NEWS RELEASE

JANUARY 11, 2018 **SYMBOL: PEY – TSX**

PEYTO REPORTS ACHIEVEMENT OF YEAR END PRODUCTION TARGET AND REVISES 2018 OUTLOOK

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to announce the achievement of its year-end 2017 production target of 115,000 boe/d. Together with its industry leading cost structure and robust hedging program, the company expects to report another profitable and successful year in 2017. In addition, Peyto announces today a revised capital plan for 2018 in light of the recent 40% decline in near-term natural gas prices. The plan is designed to prudently defer investment on a portion of Peyto's inventory in order to ensure maximum returns can be achieved from these opportunities, while at the same time strengthening the Company's financial position for the future. This plan involves the following five elements:

- **Development plans deferred and capital budget reduced to $200-$250 million.** The preliminary 2018 capital budget announced Nov 8, 2017, ranging from $300-$450 million, has been reduced to $200 to $250 million. As always, investment will be directed toward the highest return opportunities within Peyto's vast inventory of drilling locations, now with particular focus on the most liquids rich portions of the Company's Deep Basin assets. For example, Peyto's lands in the Greater Sundance Area contain approximately 2.4 TCFe of net Cardium resource with only 14% recovered to date and over 500 internally identified drilling locations. The Cardium in this area yields between 40 to 60 bbl/MMcf of natural gas liquids (greater than 50% C5+) and Peyto plans to exploit this undeveloped resource with newly designed horizontal wells with higher density fracture treatments. As Peyto enjoys the benefit of very little land expiring in 2018, it has the freedom to develop much of its lands as market conditions dictate.

- **Monthly dividend reduced to $0.06/share**. Starting with the January dividend, for shareholders of record on January 31, 2018 to be paid on February 15, 2018, the monthly dividend will be reduced from the current $0.11/share to $0.06/share. This new dividend level will align better with projected earnings for 2018 and lower near term natural gas prices. In conjunction with the reduced capital program, the reduced monthly dividend will free up cash for debt reduction, share repurchases, and potential new business opportunities that may arise.

- **Share buyback program**. Peyto intends to apply to the Toronto Stock Exchange ("TSX") to implement a normal course issuer bid ("NCIB"). Subject to TSX approval, the NCIB is expected to commence on January 22, 2018 and will terminate on the earlier of 1) January 21, 2019; or 2) the date on which the maximum number of Common Shares that can be acquire pursuant to the NCIB are purchased.

- **Term debt issuance.** As announced on January 2, 2018, Peyto has continued to protect its balance sheet from rising interest rates with the closing of another private placement of senior unsecured notes. On that date, Peyto issued CND$100 million of senior unsecured notes which bear a coupon rate of 3.95% and mature on January 2, 2028. The issuance of senior notes expands Peyto's aggregate borrowing capacity to $1.92 billion, split into a $1.3 billion, 4 year revolver with a stated term date of October 2021 and $620 million of senior unsecured notes. Peyto now has approximately $600 million in available borrowing capacity.

- **Strong near-term hedge book and medium-term market diversification strategy.** Peyto's hedging strategy in the past has used fixed price financial swaps to smooth out the volatility in natural gas prices. For 2018, this program has secured a fixed price of $2.68/Mcf for approximately 75% of 2018 forecast natural gas production, which combined with liquid revenues ensures close to 90% of projected revenues will not be subject to natural gas price volatility. These revenues, when combined with the remaining unhedged natural gas revenue, is expected to deliver sufficient funds from operations to more than cover both the capital program and dividend payment while also generating significant free cash flow that can be used for debt repayment or share buybacks. As well, the Board of Directors has approved a market diversification strategy to diversify a portion of Peyto's future natural gas sales away from the AECO hub.

