Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited financial statements of Peyto Exploration & Development Corp. ("Peyto" or the "Company") for the years ended December 31, 2017 and 2016. The financial statements have been prepared in accordance with the International Accounting Standards Board's ("IASB") most current International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standards ("IAS").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of February 28, 2018. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto's website at www.peyto.com.

Certain information set forth in this MD&A, including management's assessment of Peyto's future plans and operations, 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 that Peyto will derive there from. The forward-looking statements contained in this MD&A are made as of the date of this MD&A. Except as required by applicable securities law, we assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risks and assumptions affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

All references are to Canadian dollars unless otherwise indicated. Natural gas liquids and oil volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent (mcfe) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl may be misleading as an indication of value.

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas and natural gas liquids in Alberta's deep basin. As at December 31, 2017, the Company's total Proved plus Probable reserves were 4.3 trillion cubic feet equivalent (722 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 91% to natural gas and 9% to natural gas liquids and oil.

The Peyto 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.
- Over time, balance dividends paid to shareholders with earnings and cash flow, and balance funding for the capital program with cash flow, equity and available bank lines.

Operating results over the last nineteen years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

ANNUAL FINANCIAL INFORMATION

The following is a summary of selected financial information of the Company for the periods indicated. Reference should be made to the audited consolidated financial statements of the Company, which are available at www.sedar.com.

Year Ended December 31 ($000 except per share amounts)	**2017**	2016	2015
Total revenue (before royalties)	**760,956**	678,388	717,836
Funds from operations	**573,721**	514,593	565,473
Per share – basic and diluted	**3.48**	3.17	3.59
Earnings	**176,575**	112,348	137,561
Per share – basic and diluted	**1.07**	0.69	0.87
Total assets	**3,844,714**	3,463,089	3,357,514
Total long-term debt	**1,285,000**	1,070,000	1,045,000
Dividends per share	**1.32**	1.32	1.32

Funds from Operations

"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

QUARTERLY FINANCIAL INFORMATION

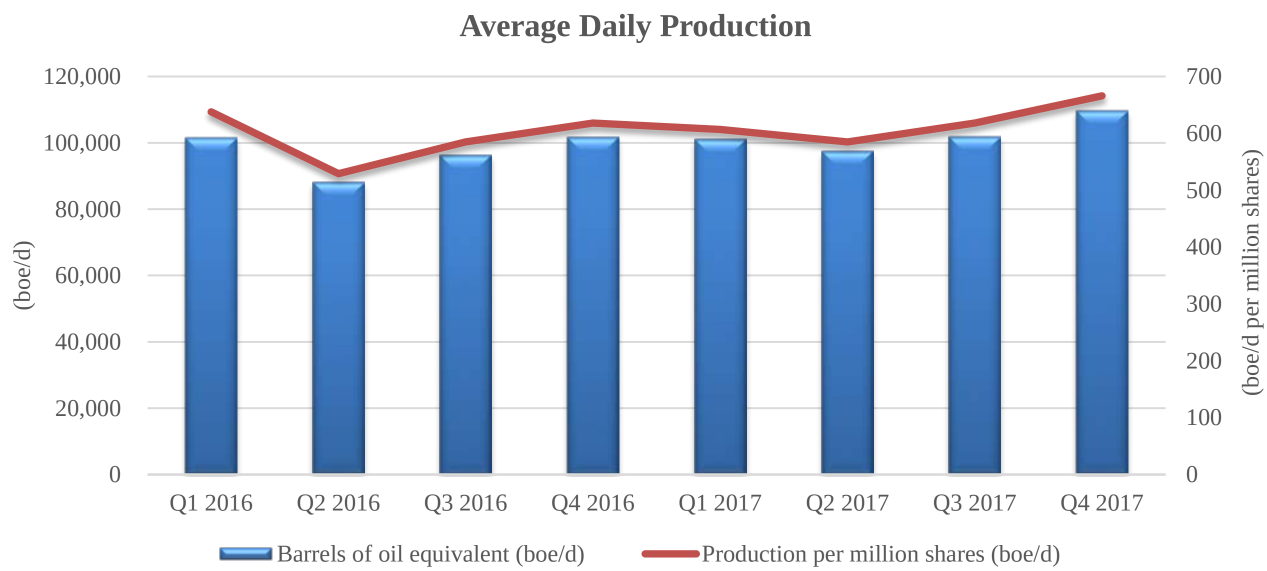
	2017				2016			
($000 except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue (net of royalties)	**202,566**	177,061	169,911	177,314	179,862	161,813	136,017	172,366
Funds from operations	**161,672**	139,257	133,487	139,305	144,593	127,915	102,178	139,907
Per share – basic and diluted	**0.98**	0.85	0.81	0.85	0.88	0.78	0.63	0.88
Earnings	**51,547**	44,818	39,957	40,255	38,489	22,814	9,102	41,943
Per share – basic and diluted	**0.31**	0.27	0.24	0.24	0.23	0.14	0.06	0.26
Dividends	**54,408**	54,408	54,408	54,387	54,328	54,328	53,735	52,520
Per share – basic and diluted	**0.33**	0.33	0.33	0.33	0.33	0.33	0.33	0.33

RESULTS OF OPERATIONS

Production

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Natural gas (mmcf/d)	**595.9**	557.0	**559.7**	537.1
Oil & natural gas liquids (bbl/d)	**10,479**	8,938	**9,337**	7,457
Barrels of oil equivalent (boe/d)	**109,793**	101,767	**102,614**	96,975
Thousand cubic feet equivalent (mmcfe/d)	**658.8**	610.6	**615.7**	581.9

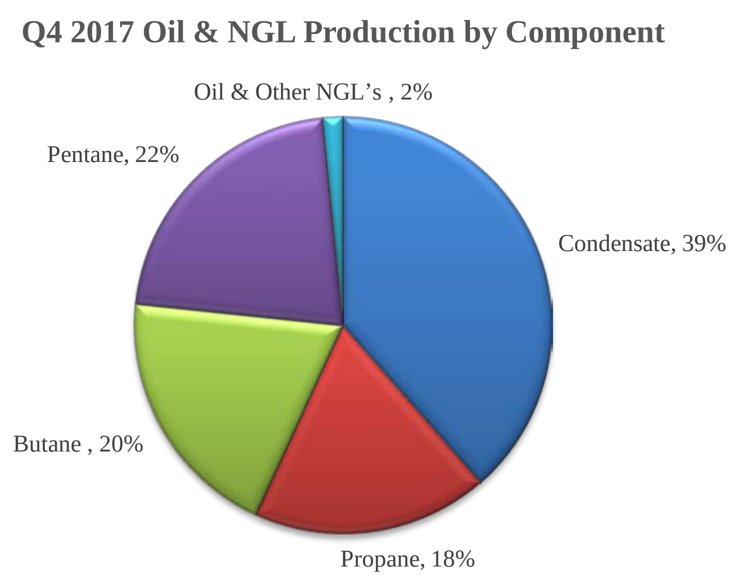
Natural gas production averaged 595.9 mmcf/d in the fourth quarter of 2017, 7% higher than the 557.0 mmcf/d reported for the same period in 2016. Oil and natural gas liquids production averaged 10,479 bbl/d, an increase of 17% from 8,938 bbl/d reported in the prior year. Fourth quarter production increased 8% from 610.6 mmcfe/d to 658.8 mmcfe/d. Production for the year increased 6% from 581.9 mmcfe/d to 615.7 mmcfe/d (96,975 boe/d to 102,614 boe/d). Production increases are attributable to Peyto's capital program and resulting production additions.



Oil & Natural Gas Liquids Production by Component

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Condensate (bbl/d)	**4,042**	3,443	**3,761**	3,281
Propane (bbl/d)	**1,917**	1,463	**1,477**	702
Butane (bbl/d)	**2,073**	1,743	**1,824**	1,398
Pentane (bbl/d)	**2,284**	2,102	**2,127**	1,913
Other Oil and NGL's (bbl/d)	**163**	187	**148**	163
Oil & natural gas liquids (bbl/d)	**10,479**	8,938	**9,337**	7,457
Million cubic feet equivalent (mmcfe/d)	**62.9**	53.6	**56.0**	44.7

The liquid production to sales gas ratio increased from 16.0 bbl/mmcf in the fourth quarter of 2016 to 17.6 bbl/mmcf in the fourth quarter of 2017 (13.9 bbl/mmcf for 2016 compared to 16.9 bbl/mmcf for 2017) primarily as a result of changes to gas plant operating practices. Liquid propane prices have recovered to the point where propane has more value in liquid form rather than as part of the sales gas stream. Peyto's long-term strategy of owning facilities and controlling production from the wellhead to the sales delivery point continues to allow the Company to respond quickly to changing conditions and thereby maximize profitability.



