

## 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, 2016 and 2015. 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 November 7, 2017. Additional information about Peyto, including the most recently filed annual information form is available at [www.sedar.com](http://www.sedar.com) and on Peyto's website at [www.peyto.com](http://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 (mcf) 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, 2016, the Company's total Proved plus Probable reserves were 3.9 trillion cubic feet equivalent (655 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 eighteen years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2017				2016			2015
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Total revenue (net of royalties)	<b>177,061</b>	169,911	177,314	179,862	161,813	136,017	172,366	184,943
Funds from operations	<b>139,257</b>	133,487	139,305	144,593	127,915	102,178	139,907	151,123
Per share – basic and diluted	<b>0.85</b>	0.81	0.85	0.88	0.78	0.63	0.88	0.95
Earnings	<b>44,818</b>	39,957	40,255	38,489	22,814	9,102	41,943	43,406
Per share – basic and diluted	<b>0.27</b>	0.24	0.24	0.23	0.14	0.06	0.26	0.27
Dividends	<b>54,408</b>	54,408	54,387	54,328	54,328	53,735	52,520	52,456
Per share – basic and diluted	<b>0.33</b>	0.33	0.33	0.33	0.33	0.33	0.33	0.33

### 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.

## RESULTS OF OPERATIONS

### Production

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Natural gas (mmcf/d)	<b>558.0</b>	534.7	<b>547.5</b>	530.4
Oil & natural gas liquids (bbl/d)	<b>8,958</b>	7,247	<b>8,952</b>	6,960
Barrels of oil equivalent (boe/d)	<b>101,951</b>	96,365	<b>100,195</b>	95,367
Thousand cubic feet equivalent (mmcf/d)	<b>611.7</b>	578.2	<b>601.2</b>	572.2

Natural gas production averaged 558.0 mmcf/d in the third quarter of 2017, 4 percent higher than the 534.7 mmcf/d reported for the same period in 2016. Oil and natural gas liquids production averaged 8,958 bbl/d, an increase of 24 percent from 7,247 bbl/d reported in the prior year. Third quarter production increased 6 percent from 578.2 mmcf/d to 611.7 mmcf/d. The production increases are attributable to Peyto’s capital program and resulting production additions.

### Average Daily Production

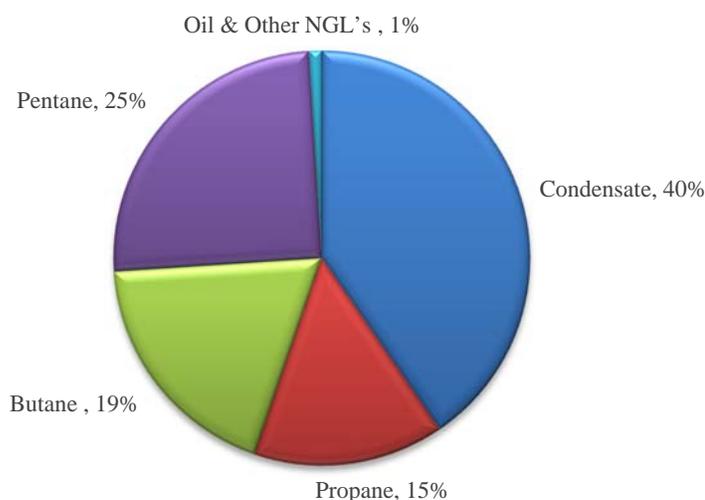


## Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Condensate (bbl/d)	<b>3,609</b>	2,944	<b>3,667</b>	3,227
Propane (bbl/d)	<b>1,323</b>	735	<b>1,328</b>	447
Butane (bbl/d)	<b>1,670</b>	1,337	<b>1,740</b>	1,282
Pentane (bbl/d)	<b>2,235</b>	2,096	<b>2,075</b>	1,850
Other Oil and NGL's (bbl/d)	<b>121</b>	135	<b>142</b>	154
Oil & natural gas liquids (bbl/d)	<b>8,958</b>	7,247	<b>8,952</b>	6,960
Million cubic feet equivalent (mmcf/d)	<b>53.7</b>	43.5	<b>53.7</b>	41.8

The liquid production to sales gas ratio increased from 13.6 bbl/mmcf in Q3 2016 to 16.1 bbl/mmcf in Q3 2017 primarily as a result of intentional changes to gas plant operating practices. Liquid propane prices recovered to the point where propane had 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.

### Q3 2017 Oil & NGL Production by Component



## Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Oil and natural gas liquids (\$/bbl)	<b>45.92</b>	39.76	<b>47.45</b>	38.24
Natural gas (\$/mcf)	<b>2.21</b>	2.39	<b>2.77</b>	2.02
Hedging – gas (\$/mcf)	<b>0.60</b>	0.49	<b>0.13</b>	0.84
Natural gas – after hedging (\$/mcf)	<b>2.81</b>	2.88	<b>2.90</b>	2.86
Total Hedging (\$/mcf)	<b>0.55</b>	0.45	<b>0.11</b>	0.77
Total Hedging (\$/boe)	<b>3.29</b>	2.70	<b>0.68</b>	4.65

