include in their overall corporate emissions calculation. It appears some companies may be less comprehensive by excluding many elements of indirect emissions or of difficult to quantify direct emissions. We expect that the clarity of inter-company comparisons shall improve in the future as standards for measuring and reporting advance.

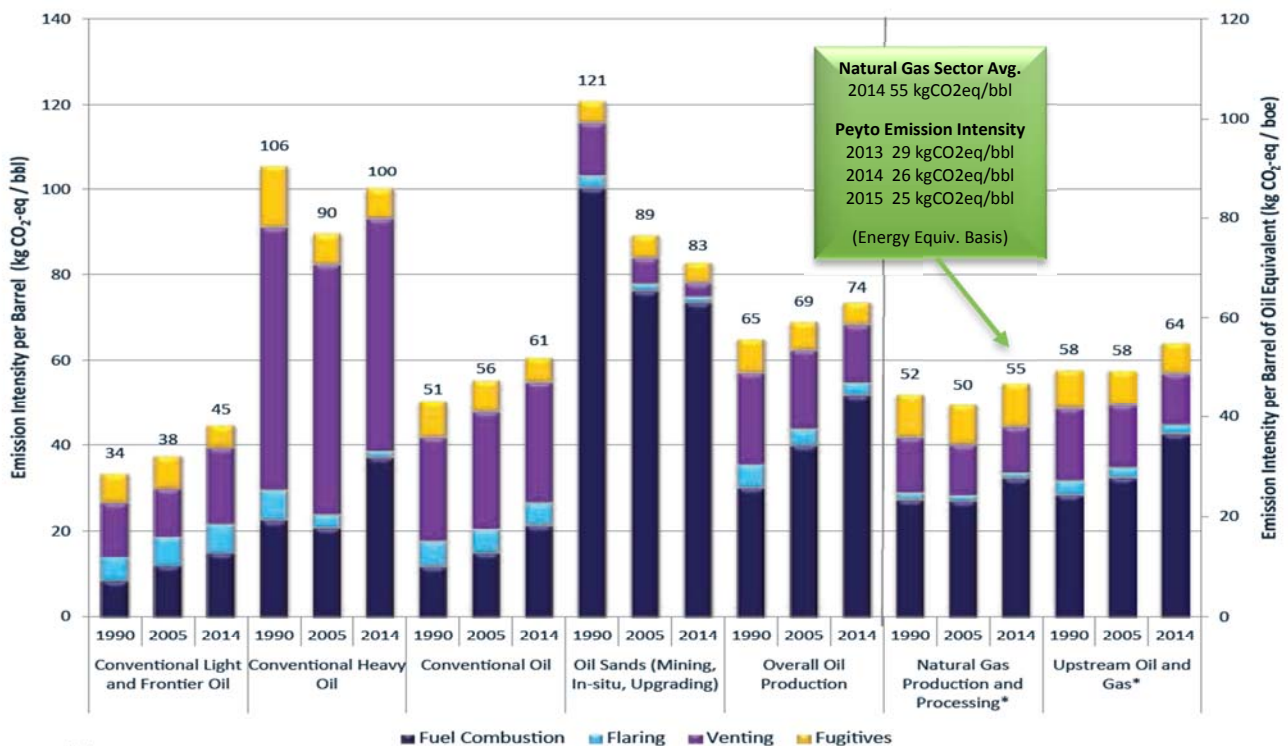
Specific immediate focuses that are paramount to Peyto's current operations include:

1. A reduction of the methane component of our GHG emission intensity by 50% or more over the next three years. Existing methane emissions are primarily associated with the operation of pneumatic chemical pumps at wellsites. Peyto plans to substitute non-emitting alternative pumps. If successful, Peyto estimates a 20% further reduction in its overall corporate GHG emissions intensity.
2. Effective water management by increasing the volume of recycled water and decreasing the fraction of freshwater make-up used in hydraulic fracture stimulation operations. Peyto expects to increase its use of recovered flowback water to above 75% of the available flowback water and its use of other plant and wellsite produced water to 50% as fracture stimulation injectant water. If these objectives are met, fresh make-up water volumes should decrease from a current level of 78% of all frac injectant water to 50% or less.



While these specific initiatives are expected to further reduce Peyto’s emissions intensity relative to the total volume of hydrocarbon energy produced, it is important to highlight that Peyto is already leading the industry by a wide margin in its environmental performance and efficiency. The National Inventory Report, published by Environment Canada in April 2016, indicated that the average 2014 emissions intensity for the Natural Gas Production and Processing industry was 55 kgCO₂eq/bbl (Figure 2-24 below). Peyto’s emissions intensity for that same year was 26 kgCO₂eq/bbl or less than half of the industry average.

Figure 2–24 Emission Intensity by Source Type for Oil and Gas (2005 and 2014)



Notes:

Intensities are based on total subsector emissions and relevant production amounts. They represent overall averages, not facility intensities.