Commodity Prices

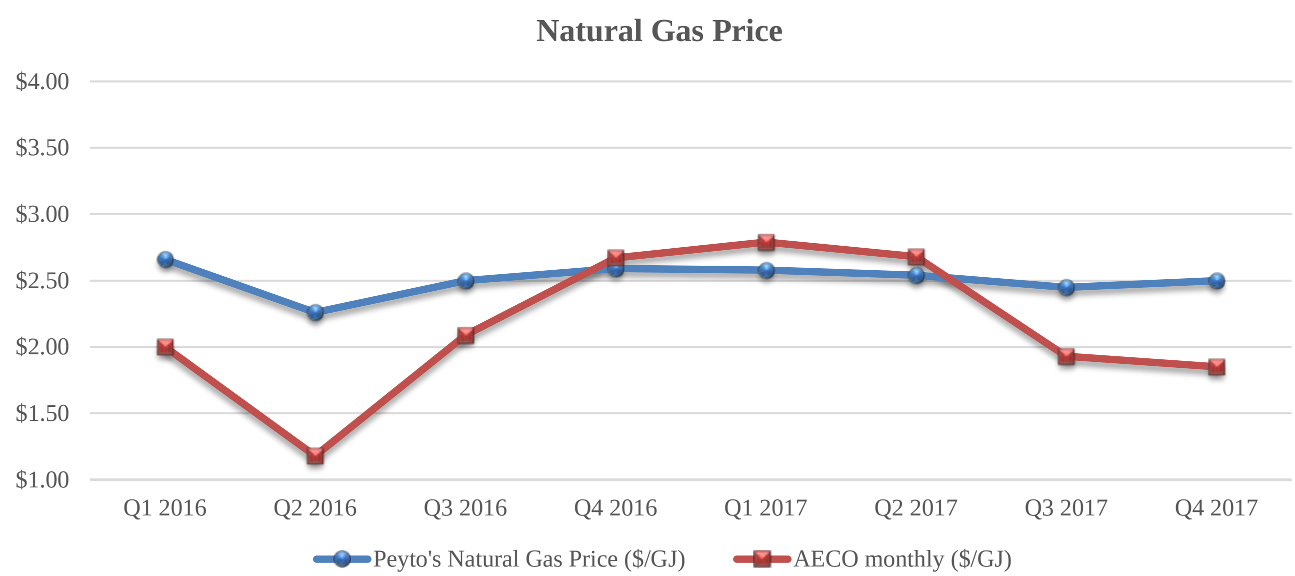
	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Oil and natural gas liquids ($/bbl)	**56.52**	45.09	**50.02**	40.30
Natural gas ($/mcf)	**2.15**	3.04	**2.61**	2.29
Hedging – gas ($/mcf)	**0.72**	(0.06)	**0.28**	0.60
Natural gas – after hedging ($/mcf)	**2.87**	2.98	**2.89**	2.89
Total Hedging ($/mcfe)	**0.65**	(0.05)	**0.26**	0.56
Total Hedging ($/boe)	**3.89**	(0.32)	**1.55**	3.34

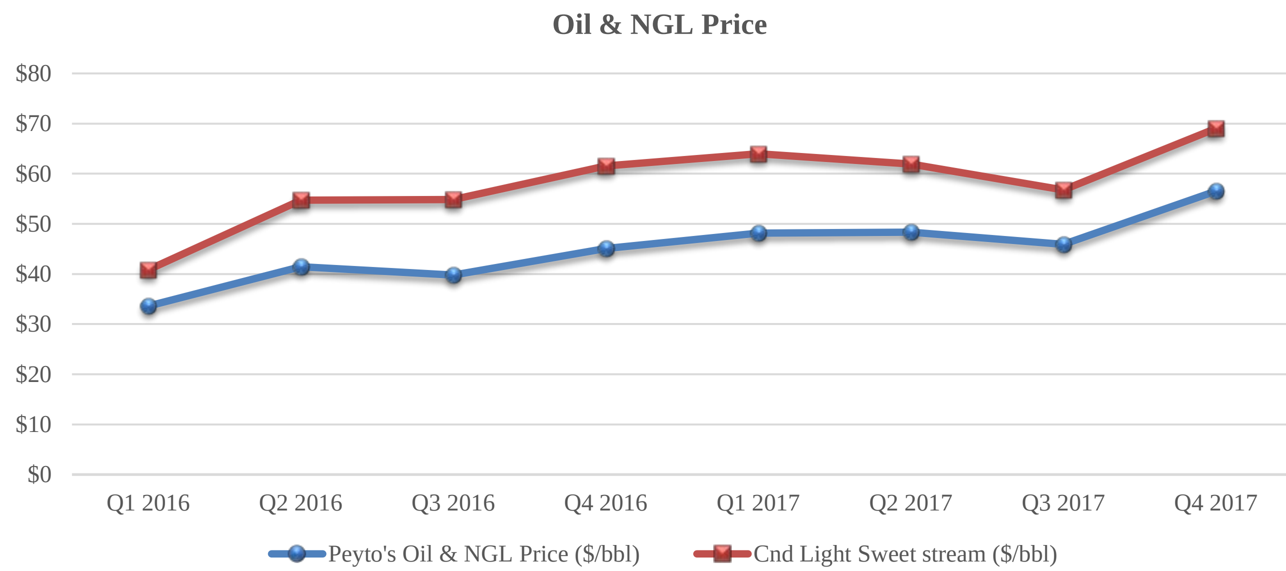
Peyto's natural gas price, before hedging, averaged $2.15/mcf during the fourth quarter of 2017, a decrease of 29% from $3.04/mcf for the equivalent period in 2016. Oil and natural gas liquids prices averaged $56.52/bbl, an increase of 25% from $45.09/bbl a year earlier. On an annual basis, natural gas prices before hedging increased 14% from $2.29/mcf to $2.61/mcf while oil and natural gas liquids increased 24% from $40.30/bbl to $50.02/bbl.

Commodity Prices by Component

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Natural gas – after hedging ($/mcf)	**2.87**	2.98	**2.89**	2.89
Natural gas – after hedging ($/GJ)	**2.50**	2.59	**2.51**	2.51
AECO monthly ($/GJ)	**1.85**	2.67	**2.31**	1.98
AECO daily ($/GJ)	**1.55**	2.93	**2.03**	2.05
Oil and natural gas liquids ($/bbl)				
Condensate ($/bbl)	**67.54**	56.05	**60.20**	47.32
Propane ($/bbl)	**34.95**	14.58	**23.16**	8.73
Butane ($/bbl)	**34.94**	28.02	**31.27**	21.69
Pentane ($/bbl)	**70.08**	59.11	**62.48**	50.50
Total Oil and natural gas liquids ($/bbl)	**56.52**	45.09	**50.02**	40.30
Canadian Light Sweet stream ($/bbl)	**69.02**	61.58	**62.94**	52.99