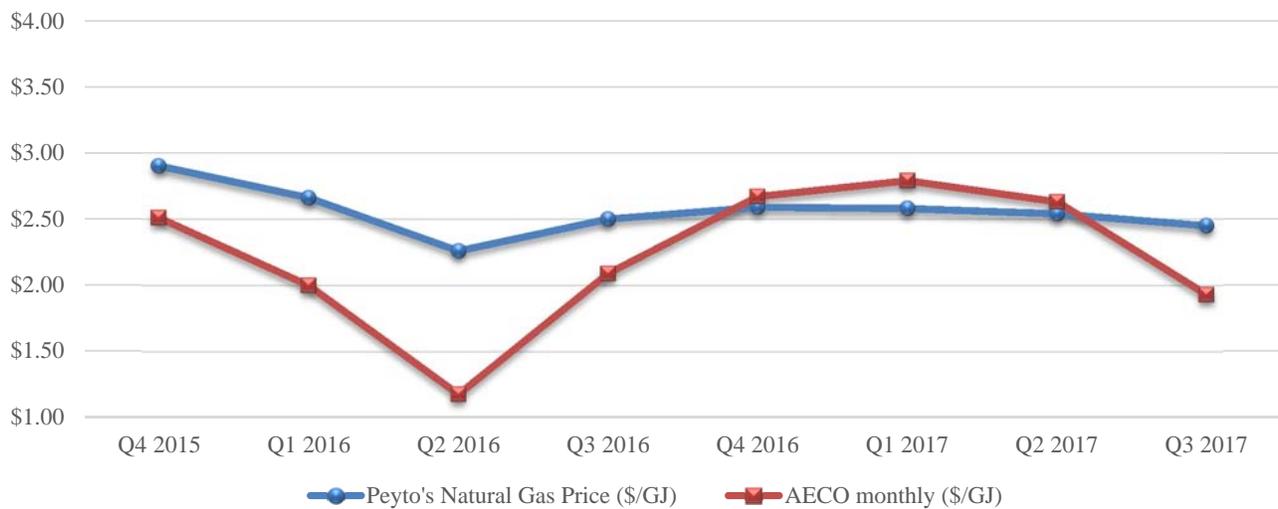
Peyto's natural gas price, before hedging, averaged \$2.21/mcf during the third quarter of 2017, a decrease of 8 percent from \$2.39/mcf reported for the equivalent period in 2016. Oil and natural gas liquids prices averaged \$45.92/bbl, an increase of 15 percent from \$39.76/bbl a year earlier.

## Commodity Prices by Component

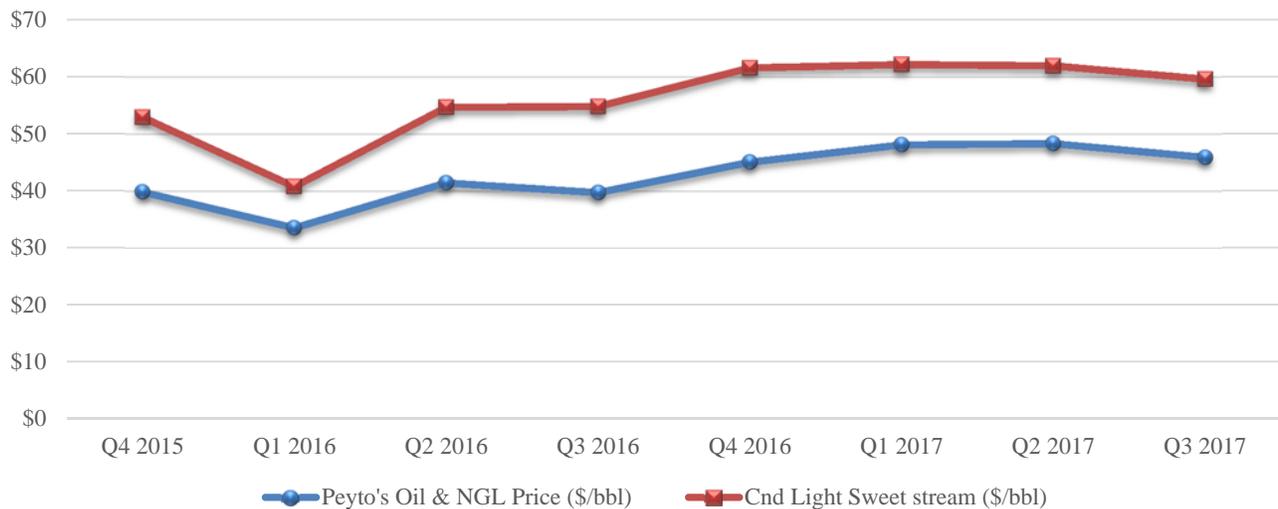
	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Natural gas – after hedging (\$/mcf)	<b>2.81</b>	2.88	<b>2.90</b>	2.86
Natural gas – after hedging (\$/GJ)	<b>2.45</b>	2.50	<b>2.52</b>	2.49
AECO monthly (\$/GJ)	<b>1.93</b>	2.09	<b>2.45</b>	1.76
Oil and natural gas liquids (\$/bbl)				
Condensate (\$/bbl)	<b>53.77</b>	47.95	<b>57.47</b>	44.19
Propane (\$/bbl)	<b>23.25</b>	6.51	<b>17.43</b>	2.30
Butane (\$/bbl)	<b>29.58</b>	20.25	<b>29.79</b>	18.81
Pentane (\$/bbl)	<b>55.10</b>	49.15	<b>69.66</b>	47.22
Total Oil and natural gas liquids (\$/bbl)	<b>45.92</b>	39.76	<b>47.45</b>	38.24
Canadian Light Sweet stream (\$/bbl)	<b>56.76</b>	54.82	<b>60.91</b>	50.15