*Natural Gas Production and Processing and Upstream oil and Gas Emission intensities calculated and barrel of oil equivalent (boe) basis. Boe calculated by converting natural gas and crude oil production volumes to energy basis and then dividing by energy content of light crude oil (38.5 TJ/10³ m³).

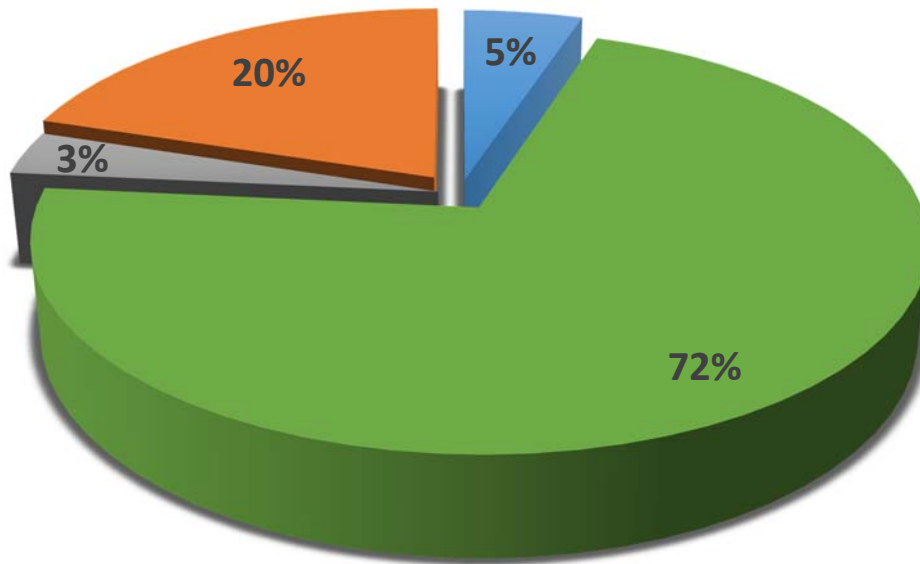
1 barrel (bbl) = 0.159 m³

Community

Peyto is an active member in the communities in which it operates, including Edson, Hinton, Grande Cache, Drayton Valley and its head office in Calgary, Alberta. Our largest support of local communities comes by contributing to those local economies through our capital investment programs, using local businesses wherever possible, and through both direct and indirect employment opportunities. In addition to the profitable returns delivered to shareholders, in the form of dividends and distributions, numerous other stakeholders such as employees, contractors, business partners, various levels of government, landowners and aboriginal groups all benefit from Peyto's resource development activity.

2015	
Capital Expenditures	\$594 million
Taxes and Royalties	\$53 million in total royalties, taxes, rentals, fees and levies
Goods and Services	\$739 million spent on goods and services
Employee Compensation	\$35 million in total compensation, salaries and performance awards
Dividends and Distributions	\$208 million in dividend payments

Peyto's 2015 Economic Contribution



Performance Summary Table

Peyto Performance and Sustainability Report Card				
(All Numbers Gross Operated Unless Otherwise Stated)				
	GRI code	2013	2014	2015
Production				
Sales Gas (Mcf/d)		348,447	446,181	512,273
Liquids (blpd)		6,725	8,120	6,938
BOED (6:1)		64,800	82,484	92,317
m3OE/yr (Energy Equiv. Basis (CAPP Factors))		3,786,112	4,817,966	5,427,962
BOE/yr (Energy Equiv. Basis (CAPP Factors))		23,813,887	30,304,043	34,140,794
Energy Efficiency				
Produced (excl consumption) (GJ)		156,867,105	199,876,056	226,727,439
Consumed Gas (GJ)	EN3	5,570,798	7,011,584	7,674,521
Consumed Gas (% of GJ Prod+Cons)		3.43	3.39	3.27
Consumed Gas (GJ/produced m3OE)		1.47	1.46	1.41
Emissions				
CO2 direct (all sources) (tCO2e/yr)	EN15	598,143	673,912	723,468
CO2e indirect (all sources) (tCO2e/yr)	EN16	93,228	113,625	115,457
NOx (tonnes/yr)	EN21	1,084	1,108	1,183
SO2 (tonnes/yr)	EN21	1.26	1.44	1.55
Methane Emissions (tCO2e/yr)	EN15	258,040	289,840	321,201
Emissions Intensity				
tCO2e/m3OE total (direct & indirect) (Energy Equiv. Basis)	EN18	0.1826	0.1635	0.1546
tCO2e/BOE (direct & indirect) (Energy Equiv Basis)	EN18	0.0290	0.0260	0.0246
tCO2e/GJ produced	EN18	0.0044	0.0039	0.0037
Methane tCO2e/m3OE (Energy Equiv Basis)	EN18	0.0682	0.0602	0.0592
Surface Land Management				
Land Use Intensity				
ha per well (new wells)			0.9	1.0
ha per well (cumulative wells)		2.0	1.9	1.8
boed per ha (6:1)		32.2	38.9	40.9
Water Management				
Frac Water Used (m3)	EN8	263,212	364,938	537,957
Number Wells Frac'd		105	120	140
Water per Well (m3)	EN8	2,507	3,041	3,843
Water per BOE Reserve		0.0046	0.0055	0.0072