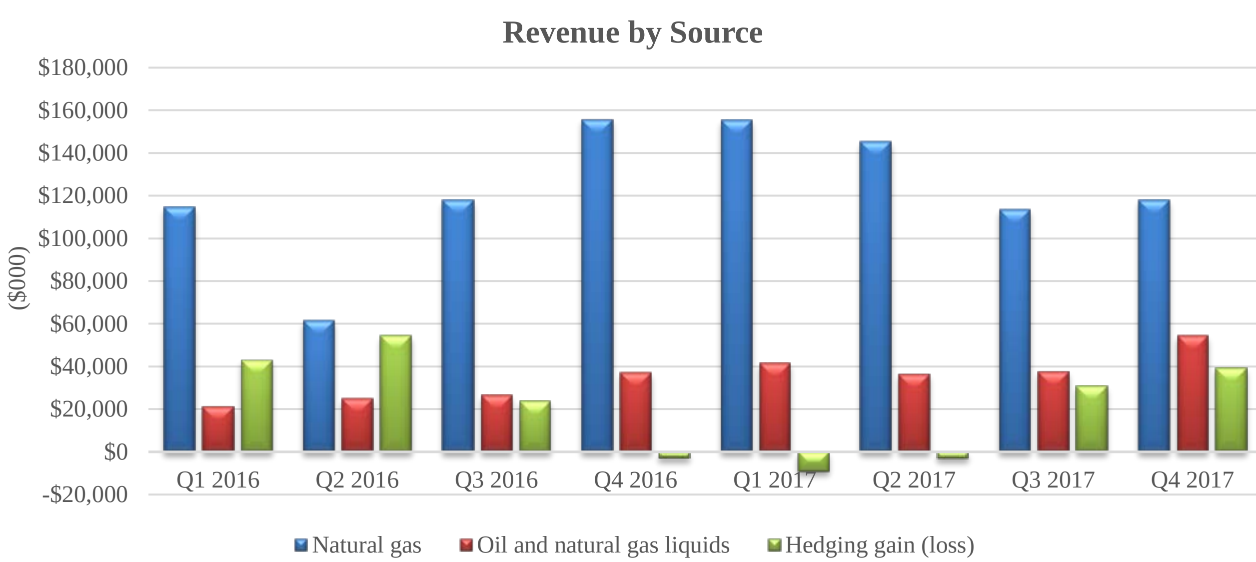
liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.





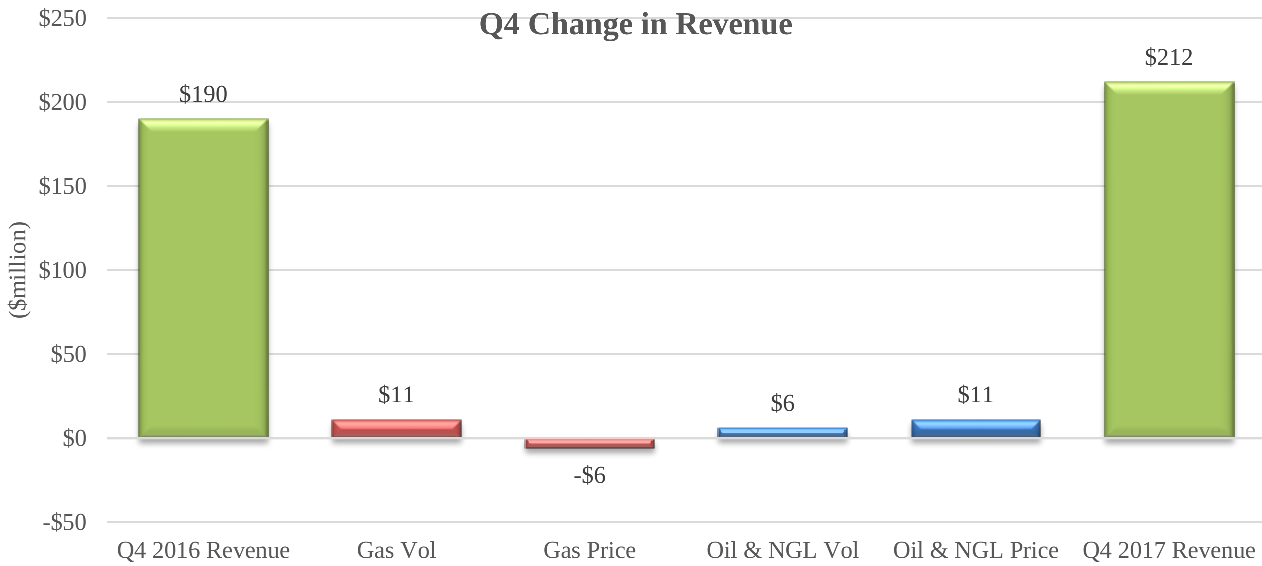
Revenue

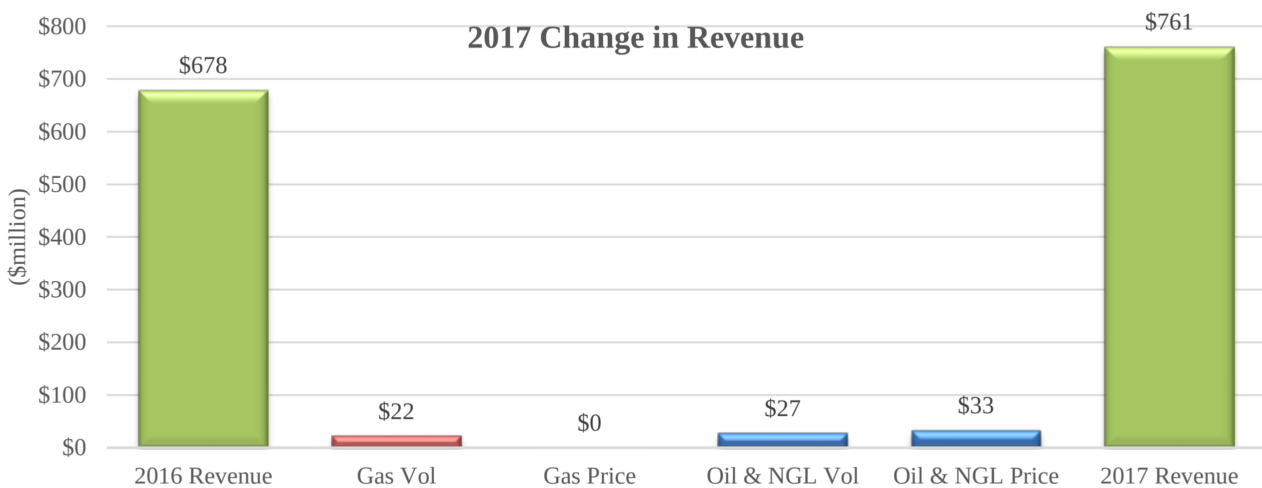
	Three Months ended December 31		Twelve months ended December 31	
($000)	**2017**	2016	**2017**	2016
Natural gas	**118,013**	155,888	**532,561**	449,921
Oil and natural gas liquids	**54,489**	37,080	**170,452**	109,994
Hedging gain	**39,297**	(3,017)	**57,943**	118,473
Total revenue	**211,799**	189,951	**760,956**	678,388



For the three months ended December 31, 2017, revenue increased 12% to $211.8 million from $190.0 million for the same period in 2016. On an annual basis, revenue increased 12 % from $678.4 million in 2016 to $761.0 million in 2017. The increase in revenue for the period was a result of increased production volumes and realized oil and natural gas liquids prices, offset in part by a decrease in realized natural gas prices including hedging gains, as detailed in the following table:

	Three Months ended December 31			Twelve months ended December 31		
	2017	2016	**$million**	2017	2016	**$million**
Total Revenue, December 31, 2016			**190.0**			**678.4**
Revenue change due to:						
Natural gas						
Volume (mmcf)	54,821	51,242	**10.6**	204,277	196,853	**22.2**
Price ($/mcf)	$2.87	$2.98	**(6.1)**	$2.89	$2.89	**0.0**
Oil & NGL						
Volume (mbbl)	964	822	**6.3**	3,408	2,729	**27.3**
Price ($/bbl)	$56.52	$45.09	**11.0**	$50.02	$40.30	**33.1**
Total Revenue, December 31, 2017			**211.8**			**761.0**