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

### Natural Gas Price



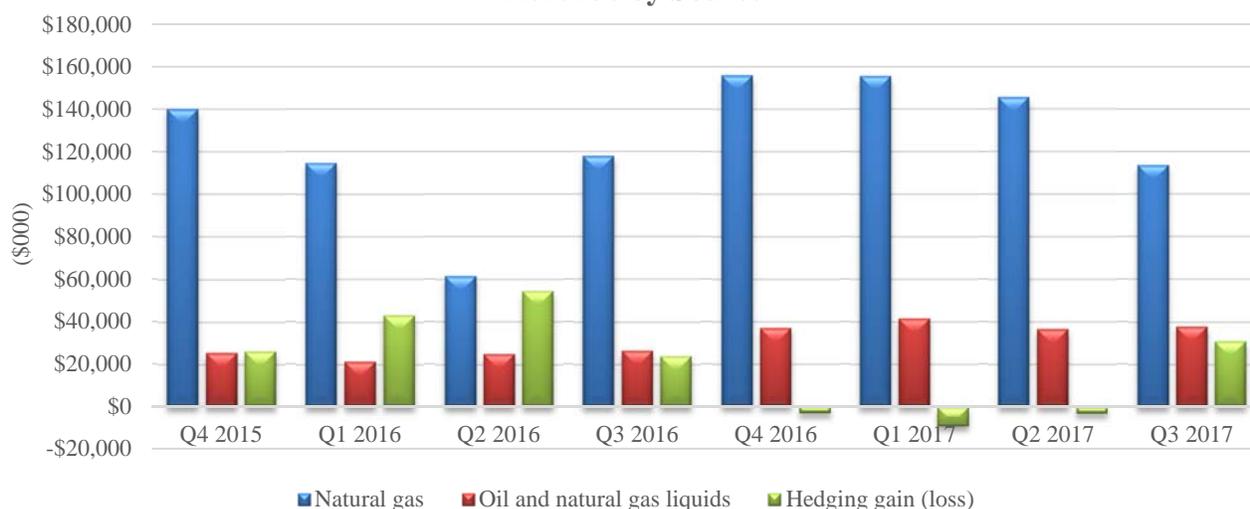
### Oil & NGL Price



## Revenue

(\$000)	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Natural gas	<b>113,539</b>	117,794	<b>414,549</b>	294,033
Oil and natural gas liquids	<b>37,839</b>	26,507	<b>115,962</b>	72,914
Hedging gain	<b>30,848</b>	23,894	<b>18,647</b>	121,490
Total revenue	<b>182,226</b>	168,195	<b>549,158</b>	488,437

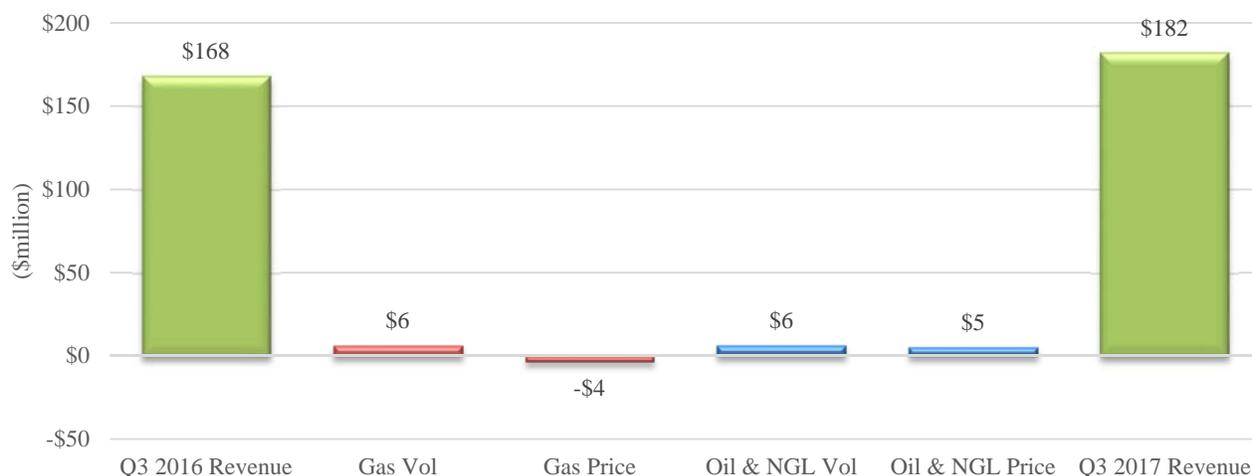
### Revenue by Source



For the three months ended September 30, 2017, revenue increased 8 percent to \$182.2 million from \$168.2 million for the same period in 2016. The increase in revenue for the period was a result of increased production volumes and realized prices, including hedging gains, as detailed in the following table:

	Three Months ended September 30			Nine Months ended September 30		
	2017	2016	\$million	2017	2016	\$million
Total Revenue, September 30, 2016			<b>168.2</b>			<b>488.4</b>
Revenue change due to:						
<b>Natural gas</b>						
Volume (mmcf)	51,332	49,193	<b>6.2</b>	98,123	145,341	<b>11.8</b>
Price (\$/mcf)	\$2.81	\$2.88	<b>(3.6)</b>	\$2.94	\$2.86	<b>6.0</b>
<b>Oil &amp; NGL</b>						
Volume (m bbl)	824	667	<b>6.3</b>	1,620	1,907	<b>20.5</b>
Price (\$/bbl)	\$45.92	\$39.76	<b>5.1</b>	\$48.23	\$38.24	<b>22.5</b>
Total Revenue, September 30, 2017			<b>182.2</b>			<b>549.2</b>