Peyto Performance and Sustainability Report Card

(All Numbers Gross Operated Unless Otherwise Stated)

		2013	2014	2015
Water Management (cont'd)				
Frac Flowback Water				
Produced (m3)	EN8	91,172	132,229	186,665
Recycled (m3)	EN10	0	10,679	119,760
Recycled (%)	EN10	0.00	8.08	64.16
Disposed (m3)	EN21	91,172	121,550	66,905
Well/Plant Water				
Produced (m3)	EN8	195,630	286,431	295,025
Recycled (m3)	EN10	0	0	567
Recycled (%)	EN10	0.00	0.00	0.19
Disposed (m3)	EN21	195,630	286,431	294,459
Freshwater Make-up (m3)	EN8	263,212	354,259	417,631
Freshwater Make-up (% of frac water)	EN8	100.00	97.07	77.63
Well Management				
Gross Operated Producing Wells		935	1,057	1,185
Gross Operated Inactive Wells		77	81	85
Total Gross Operated Wells		1,012	1,138	1,270
Gross Operated Wells Spud in Year		99	123	140
Number Abandonment Requirements		0	0	0
Number Active or Required Reclamations		0	0	0
Environmental Liabilities				
Number Active or Required Spill Remediations	EN23	0	0	0
Number Active or Required Lease Cleanups	EN23	2	2	1
Number Reportable Spills This Period	EN23	0	0	0
Regulatory				
Number Wellsite Inspections		0	8	5
Number High Risk Deficiencies		0	1	0
Number Facility Inspections		8	9	5
Number High Risk Deficiencies		0	1	0
Number Rig Inspections		2	6	6
Number High Risk Deficiencies		0	1	0
Employee Information				
Number Head Office Employees		48	48	51
Number Voluntary Turnovers	LA1	5	1	2
Employees per 1000 boed		0.7	0.6	0.6
Production per Employee (boed/person)		1,350.0	1,718.4	1,810.1

Peyto Performance and Sustainability Report Card

(All Numbers Gross Operated Unless Otherwise Stated)

		2013	2014	2015
TRIF = (# Recordable Incidents) x 200,000 Man hours				
Health and Safety				
Fatalities				
Employee	LA7	0	0	0
Contractor/Consultant	LA7	0	0	0
Recordable Incidents				
Employee	LA6	0	0	0
Contractor/Consultant	LA6	9	23	16
Employee Frequency (TRIF)	LA6	0.00	0.00	0.00
Contractor Frequency (TRIF)	LA6	0.62	1.33	1.01
Governance				
Number Whistleblower Reports	LA16	0	1	0
Number Whistleblower Reports Outstanding	LA16	0	0	0
Government Payments				
Federal				
Payroll Tax		6,850,390	8,154,575	13,869,201
Provincial				
Payroll Tax		incl in Federal	incl in Federal	incl in Federal
Crown Royalties (net) (net of GCA)		34,825,997	52,750,334	21,517,877
AER Fees		1,689,637	3,370,815	3,709,466
Orphan Well Levy		80,586	99,109	234,459
Surface Rentals		410,606	433,949	462,940
Mineral Rentals		568,365	567,885	755,558
SGER Carbon Tax		0	0	176,115
Business Tax		51,711	51,465	44,797
Total Province		37,626,902	57,273,558	26,901,212
Municipal				
Property Tax		5,139,236	6,431,254	7,773,476
Road Use		37,125	37,125	37,125
Well Drilling and Equipment Tax		2,204,797	2,718,583	3,972,811
Total Municipal		7,381,158	9,186,962	11,783,412
Total (w/ Payroll)		89,485,352	131,888,652	79,455,038

Note: m3OE is calculated on an energy conversion basis using the CAPP 2003 Manual for Calculating Greenhouse Gases

1m3 oil = 1 m3OE

1e3m3 gas = 0.971m3OE

1m3 C3 = 0.66 m3OE

1m3 C4 = 0.75 m3OE

1m3 C5+ = 0.85 m3OE

1m3 NGL = 0.72 m3OE

Oldman



Nosehill



Swanson



Brazeau



Galloway



Wildhay



Kakwa





PEYTO

Exploration & Development Corp.

Peyto Exploration Safety and Environment Policy

Peyto Exploration regards the safety of its people, the public and protection of the environment of paramount importance within its corporate values. We seek to build and maintain a successful and profitable company within the framework of safe operating practices and principles. All personnel within the company and contractors working for the company are charged with the responsibility of carrying out the company's business without compromise to these values.

For more information visit www.peyto.com

To determine the content included in this report we use the Global Reporting Initiative (GRI) and Canadian Association of Petroleum Producers (CAPP) reporting data as primary guides. Final content was determined through collaboration of internal subject matter experts including input from representatives from our Investor Relations, Health and Safety, Environment and Regulatory, Risk Management, Asset Integrity, Human Resources, Land and Operations teams.