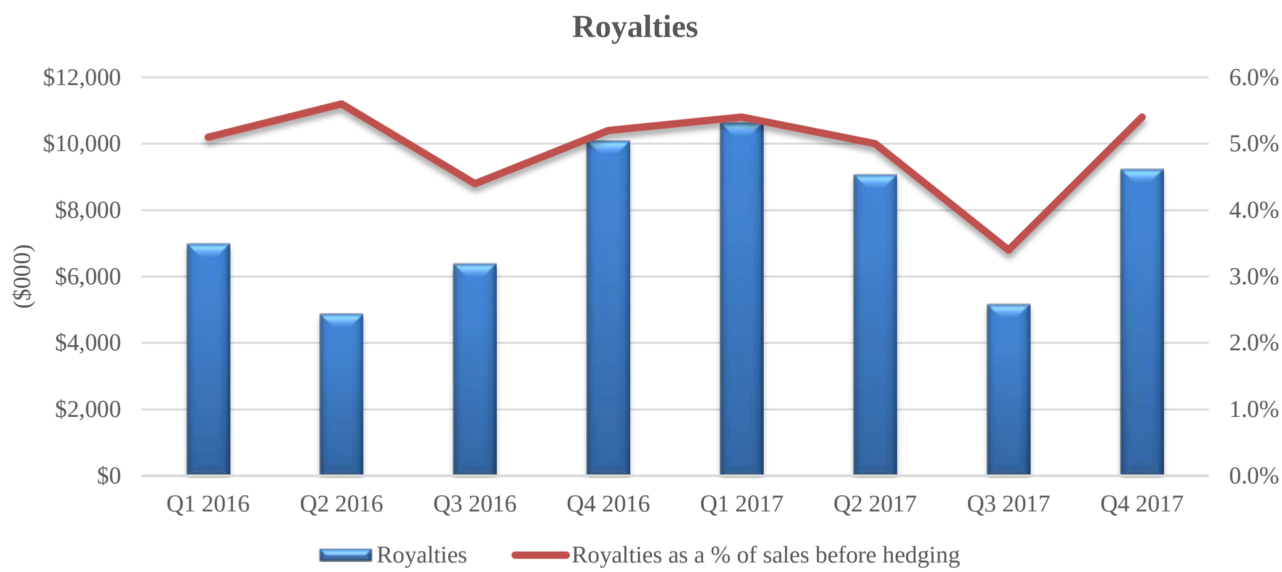


Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. All of Peyto's new natural gas wells qualify for the Crown incentive programs which have a 5% initial royalty rate. The royalty rate expressed as a percentage of sales revenue will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices realized by Peyto and that hedging gains and losses are not subject to royalties.

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Royalties ($000)	**9,232**	10,089	**34,104**	28,330
% of sales before hedging	**5.4**	5.2	**4.9**	5.1
% of sales after hedging	**4.4**	5.3	**4.5**	4.2
$/mcfe	**0.15**	0.18	**0.15**	0.13
$/boe	**0.91**	1.08	**0.91**	0.80

For the fourth quarter of 2017, royalties averaged $0.15/mcfe or approximately 5.4% of Peyto's total petroleum and natural gas sales excluding hedging gains. On an annual basis, royalties averaged $0.15/mcfe or 4.9% of sales excluding hedging gains.



In its 19 year history, Peyto has invested over $5.7 billion in capital projects, found and developed 5.8 TCFe of gas reserves, and paid over $832 million in royalties.

Operating Costs & Transportation

Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Operating costs ($000)	**16,877**	14,704	**60,423**	53,231
$/mcfe	**0.28**	0.26	**0.27**	0.25
$/boe	**1.67**	1.57	**1.61**	1.50
Transportation ($000)	**9,282**	9,044	**37,640**	34,550
$/mcfe	**0.16**	0.16	**0.16**	0.16
$/boe	**0.92**	0.97	**1.00**	0.97

For the fourth quarter, operating expenses increased 15% compared to the same quarter of 2016 primarily due to increase in costs in utilities, chemicals, property taxes and AER Administration fees. On a unit-of-production basis, operating costs increased 8% from $0.26/mcfe in the fourth quarter of 2016 to $0.28/mcfe in the fourth quarter of 2017. On an annual basis, operating costs per mcfe increased 8% from $0.25/mcfe to $0.27/mcfe. These continued strong results were achieved despite increases in municipal taxes and the Alberta Energy Regulator fee levy. Peyto focuses on being the industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.

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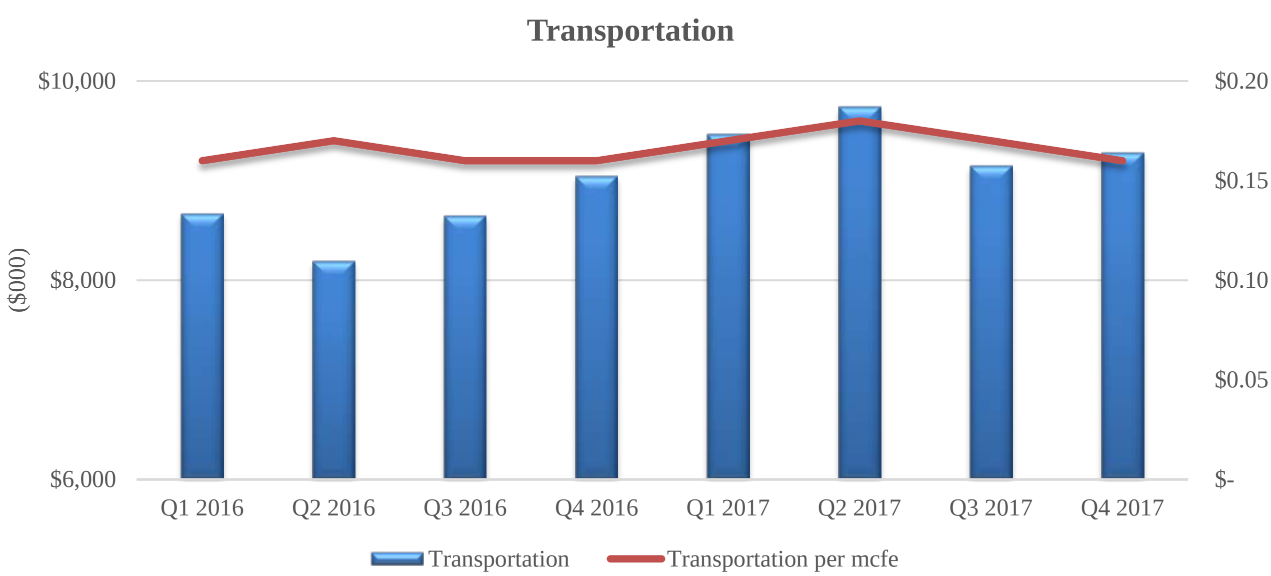
Transportation expenses remained constant at $0.16/mcfe in the fourth quarter 2017 compared to the fourth quarter 2016 and on an annual basis.

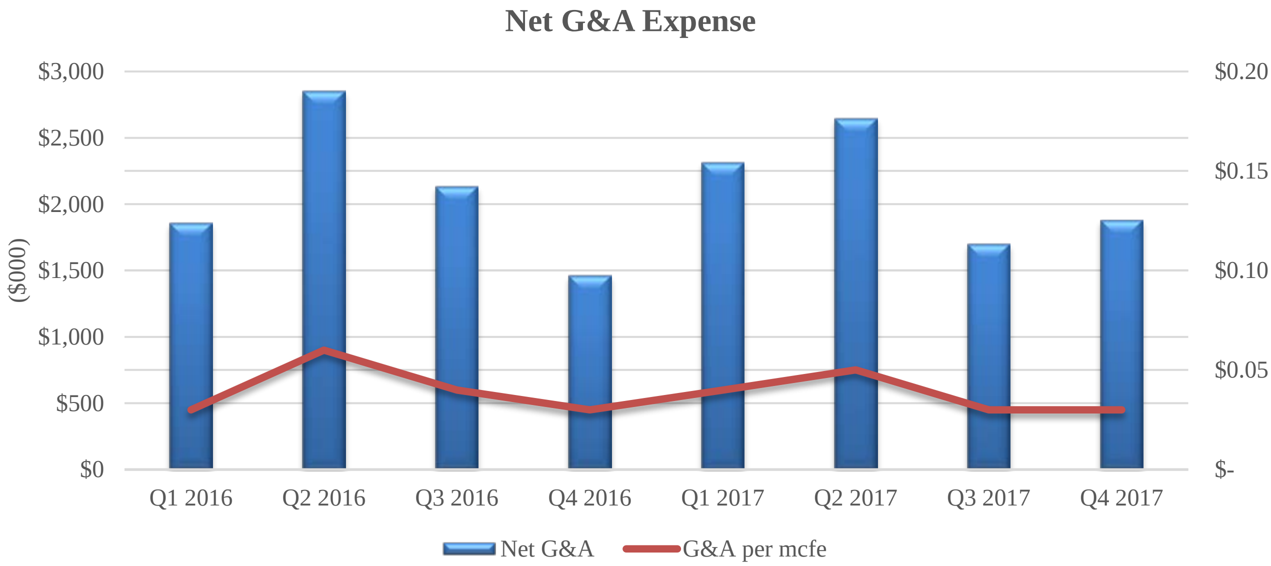


General and Administrative Expenses

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
G&A expenses ($000)	**4,248**	4,204	**17,392**	16,358
Overhead recoveries ($000)	**(2,369)**	(2,743)	**(8,854)**	(8,054)
Net G&A expenses ($000)	**1,879**	1,461	**8,538**	8,304
$/mcfe	**0.03**	0.03	**0.04**	0.04
$/boe	**0.19**	0.16	**0.23**	0.23

For the fourth quarter, general and administrative expenses before overhead recoveries was $4.2 million compared to $4.2 million for the same quarter of 2016. General and administrative expenses averaged $0.07/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.03/mcfe in the fourth quarter of 2017 ($0.08/mcfe before overhead recoveries of $0.05/mcfe for net general and administrative expenses of $0.03/mcfe in the fourth quarter of 2016).