## Change in Revenue



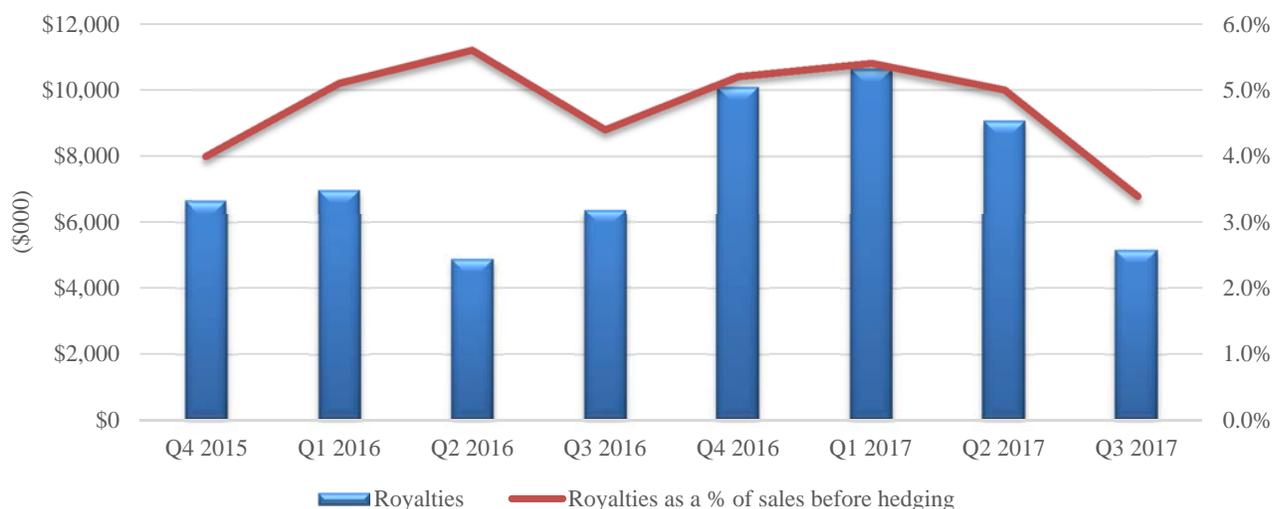
### Royalties

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 September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Royalties (\$000)	<b>5,165</b>	6,382	<b>24,872</b>	18,241
% of sales before hedging	<b>3.4</b>	4.4	<b>4.7</b>	5.0
% of sales after hedging	<b>2.8</b>	3.8	<b>4.5</b>	3.7
\$/mcf	<b>0.09</b>	0.12	<b>0.15</b>	0.12
\$/boe	<b>0.55</b>	0.72	<b>0.91</b>	0.70

For the third quarter of 2017, royalties averaged \$0.09/mcf or approximately 3.4% of Peyto's total petroleum and natural gas sales excluding hedges.

### Royalties



In its 19 year history, Peyto has invested over \$5.5 billion in capital projects, found and developed 5.2 TCFe of gas reserves, and paid over \$817 million in royalties.

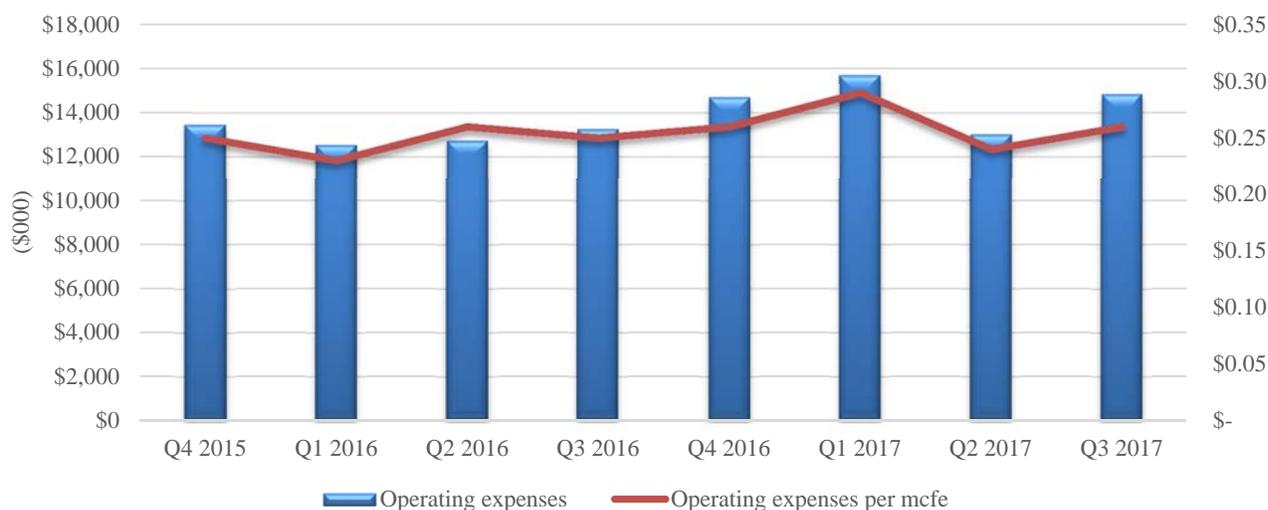
### Operating Costs & Transportation

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

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Operating costs (\$000)	<b>14,844</b>	13,254	<b>43,546</b>	38,526
\$/mcf	<b>0.26</b>	0.25	<b>0.27</b>	0.25
\$/boe	<b>1.58</b>	1.49	<b>1.59</b>	1.47
Transportation (\$000)	<b>9,149</b>	8,647	<b>28,358</b>	25,506
\$/mcf	<b>0.17</b>	0.16	<b>0.17</b>	0.16
\$/boe	<b>0.98</b>	0.98	<b>1.04</b>	0.98

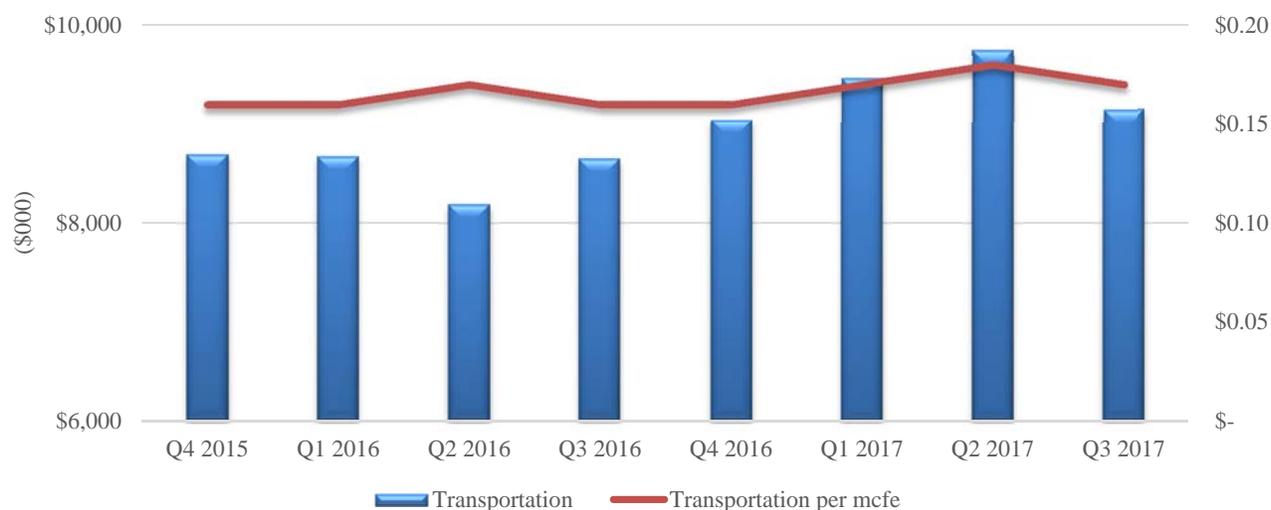
For the third quarter, operating expenses increased 12% compared to the same quarter of 2016 primarily due to an inflation and an increase in property taxes and AER Administration fees. On a unit-of-production basis, operating costs increased 4% from \$0.25/mcf in the third quarter of 2016 to \$0.26/mcf in the third quarter of 2017.