Operational Update

Peyto exited 2017 hitting its year end production target of 115,000 boe/d. Of this production, approximately 11,000 boe/d was natural gas liquids and 42% was from wells drilled and connected in 2017. A total of 143 gross (138.5 net) wells were drilled in the year, with 91 in the Greater Sundance area, 47 in the Brazeau area and 5 in the newly established Whitehorse area. The Notikewin formation contributed the largest proportion of new production at 49% while the Wilrich formation contributed 36% of the volumes. Production in the Brazeau area exited the year at 29,000 boe/d up from 19,000 boe/d at the start of the year, while production from the Greater Sundance area remained level at approximately 80,000 boe/d.

Revised 2018 Budget

Both AECO and Henry Hub natural gas prices have softened since Peyto released its preliminary 2018 budget back in November 2017. At that time, the future strip for Henry Hub and AECO prices for calendar 2018 was US$3.09/MMBTU and CND$2.02/GJ respectively. Today, these same benchmark prices are USD$2.87/MMBTU and CND$1.35/GJ. Although Peyto can still generate positive returns on its well economics at these prices, the returns are significantly improved merely by delaying investments until higher natural gas prices on the future strip, or lower development costs, can be realized.

In response to these lower natural gas prices, Peyto is planning to defer its drilling activity and is reducing its 2018 capital budget until natural gas prices rebound. The revised capital budget for 2018 is now expected to range between $200 and $250 million. Activity will include drilling, completing and connecting approximately 50 to 60 net wells, installing a new 20 MMCF/d gas plant in the Whitehorse area, and adding new drilling inventory through new land purchases. Much of this activity will be scheduled in the latter half of the year to ensure new, flush production is coming on-stream into next winter's higher natural gas prices. This reduced program is expected to add approximately 25,000 boe/d of new production by year end to the existing production base which is anticipated to decline at approximately 35% throughout the year. Average production for the year 2018 is expected to be 2% lower than 2017.

The current 2018 future AECO strip price for Alberta natural gas is $1.35/GJ, which when combined with a Canadian Light Sweet oil price of approximately $75/bbl, yields an unhedged revenue stream of approximately $2.30/Mcfe, using Peyto's current blend of gas and NGLs. As mentioned, Peyto has secured a fixed price for approximately 75% of the expected 2018 natural gas production at an average price of $2.34/GJ ($2.68/Mcf). When these prices are adjusted for Peyto's historic NGL and heat content premiums and are combined with the Company's industry leading cash costs of approximately $0.75-$0.80/Mcfe, they are expected to yield cash netbacks of approximately $2.21/Mcfe ($13.30/boe).

Using these commodity and cost assumptions Peyto would generate funds from operations well in excess of the required combination of capital program and dividend payment. These excess funds will be used to reduce indebtedness and/or purchase commons shares under the NCIB.

Share Buyback

Peyto intends to apply to the TSX to implement a NCIB. The Company believes that implementing a NCIB is a prudent step in this volatile energy market environment, when at times, the prevailing market price does not reflect the underlying value of Peyto's Common Shares. The timely repurchase of Common Shares for cancellation represents confidence in the long term prospects and sustainability of the Corporation's business model. The Corporation's conservative balance sheet affords Peyto the ability to buy back shares when warranted. Any reduction in share count adds per share value to shareholders and the NCIB adds another tool to management's disciplined capital allocation strategy.

Pursuant to the NCIB, Peyto may purchase up to 12,158,897 of the outstanding Common Shares, which represents approximately 10% of the "public float" (as such term is defined by the policies of the TSX). As at January 8, 2018, Peyto had 164,874,175 Common Shares issued and outstanding and the public float was 121,588,969 Common Shares. Pursuant to the rules of the TSX, the total number of Common Shares that Peyto is permitted to purchase is subject to a daily purchase limit of 246,866 Common Shares, which represents 25% of the average daily trading volume of 987,467 Common Shares on the TSX for the six-month period ended December 31, 2017; provided, however, that Peyto may make one block purchase per calendar week which exceeds the daily purchase restriction. The actual number of Common Shares purchased pursuant to the NCIB and the timing of such purchases will be determined by Peyto and is dependent on future market conditions.