Peyto capitalizes general and administrative costs and market and reserves based compensation related to the execution of its capital program. Most these costs are related to the execution of Peyto's capital program. In 2017, Peyto capitalized $8.3 million of expenses directly attributable to exploration and development activities compared to $7.6 million in 2016.



Performance Based Compensation

The Company awards performance based compensation to employees and key consultants annually. The performance based compensation is comprised of market and reserve value based components.

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of $0.7 million was recorded for the fourth quarter of 2017. The cumulative provision is $1.8 million for the year end December 31, 2017.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period. The 2017 market based component was based on 1.3 million vested rights at an average grant price of $24.09, average cumulative dividends of $1.32 and a ten day weighted average price of $33.80.

The total amount expensed under these plans was as follows:

($000)	**2017**	2016
Market based compensation	13,867	17,020
Reserve based compensation	1,817	8,750
Total market and reserves based compensation	**15,684**	25,770

Future Market Based Compensation

For the future market based component, compensation costs recovery of $2.2 million were recorded for the year ended December 31, 2017 related to 1.3 million non-vested rights with an average grant price of $24.09 and average cumulative dividends of $1.32. (2016 – $9.2 related to 2.5 million non-vested rights with an average grant price of $24.09 and average cumulative dividends of $1.32). The cumulative provision for future performance based compensation as at December 31, 2017 was $9.2 million (2016 - $11.4 million).

Subsequent to December 31, 2017, 3.9 million rights were granted at a price of $14.68 to be valued at the ten day weighted average market price at December 31, 2018 and vesting 1/3 on each of December 31, 2018, December 31, 2019 and December 31, 2020.

The changes in total rights outstanding and related weighted average exercise prices for the years ended December 31, 2017 and 2016 were as follows:

	Rights (number of shares)	**Weighted Average Grant Price ($)**

Balance, December 31, 2015	**1,004,717**	**$34.23**
Granted	3,798,500	$24.09
Cancelled	(14,000)	$24.67
Paid out	(2,265,550)	$27.78
Balance, December 31, 2016	**2,523,667**	**$24.09**
Granted	3,918,500	$33.64
Cancelled	(17,867)	$28.98
Paid out	(5,166,900)	$31.32
Balance, December 31, 2017	**1,257,400**	**$24.09**

Rights Outstanding Under Market Based Compensation Plan

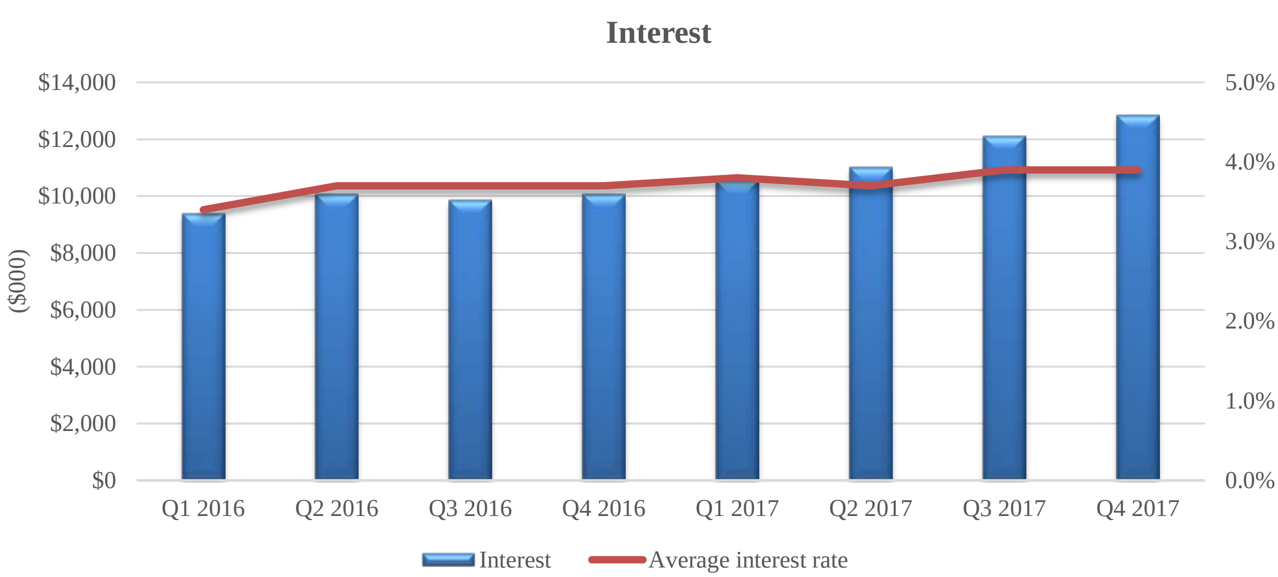
	Valued but Not Vested			**To be Valued December 31, 2018**	
Vesting Date	**Number of Rights**	**Value ($)**		**Number of Rights**	**Average Grant Price ($)**
December 31, 2018	1,257,400	13,866,813	*	1,314,133	14.68
December 31, 2019	-	-		1,314,133	14.68
December 31, 2020	-	-		1,314,133	14.68

*Valued on December 31, 2016 at $33.80

Interest Expense

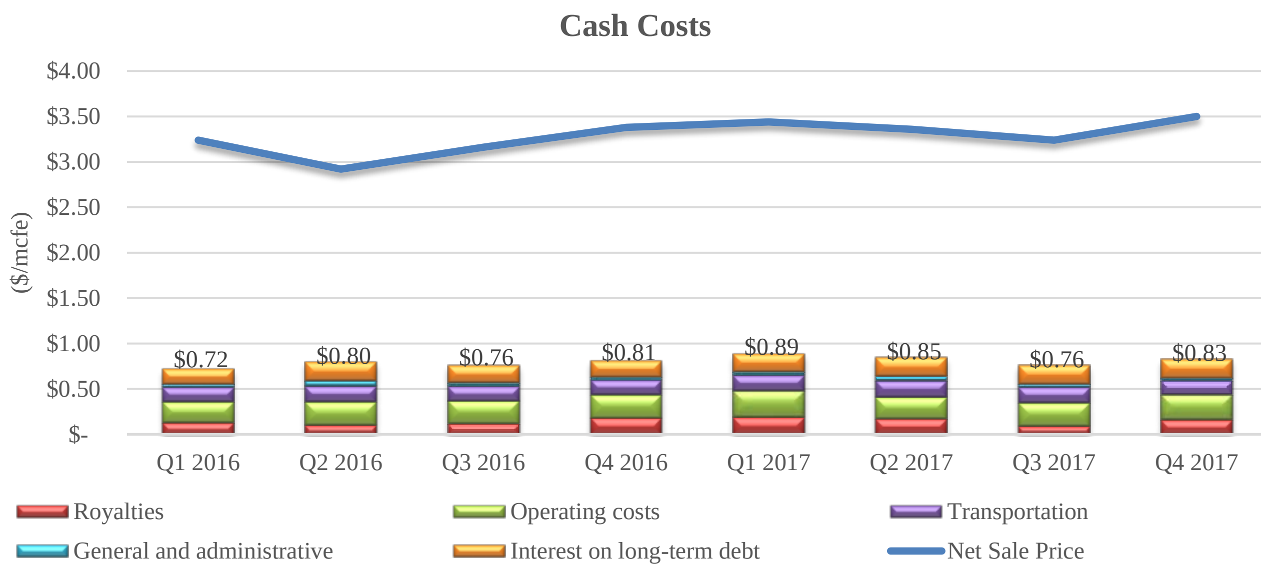
	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Interest expense ($000)	**12,856**	10,060	**46,530**	39,380
$/mcfe	**0.21**	0.18	**0.21**	0.18
$/boe	**1.27**	1.07	**1.24**	1.11
Average interest rate	**4.0%**	3.7%	**3.9%**	3.7%

Fourth quarter 2017 interest expense was $12.9 million or $0.21/mcfe compared to $10.1 million or $0.18/mcfe for the fourth quarter 2016. For the year ended December 31, 2017, interest expense was $46.5 million compared to $39.4 million for 2016. The average interest rate 2017 was 3.9% compared to 3.7% in 2016 due to Bank of Canada interest rate increases.