### Operating Expenses



Transportation expenses increased 6% from \$0.16/mcf in the third quarter 2016 to \$0.17/mcf in the third quarter 2017 due to increased TCPL tolls and costs associated with additional firm commitments on NOVA. This additional firm service was added to accommodate future production growth and also to minimize exposure to NOVA curtailments like those experienced in 2016.

## Transportation



## General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
G&A expenses (\$000)	<b>4,159</b>	4,053	<b>13,144</b>	12,154
Overhead recoveries (\$000)	<b>(2,458)</b>	(1,920)	<b>(6,485)</b>	(5,311)
Net G&A expenses (\$000)	<b>1,701</b>	2,133	<b>6,659</b>	6,843
\$/mcfe	<b>0.03</b>	0.04	<b>0.04</b>	0.04
\$/boe	<b>0.18</b>	0.24	<b>0.24</b>	0.26

For the third quarter, general and administrative expenses before overhead recoveries increased 3% from \$4.1 million to \$4.2 million for the same quarter of 2016. This increase was due primarily to increased staffing and office space costs. 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 third quarter of 2017.

## Net G&A Expense



## 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. Due to a decrease in future commodity prices, compensation expense recovery of \$0.7 million was recorded for the quarter ended September 30, 2017. The cumulative liability totals \$1.1 million at September 30, 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 equally over a three year period. 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.

Based on the weighted average trading price of the common shares for the period ended September 30, 2017, compensation costs related to 6.4 million non-vested rights (3.9% of the total number of common shares outstanding), with an average grant price of \$29.90, are \$2.8 million for the third quarter of 2017. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 7 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative liability totals \$20.1 million at September 30, 2017.

## Rights Outstanding Under Market Based Compensation Plan

Vesting Date	Valued but Not Vested		*	To be Valued December 31, 2017	
	Number of Rights	Value (\$)		Number of Rights	Average Grant Price (\$)
December 31, 2017	1,261,833	13,915,712	*	1,306,167	33.64
December 31, 2018	1,261,833	13,915,712	*	1,306,167	33.64
December 31, 2019	-	-		1,306,167	33.64

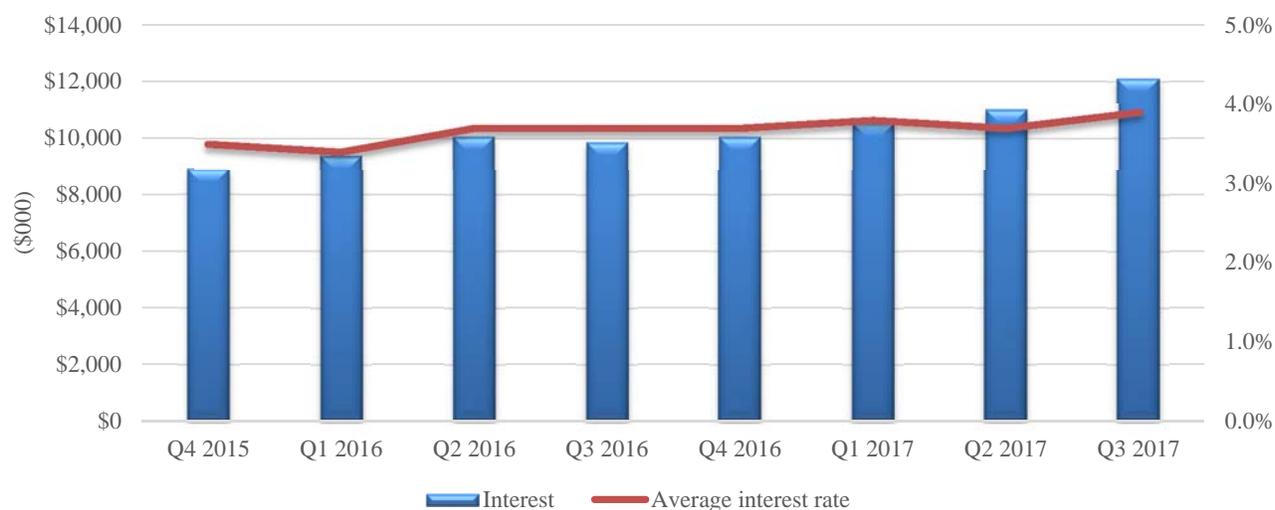
\*Valued on December 31, 2016 at \$33.80

## Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Interest expense (\$000)	<b>12,110</b>	9,864	<b>33,674</b>	29,320
\$/mcf	<b>0.21</b>	0.19	<b>0.21</b>	0.19
\$/boe	<b>1.29</b>	1.11	<b>1.23</b>	1.12
Average interest rate	<b>3.9%</b>	3.7%	<b>3.8%</b>	3.6%

Third quarter 2017 interest expense was \$12.1 million or \$0.21/mcfe compared to \$9.9 million or \$0.19/mcfe for the third quarter 2016. The average interest rate for the third quarter 2017 was 3.9% compared to 3.7% in the third quarter of 2016 due to an increase in interest rates by the Bank of Canada.