Subject to approval by the TSX, the NCIB is expected to commence on January 22, 2018 and will terminate on January 21, 2019, or such earlier time as the NCIB is completed or is terminated at the option of Peyto. Purchases under the NCIB will be effected through the facilities of the TSX and/or Canadian alternative trading systems at the prevailing market price at the time of such transaction. All Common Shares purchased under the NCIB will be cancelled.

Marketing Strategy

The Board of Directors has approved a new natural gas marketing diversification strategy. Over time, the Company plans to have 40% of its natural gas sales linked to AECO based pricing, 40% linked to NYMEX pricing and 20% sold directly to intra-Alberta industrial markets. As before, Peyto will continue to hedge future prices to smooth out the volatility in both natural gas markets.

At present, Peyto has 100% of expected 2018 natural gas production exposed to the AECO market with approximately 75% pre-sold (hedged) at an average price of $2.34/GJ or $2.68/Mcf, and 20% of 2019 natural gas production pre-sold at an average price of $2.06/GJ or $2.36/Mcf.

Management changes

Scott Robinson, Peyto’s current Chief Operating Officer (COO) has decided to transition towards retirement. Scott will continue with Peyto in a part time role as Executive Vice President, New Ventures and the Company looks forward to his continuing involvement in this new role. Peyto is also pleased to announce the appointment of Jean-Paul (JP) Lachance, Peyto’s current VP Exploitation, to the position of Executive Vice President of Engineering and COO. Jean-Paul has been with Peyto for 7 years and has played a key role in the profitable exploitation and development of the Company’s Deep Basin assets since joining Peyto in 2011.

Outlook

Peyto has spent the past 20 years profitably building a solid foundation of resources and infrastructure that will endure for many years to come. Occasionally over that time, the Company has paused during its ascent to review its business plan and adjust to the changes in prevailing economic and market conditions. This is one of those times when resource development, particularly in the Western Canadian Sedimentary Basin, is outpacing both market access and market demand, which has consequently upset the normal equilibrium in supply and demand for natural gas. What is true today, as in the past, is that this is a temporary situation that industry must solve with reduced investment and lower supply combined with increased demand from market expansion.

Although the Company does not have to slow down and could, through its superior supply and production cost advantage, continue with a high level of reinvestment, it has decided to decelerate development in anticipation of higher natural gas prices, better costs and greater returns that lie ahead with the re-establishment of a supply/demand equilibrium. As with all industry participants, Peyto’s marketing efforts have only established price protection for existing production built from previous capital investments. The returns for all new investments must be measured against the current unhedged strip pricing. Peyto will remain nimble to changing market dynamics and will have the financial and operational flexibility to ramp up activity quickly. Management is actively working to enhance Peyto’s position for that time by redeploying many of its technical staff from development operations to expanding the Company’s inventory of drilling opportunities. The Company anticipates this work will yield to an exciting new chapter in Peyto’s longstanding history in the Canadian energy industry.

In the meantime, shareholders can be confident that a continued focus on financial flexibility, and an industry leading cash cost structure, which delivers one of the highest cash margins in the industry, will continue to be Peyto's greatest insulation from the volatility in natural gas prices. The long life, and ultimately low decline nature of Peyto's Deep Basin production creates a solid foundation of value from which future value creation can and will occur.

Darren Gee
President and CEO
January 11, 2018

Certain information set forth in this document, including management's assessment of Peyto's future plans and operations, capital expenditures and capital efficiencies, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Peyto will derive there from. In addition, Peyto is providing future oriented financial information set out in this press release for the purposes of providing clarity with respect to Peyto's strategic direction and readers are cautioned that this information may not be appropriate for any other purpose. Other than is required pursuant to applicable securities law, Peyto does not undertake to update forward looking statements at any particular time. To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). Peyto uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.