Netbacks

	Three Months ended December 31		Twelve months ended December 31	
($/mcfe)	**2017**	2016	**2017**	2016
Gross Sale Price	**2.85**	3.43	**3.13**	2.62
Hedging gain (loss)	**0.65**	(0.05)	**0.25**	0.56
Net Sale Price	**3.50**	3.38	**3.38**	3.18
Less: Royalties	**0.15**	0.18	**0.15**	0.13
Operating costs	**0.28**	0.26	**0.27**	0.25
Transportation	**0.16**	0.16	**0.16**	0.16
Field netback	**2.91**	2.78	**2.80**	2.64
General and administrative	**0.03**	0.03	**0.04**	0.04
Interest on long-term debt	**0.21**	0.18	**0.21**	0.18
Cash netback ($/mcfe)	**2.67**	2.57	**2.55**	2.42
Cash netback ($/boe)	**16.01**	15.44	**15.32**	14.50



Netbacks are a non-IFRS measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.

Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2017 fourth quarter provision for depletion, depreciation and amortization totaled $86.6 million ($1.43/mcfe) compared to $82.0 million ($1.46/mcfe) in the fourth quarter 2016. On an annual basis, depletion and depreciation was $315.3 compared to $330.7 in 2016. On a unit-of-production basis, depletion and depreciation costs averaged $1.40/mcfe in 2017 compared to $1.55/mcfe in 2016. As finding and development costs decrease, associated depletion and depreciation costs also decrease.

Income Taxes

The current provision for deferred income tax expense is $19.1 million compared to $14.0 million in the fourth quarter of 2016. The annual provision for 2017 is $65.3 million compared to $41.8 million for 2016. The corporate income tax rate in Alberta remained unchanged at 27%. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	December 31, 2017	December 31, 2016	Annual deductibility
Canadian Oil and Gas Property Expense	211.2	217.9	10% declining balance
Canadian Development Expense	848.0	818.9	30% declining balance
Canadian Exploration Expense	76.0	121.4	100%
Undepreciated Capital Cost	406.3	388.3	Primarily 25% declining balance
Other	27.2	33.4	Various, 7% to 20% declining balance
Total Federal Tax Pools	**1,568.7**	**1,579.9**	
Additional Alberta Tax Pools	46.3	44.9	Primarily 100%

MARKETING

Commodity Price Risk Management

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the fourth quarter of 2017, a realized hedging gain of $39.3 million was recorded as compared to a $3.0 million loss for the equivalent period in 2016. A summary of contracts outstanding 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	90,000 GJ	$2.17/GJ
April 1, 2018 to March 31, 2019	Fixed Price	180,000 GJ	$2.35/GJ
April 1, 2019 to October 31, 2019	Fixed Price	5,000 GJ	$1.90/GJ
April 1, 2019 to March 31, 2020	Fixed Price	45,000 GJ	$1.96/GJ
November 1, 2019 to March 31, 2020	Fixed Price	15,000 GJ	$2.03/GJ

Natural Gas Period Hedged -Daily Index	Type	Daily Volume	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	30,000 GJ	$1.56/GJ

As at December 31, 2017, Peyto had committed to the future sale of 217,245,000 gigajoules (GJ) of natural gas at an average price of $2.29 per GJ or $2.63 per mcf. Had these contracts closed on December 31, 2017, Peyto would have realized a net gain in the amount of $151.3 million.

Subsequent to December 31, 2017 Peyto entered into the following contracts:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Price (CAD)
April 1, 2018 to October 31, 2018	Fixed Price	15,000 GJ	$1.30/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	60,000 GJ	$1.82/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	25,000 GJ	$1.49/GJ
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.30/GJ

Natural Gas Period Hedged - Daily Index	Type	Daily Volume	Price (CAD)
April 1, 2018 to March 31, 2019	Fixed Price	10,000 GJ	$1.47/GJ

Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of a commodity hedging strategy that is conducted in a Canadian dollar currency. Over the long term, the Canadian dollar tends to rise as commodity prices rise. There is a similar correlation between oil and gas prices. Currently Peyto has not entered into any agreements to further manage its currency risks.

Interest Rate Risk Management

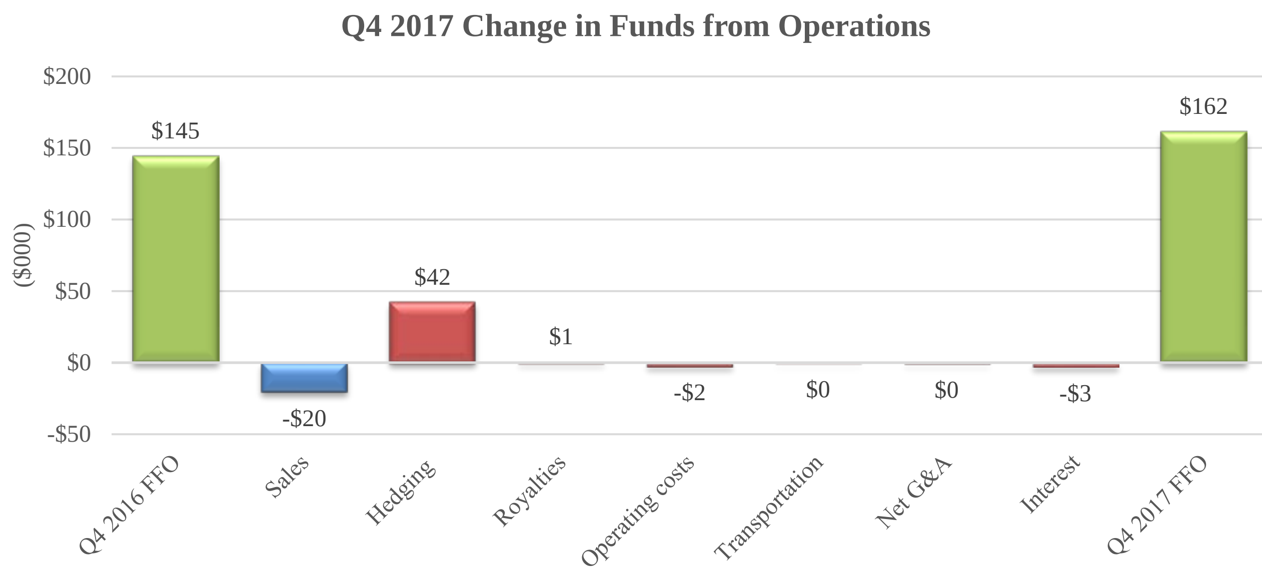
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At December 31 2017, the increase or decrease in earnings for each 100 bps (1%) change in interest rate paid on the outstanding revolving demand loan amounts to approximately $1.9 million per quarter. Average debt outstanding for the quarter was $1,201 million (including $520 million fixed rate debt).