## Interest

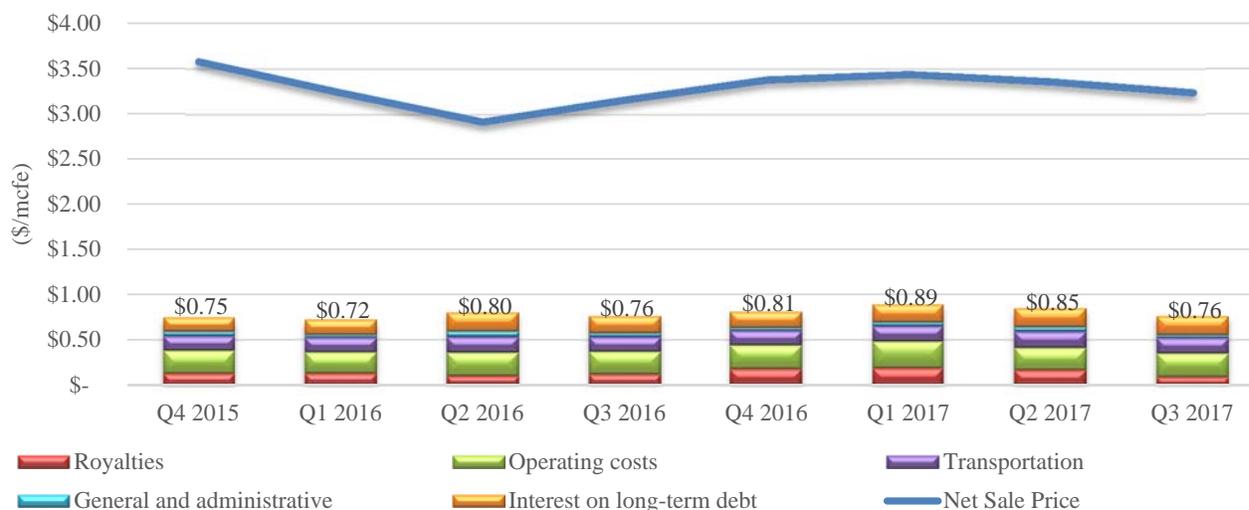


## Netbacks

(\$/mcf)	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Gross Sale Price	<b>2.69</b>	2.71	<b>3.24</b>	2.35
Hedging gain (loss)	<b>0.55</b>	0.45	<b>0.11</b>	0.77
Net Sale Price	<b>3.24</b>	3.16	<b>3.35</b>	3.12
Less: Royalties	<b>0.09</b>	0.12	<b>0.15</b>	0.12
Operating costs	<b>0.26</b>	0.25	<b>0.27</b>	0.25
Transportation	<b>0.17</b>	0.16	<b>0.17</b>	0.16
Field netback	<b>2.72</b>	2.63	<b>2.76</b>	2.59
General and administrative	<b>0.03</b>	0.04	<b>0.04</b>	0.04
Interest on long-term debt	<b>0.21</b>	0.19	<b>0.21</b>	0.19
Cash netback (\$/mcf)	<b>2.48</b>	2.40	<b>2.51</b>	2.36
Cash netback (\$/boe)	<b>14.85</b>	14.43	<b>15.06</b>	14.16

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.

## Cash Costs



## Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2017 third quarter provision for depletion, depreciation and amortization totaled \$74.9 million as compared to \$82.2 million in 2016. On a unit-of-production basis, depletion and depreciation costs averaged \$1.33/mcfe as compared to \$1.54/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 \$16.6 million compared to \$8.4 million in 2016. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type (\$ millions)	September 30, 2017	December 31, 2016	Annual deductibility
Canadian Oil and Gas Property Expense	210.5	217.9	10% declining balance
Canadian Development Expense	840.5	818.9	30% declining balance
Canadian Exploration Expense	81.2	121.4	100%
Undepreciated Capital Cost	398.1	388.3	Primarily 25% declining balance
Other	29.1	33.4	Various, 7% to 20% declining balance
<b>Total Federal Tax Pools</b>	<b>1,559.4</b>	<b>1,579.9</b>	
Additional Alberta Tax Pools	44.9	44.9	Primarily 100%

## MARKETING

### Commodity Price Risk Management

The Company is a party to certain off balance sheet 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 third quarter of 2017, a realized hedging gain of \$30.8 million was recorded as compared to a \$23.9 million gain 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	Price (CAD)
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5400/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.4200/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5000/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5025/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5125/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.5900/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.6050/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.6150/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.6600/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.6725/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.7100/GJ
April 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	\$2.7500/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.1000/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.1750/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.2000/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4500/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.5400/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.5900/GJ
April 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.6000/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.1100/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.1500/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.2200/GJ
May 1, 2016 to October 31, 2017	Fixed Price	5,000 GJ	\$2.3050/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.2000/GJ
May 1, 2016 to October 31, 2018	Fixed Price	5,000 GJ	\$2.3000/GJ





November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$3.2700/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	\$2.9200/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.3900/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4000/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4300/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4300/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4600/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.4650/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.5350/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$2.5650/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.2500/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3425/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3575/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3625/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3850/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.3875/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4100/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4300/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4600/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4775/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.4800/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5000/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5100/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5350/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5550/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.5700/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.6150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.6150/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.6250/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	\$2.4450/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	\$2.5000/GJ

<b>Natural Gas</b>		<b>Daily</b>	<b>Price</b>
<b>Period Hedged -Daily Index</b>	<b>Type</b>	<b>Volume</b>	<b>(CAD)</b>
September 1, 2017 to October 31, 2017	Fixed Price	10,000 GJ	\$2.0300/GJ

As at September 30, 2017, Peyto had committed to the future sale of 188,870,000 gigajoules (GJ) of natural gas at an average price of \$2.55 per GJ or \$2.93 per mcf. Had these contracts closed on September 30, 2017, Peyto would have realized a net gain in the amount of \$73.1 million.

Subsequent to September 30, 2017 Peyto entered into the following contracts:

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(CAD)</b>
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.3200/GJ
November 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.2850/GJ
November 1, 2017 to December 31, 2017	Fixed Price	5,000 GJ	\$2.1200/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.2000/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.3200/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.2700/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.3300/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.3500/GJ
December 1, 2017 to March 31, 2018	Fixed Price	5,000 GJ	\$2.4650/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$1.7700/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$1.7500/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$1.8700/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$1.9050/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$1.9400/GJ
April 1, 2018 to October 31, 2018	Fixed Price	5,000 GJ	\$1.9200/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.0500/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.0400/GJ
April 1, 2018 to March 31, 2019	Fixed Price	5,000 GJ	\$2.1775/GJ
April 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	\$2.2225/GJ

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - Daily Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(CAD)</b>
November 1, 2017 to November 30, 2017	Fixed Price	10,000 GJ	\$2.1025/GJ
November 1, 2017 to November 30, 2017	Fixed Price	10,000 GJ	\$2.1050/GJ
November 1, 2017 to November 30, 2017	Fixed Price	10,000 GJ	\$2.1050/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 September 30 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 \$1.8 million per quarter. Average debt outstanding for the quarter was \$1,223 million (including \$520 million fixed rate debt).