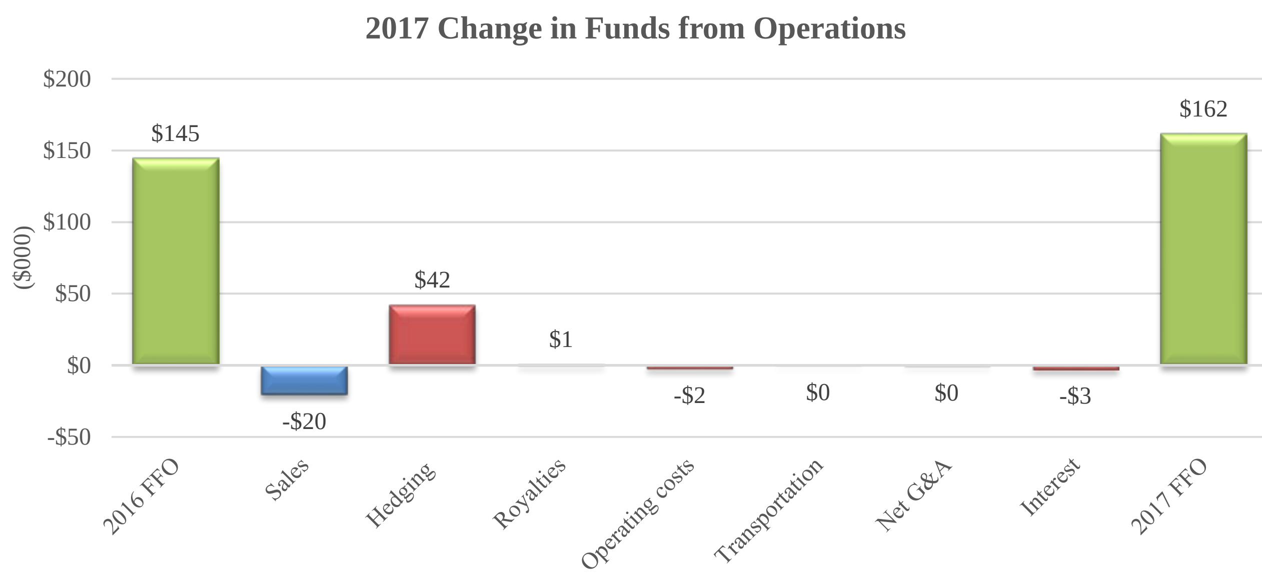
LIQUIDITY AND CAPITAL RESOURCES

Funds from operations is reconciled to cash flows from operating activities below:

	Three Months ended December 31		Twelve months ended December 31	
($000)	**2017**	2016	**2017**	2016
Cash flows from operating activities	**143,568**	138,329	**535,344**	508,629
Change in non-cash working capital	**6,444**	(4,012)	**20,381**	(24,661)
Change in provision for performance based compensation	**(4,024)**	(15,494)	**2,312**	4,855
Performance based compensation	**15,684**	25,770	**15,684**	25,770
Funds from operations	**161,672**	144,593	**573,721**	514,593
Funds from operations per share	**0.98**	0.88	**3.48**	3.17

For the fourth quarter ended December 31, 2017, funds from operations totaled $161.7 million or $0.98 per share, compared to $144.6 million or $0.88 per share during the same quarter in 2016. For the year ended December 31, 2017 funds from operations was $573.7 million or $3.48 per share, compared to $514.6 million or $3.17 per share for 2016. The increase in funds from operation on a quarterly and annual basis was due to an increase in production volumes and in oil and NGL prices.





Peyto's policy is to balance dividends to shareholders with earnings and cash flow, and to balance funding for the capital program with cash flow, equity and available bank lines. Earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

Long-Term Debt

($000)	**December 31, 2017**	December 31, 2016
Bank credit facility	**765,000**	550,000
Senior unsecured notes	**520,000**	520,000
Balance, end of the period	**1,285,000**	1,070,000

The Company has a syndicated $1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2021. The bank facility is made up of a $40 million working capital sub-tranche and a $1.26 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and

US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve month net income before non-cash items, interest and income taxes;

  as at December 31, 2017 – 2.20:1.0

- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;

  as at December 31, 2017 – 2.20:1.0

- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;

  as at December 31, 2017 – 13.0 times

- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55% of shareholders' equity and long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items.

  as at December 31, 2017 – 44%

Peyto is in compliance with all financial covenants and has no subordinated debt as at December 31, 2017.

On October 24, 2016 Peyto closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of private placement pursuant to the amended and restated note purchase and private shelf agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.7% and mature on October 24, 2023. Interest will be paid semi-annually in arrears.

Outstanding senior notes are as follows:

Senior Unsecured Notes	**Date Issued**	**Rate**	**Maturity Date**
$100 million	January 3, 2012	4.39%	January 3, 2019
$50 million	September 6, 2012	4.88%	September 6, 2022
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	October 24, 2016	3.70%	October 24, 2023

Peyto's total borrowing capacity after the issuance of the senior, unsecured notes on October 24, 2016 is $1.82 billion of which the credit facility is $1.3 billion.

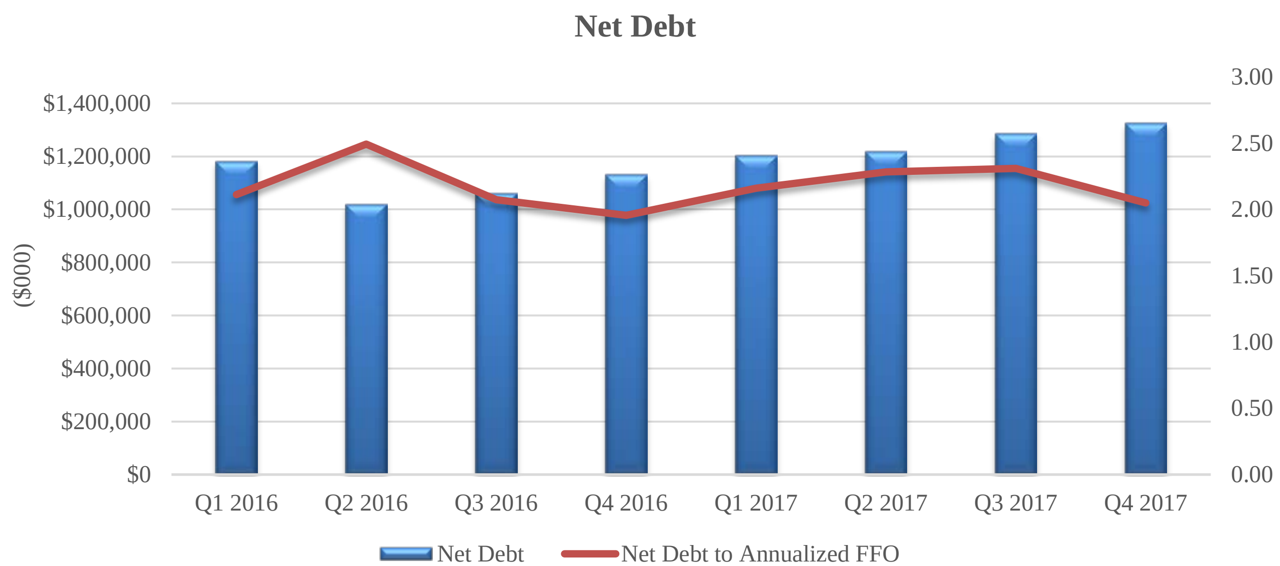
On January 2, 2018, the Company closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of a private placement, pursuant to a note purchase agreement and a note purchase and private shelf agreement, and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.95% and mature on January 2, 2028. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay a portion of Peyto's outstanding bank debt.

Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of approximately $200 to $250 million for 2018. The total amount of capital invested in 2018 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance based compensation. It is used by management to analyze the financial position and leverage of the Company. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

($000)	**As at December 31, 2017**	As at December 31, 2016
Bank credit facility	**765,000**	550,000
Senior unsecured notes	**520,000**	520,000
Current assets	**(243,489)**	(115,230)
Current liabilities	**160,078**	302,416
Financial derivative instruments	**135,017**	(119,280)
Provision for future performance based compensation	**(9,166)**	(6,854)
Net debt	**1,327,440**	1,131,052



Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount ($000)**
Balance, December 31, 2016	**164,630,168**	**1,641,982**
Common shares issued by private placement	244,007	7,574
Common share issuance costs, (net of tax)	-	(19)
Balance, December 31, 2017	**164,874,175**	**1,649,537**

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

Capital Expenditures

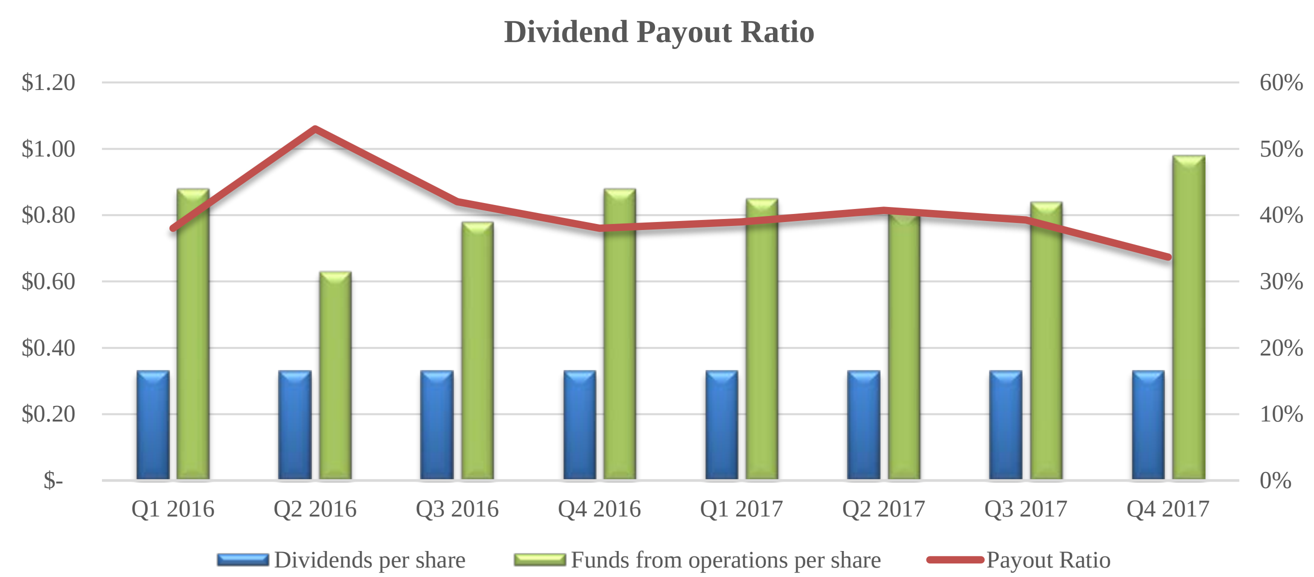
Net capital expenditures for the fourth quarter of 2017 totaled $134.4 million. Exploration and development related activity represented $111.0 million (83% of total), while expenditures on facilities, gathering systems and equipment totaled $19.3

million (14% of total) land, seismic, and acquisitions totaled $4.1 million (3% of total). The following table summarizes capital expenditures for the period:

	Three Months ended December 31		Twelve months ended December 31	
($000)	**2017**	2016	**2017**	2016
Land	**3,609**	204	**10,328**	1,207
Seismic	**270**	3,595	**6,007**	8,149
Drilling	**68,909**	63,130	**256,932**	219,784
Completions	**42,124**	37,256	**133,732**	105,344
Equipping & Tie-ins	**15,695**	14,212	**53,146**	41,451
Facilities & Pipelines	**3,610**	10,955	**57,284**	60,159
Acquisitions	**194**	386	**3,823**	33,026
Dispositions	**-**	(228)	**(42)**	(255)
Leasehold Improvements	**-**	(103)	**-**	510
Total Capital Expenditures	**134,411**	129,407	**521,210**	469,375

Dividends

	Three Months ended December 31		Twelve months ended December 31	
	2017	2016	**2017**	2016
Funds from operations ($000)	**161,672**	144,593	**573,721**	514,593
Total dividends ($000)	**54,408**	54,328	**217,612**	214,911
Total dividends per common share ($)	**0.33**	0.33	**1.32**	1.32
Payout ratio (%)	**34**	38	**38**	42



Peyto's policy is to balance dividends to shareholders with earnings and cash flow; and funding for the capital program with cash flow, equity and available bank lines. The Board of Directors 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.

Contractual Obligations

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at December 31, 2017:

($000)	2018	2019	2020	2021	2022	Thereafter
Interest payments[(1)]	22,085	19,890	17,695	12,295	12,295	14,350
Transportation commitments	39,199	34,467	24,049	20,522	20,238	59,251
Operating leases	2,242	2,242	2,242	2,242	2,317	9,269
Methanol	1,279	-	-	-	-	-
Total	64,805	56,599	43,986	35,059	34,850	82,870

(1) Fixed interest payments on senior unsecured notes

LITIGATION

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 Company, as a successor to new Open Range Energy Corp. ("New Open Range") (the "Poseidon Shareholder Application"). 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 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 Company 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 Company is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range.

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

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

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 (the "KPMG Poseidon Shareholder KPMG Action"). On July 29, 2014, KPMG LLP filed a statement of defence and a third party claim against Poseidon, the Company 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.

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

RELATED PARTY TRANSACTIONS

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. The dollar value of the transactions between Peyto and the related reporting entities is summarized below:

	Expense				Accounts Payable	
	Three Months ended December 31		Twelve months ended December 31		As at December 31	
($000)	**2017**	2016	**2017**	2016	**2017**	2016
	211.3	427.9	**671.7**	1,007.0	**549.2**	700.0

RISK MANAGEMENT

Investors who purchase shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is primarily dependent on current Alberta market prices. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

The value of Peyto's shares is based on among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost efficient counterparties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. Peyto operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations, and looks to both Alberta provincial authorities and Canada's federal authorities for direction and regulation regarding environmental and climate change legislation.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, Peyto must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2017 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

Depletion and Depreciation Estimate
All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis.

Impairment of Long-Lived Assets
Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

Decommissioning Provision
The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Future Market Performance Based Compensation
The provision for future market based compensation is estimated based on current market conditions, distribution history and on the assumption that all outstanding rights will be paid out according to the vesting schedule. The conditions at the time of vesting could vary significantly from the current conditions and may have a material effect on the calculation.

Reserve Value Performance Based Compensation
The reserve value based compensation is calculated using the year end independent reserves evaluation which was completed in February 2018. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes
The determination of the Company’s income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Accounting Changes
Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

STANDARDS ISSUED BUT NOT YET EFFECTIVE

The IASB issued the following standards and amendments which are not yet effective for Peyto and discussed in further detail in Note 2 to the Financial Statements for the fiscal period ended December 31, 2017.

> In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018. The impact of the standard has been evaluated and is expected to not have a material impact on the Company’s financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosure may be required upon implementation of IFRS 15 in order to provide sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

ADDITIONAL INFORMATION

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR at www.sedar.com and www.peyto.com.

Quarterly information

	2017				2016
	Q4	Q3	Q2	Q1	Q4
Operations					
Production					
Natural gas (mcf/d)	595,885	557,958	535,274	549,037	556,975
Oil & NGLs (bbl/d)	10,479	8,958	8,319	9,586	8,938
Barrels of oil equivalent (boe/d @ 6:1)	109,793	101,951	97,531	101,093	101,767
Thousand cubic feet equivalent (mcfe/d @ 6:1)	658,759	611,703	585,187	606,556	610,602
Average product prices					
Natural gas ($/mcf)	2.87	2.81	2.92	2.96	2.98
Oil & natural gas liquids ($/bbl)	56.52	45.92	48.33	48.14	45.09
$/MCFE					
Average sale price ($/mcfe)	3.50	3.24	3.36	3.44	3.38
Average royalties paid ($/mcfe)	0.15	0.09	0.17	0.19	0.18
Average operating expenses ($/mcfe)	0.28	0.26	0.24	0.29	0.26
Average transportation costs ($/mcfe)	0.16	0.17	0.18	0.17	0.16
Field netback ($/mcfe)	2.91	2.72	2.77	2.79	2.78
General & administrative expense ($/mcfe)	0.03	0.03	0.05	0.04	0.03
Interest expense ($/mcfe)	0.21	0.21	0.21	0.20	0.18
Cash netback ($/mcfe)	2.67	2.48	2.51	2.55	2.57
Financial ($000 except per share)					
Revenue	211,799	182,226	178,982	187,949	189,951
Royalties	9,232	5,165	9,071	10,635	10,089
Funds from operations	161,672	139,257	133,487	139,305	144,593
Funds from operations per share	0.98	0.85	0.81	0.85	0.88
Total dividends	54,408	54,408	54,408	54,387	54,328
Total dividends per share	0.33	0.33	0.33	0.33	0.33
Payout ratio	34%	39%	41%	39%	38%
Earnings	51,547	44,818	39,957	40,255	38,489
Earnings per share	0.31	0.27	0.24	0.24	0.23
Capital expenditures	134,411	135,187	97,738	153,874	129,407
Weighted average shares outstanding	164,874,175	164,874,175	164,874,175	164,800,637	164,630,168