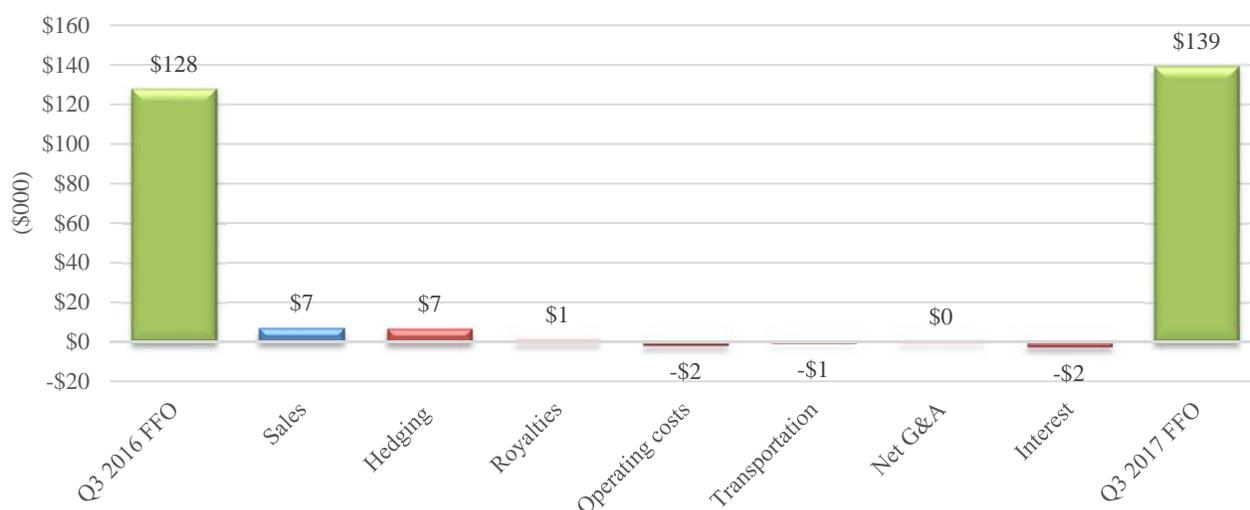
## LIQUIDITY AND CAPITAL RESOURCES

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

(\$000)	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Cash flows from operating activities	142,659	129,057	391,776	370,299
Change in non-cash working capital	(4,411)	(10,256)	13,938	(20,647)
Change in provision for performance based compensation	1,009	9,114	6,335	20,348
Funds from operations	139,257	127,915	412,049	370,000
Funds from operations per share	0.85	0.78	2.50	2.29

For the third quarter ended September 30, 2017, funds from operations totaled \$139.3 million or \$0.85 per share, compared to \$127.9 million or \$0.78 per share during the same quarter in 2016 due to increases in production volumes and in oil & NGL prices.

### Change in Funds from Operations



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)	September 30, 2017	December 31, 2016
Bank credit facility	715,000	550,000
Senior unsecured notes	520,000	520,000
<b>Balance, end of the period</b>	<b>1,235,000</b>	<b>1,070,000</b>

The Company has a syndicated \$1.0 billion extendible unsecured revolving credit facility with a stated term date of December 4, 2019. An accordion provision has been added that allows for the pre-approved increase of the facility up to \$1.3 billion, at the Company's request, subject to additional commitments by existing facility lenders or by adding new financial institutions to the syndicate. The bank facility is made up of a \$30 million working capital sub-tranche and a \$970 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 September 30, 2017 – 2.22:1.0

- 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 September 30, 2017 – 2.22:1.0

- 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 September 30, 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 per cent 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 September 30, 2017 – 43 per cent

Peyto is in compliance with all financial covenants and has no subordinated debt as at September 30, 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 \$1.52 billion of which the credit facility is \$1.0 billion.

On October 13, 2017, The Company increased and extended its revolving, unsecured credit facility to \$1.3 billion with a stated term date of October 13, 2021. The facility is comprised of \$40 million working capital sub-tranche and a \$1.26 billion 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. This increased Peyto's borrowing capacity to \$1.82 billion.

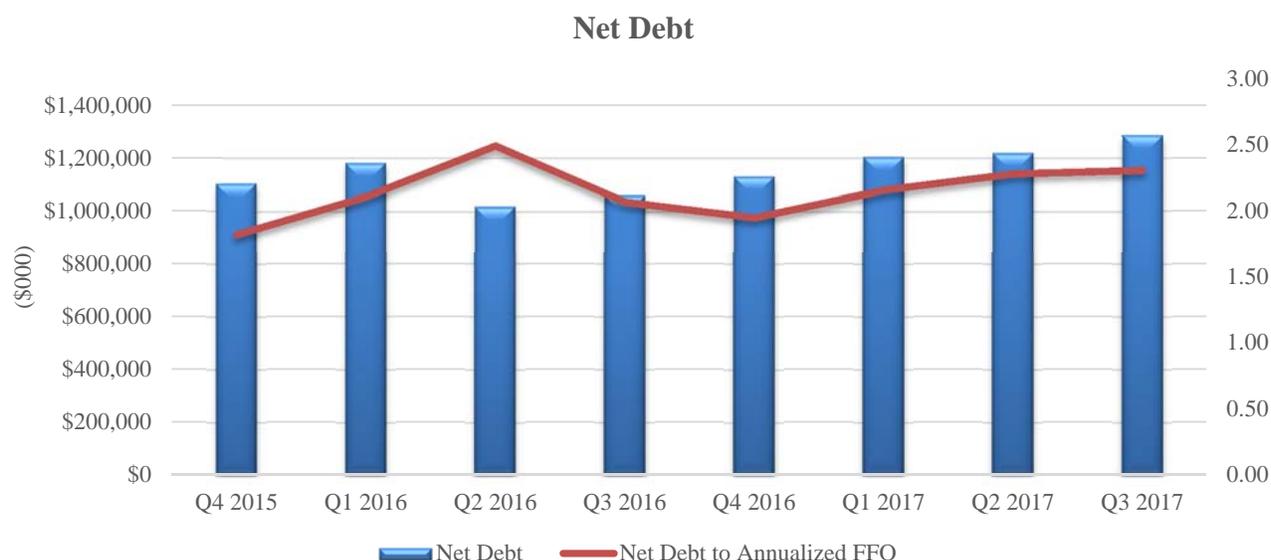
Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of approximately \$150 million for the first half of 2018. The total amount of capital 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 September 30, 2017	As at December 31, 2016	As at September 30, 2016
Bank credit facility	715,000	550,000	625,000
Senior unsecured notes	520,000	520,000	420,000
Current assets	(158,187)	(115,230)	(124,304)
Current liabilities	154,969	302,416	178,523
Financial derivative instruments	67,675	(119,280)	(16,516)
Provision for future performance based compensation	(13,189)	(6,854)	(22,348)
<b>Net debt</b>	<b>1,286,268</b>	<b>1,131,052</b>	<b>1,060,355</b>



### 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)
<b>Balance, September 30, 2017</b>	<b>164,874,175</b>	<b>1,649,537</b>

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 third quarter of 2017 totaled \$135.2 million. Exploration and development related activity represented \$107.2 million (79% of total), while expenditures on facilities, gathering systems and equipment totaled \$26.5

million (20% of total) land, seismic, and acquisitions totaled \$1.5 million (1% of total). The following table summarizes capital expenditures for the period:

(\$000)	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Land	140	-	6,719	1,003
Seismic	1,227	682	5,737	4,554
Drilling	73,057	64,121	188,023	156,654
Completions	34,161	26,939	91,608	68,089
Equipping & Tie-ins	15,312	13,176	37,451	27,239
Facilities & Pipelines	11,201	3,838	53,674	49,204
Acquisitions	120	4,765	3,619	32,640
Dispositions	(31)	-	(32)	(28)
Leasehold Improvements	-	50	-	613
<b>Total Capital Expenditures</b>	<b>135,187</b>	<b>113,571</b>	<b>386,799</b>	<b>339,968</b>

### Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2017	2016	2017	2016
Funds from operations (\$000)	139,257	127,915	412,049	370,000
Total dividends (\$000)	54,408	54,328	163,204	160,583
Total dividends per common share (\$)	0.33	0.33	0.99	0.99
Payout ratio (%)	39	42	40	43

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.

### Dividend Payout Ratio



### 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 September 30, 2017:

(\$000)	2017	2018	2019	2020	2021	Thereafter
Interest payments <sup>(1)</sup>	6,680	22,085	19,890	17,695	12,295	26,645
Transportation commitments	9,859	45,422	39,506	27,681	23,586	91,174
Operating leases	521	2,242	2,242	2,242	2,242	11,586
Methanol	-	2,916	-	-	-	-
Total	17,060	72,665	61,638	47,618	38,123	129,405

<sup>(1)</sup> 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:

(\$000)	Expense				Accounts Payable	
	Three Months ended September 30		Nine Months ended September 30		As at September 30	
	2017	2016	2017	2016	2017	2016
	<b>244.7</b>	98.6	<b>460.4</b>	579.1	<b>477.1</b>	344.3

## 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 September 30, 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, 2016 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 2017. 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 September 30, 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 have no 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](http://www.sedar.com) and [www.peyto.com](http://www.peyto.com).

## Quarterly information

	2017			2016	
	Q3	Q2	Q1	Q4	Q3
<b>Operations</b>					
Production					
Natural gas (mcf/d)	557,958	535,274	549,037	556,975	534,710
Oil & NGLs (bbl/d)	8,958	8,319	9,586	8,938	7,247
Barrels of oil equivalent (boe/d @ 6:1)	101,951	97,531	101,093	101,767	96,365
Thousand cubic feet equivalent (mcf/d @ 6:1)	611,703	585,187	606,556	610,602	578,189
Average product prices					
Natural gas (\$/mcf)	2.81	2.92	2.96	2.98	2.88
Oil & natural gas liquids (\$/bbl)	45.92	48.33	48.14	45.09	39.76
\$/MCFE					
Average sale price (\$/mcf)	3.24	3.36	3.44	3.38	3.16
Average royalties paid (\$/mcf)	0.09	0.17	0.19	0.18	0.12
Average operating expenses (\$/mcf)	0.26	0.24	0.29	0.26	0.25
Average transportation costs (\$/mcf)	0.17	0.18	0.17	0.16	0.16
Field netback (\$/mcf)	2.72	2.77	2.79	2.78	2.63
General & administrative expense (\$/mcf)	0.03	0.05	0.04	0.03	0.04
Interest expense (\$/mcf)	0.21	0.21	0.20	0.18	0.19
Cash netback (\$/mcf)	2.48	2.51	2.55	2.57	2.40
<b>Financial (\$000 except per share)</b>					
Revenue	182,226	178,982	187,949	189,951	168,195
Royalties	5,165	9,071	10,635	10,089	6,382
Funds from operations	139,257	133,487	139,305	144,593	127,915
Funds from operations per share	0.85	0.81	0.85	0.88	0.78
Total dividends	54,408	54,408	54,387	54,328	54,328
Total dividends per share	0.33	0.33	0.33	0.33	0.33
Payout ratio	39%	41%	39%	38%	42%
Earnings	44,818	39,957	40,255	38,489	22,814
Earnings per share	0.27	0.24	0.24	0.23	0.14
Capital expenditures	135,187	97,738	153,874	129,407	113,571
Weighted average shares outstanding	164,874,175	164,874,175	164,800,637	164,630,168	164,630,168