

## NEWS RELEASE

**FEBRUARY 14, 2017**

**SYMBOL: PEY - TSX**

### **PEYTO ADDS PRODUCING RESERVES IN 2016 AT THE LOWEST COST IN OVER A DECADE**

Peyto Exploration & Development Corp. (“Peyto” or the “Company”) is pleased to present the results and analysis of its independent reserve report effective December 31, 2016. The evaluation encompassed 100% of Peyto’s reserves, was conducted by InSite Petroleum Consultants (“InSite”) and reflects the Alberta’s Modernized Royalty Framework that came into effect January 1, 2017.

The year 2016 marks the Company’s 18<sup>th</sup> year of profitable reserves development. Reserves per share grew in all categories and producing reserves were added at the lowest cost since 2003.

#### **HISTORICAL PERSPECTIVE**

- Over the past 18 years, Peyto has explored for and discovered 5.2 TCFe of Alberta Deep Basin natural gas and associated liquids, of which 60% has now been developed. Each year the Company invests in the discovery of new reserves and the efficient and profitable development of existing reserves into high netback natural gas production for the purpose of generating the maximum return on capital for its shareholders. At the same time, this activity delivers significant financial benefits to Albertans.
- In those 18 years, \$5.2 billion was invested in the acquisition and development of the 3.1 TCFe of developed reserves at an average cost of \$1.69/MCFe, while a weighted average field netback<sup>1</sup> of \$4.20/MCFe has resulted in a cumulative recycle ratio<sup>1</sup> of 2.5 times. Royalty payments to the Province of Alberta have totaled over \$790 million.
- Based on the December 31, 2016 evaluation, the debt adjusted, Net Present Value of the Company’s remaining Proved plus Probable Additional reserves (“P+P NPV”, 5% discount, less debt) was \$40/share, comprised of \$22/share of developed reserves and \$18/share of undeveloped reserves.

#### **2016 HIGHLIGHTS**

- For the year ended December 31, 2016, Peyto invested \$469 million of capital to build 43,600 boe/d of new production<sup>2</sup> at a cost of \$10,800/boe/d. This is now the lowest cost to build new production in Peyto’s 18 year history and is inclusive of land, seismic, facilities, acquisitions, dispositions, and all well-related costs.
- Peyto developed over 327 BCFe (54.4 MMboes) of new Proved Producing (“PP”) reserves at a Finding, Development and Acquisition (“FD&A”) cost of \$1.44/MCFe (\$8.62/boe) while the average field netback<sup>1</sup> was \$2.64/MCFe (\$15.84/boe), resulting in a 1.8 times recycle ratio<sup>2</sup>. The 2016 PP FD&A was 12% lower than 2015 due to reduced service costs, optimized well designs and superior operational execution.
- Peyto replaced 183% of annual production with new Total Proved (“TP”) reserves at a FD&A cost of \$1.01/MCFe (\$6.04/boe) and replaced 283% of annual production with new Proved plus Probable Additional (“P+P”) reserves at a FD&A cost of \$0.62/MCFe (\$3.74/boe) (including decreases in Future Development Capital (“FDC”) of \$76 million and \$94 million for the respective categories). For comparative purposes, FD&A costs before changes in FDC were \$1.20/MCFe (\$7.21/boe) and \$0.78/MCFe (\$4.67/boe), respectively.
- Company reserves increased by 8%, 8% and 11% to 1.5 TCFe, 2.4 TCFe and 3.9 TCFe for PP, TP and P+P reserves, respectively. Per share reserves were up 5%, 4%, and 7% for each of these respective categories.
- The Reserve Life Index (“RLI”) for the PP, TP and P+P reserves remained basically unchanged at 7, 11 and 18 years, respectively.
- At year end, P+P reserves of 655 MMboes (inclusive of 947 future locations) had been assigned to just 15% of Peyto’s total Deep Basin rights.

- For every well drilled, Peyto was able to recognize 1.9 new, undeveloped locations (P+P) in its booked inventory of future opportunities. This indicates new, independently validated, drilling opportunities continue to be added twice as fast as they are harvested.

## 2017 UPDATE

- Peyto's drilling plans for 2017 remain the same as previously announced, with a capital budget between \$550 and \$600 million and plans to drill 145 to 160 wells. In order to preserve the balance sheet and retain capital efficiencies, Peyto will remain nimble and ensure this capital plan remains flexible to account for changing commodity prices and service costs.
- Peyto has protected funding for the capital program with over 70% of forecast 2017 natural gas production pre-sold at an average price of \$2.60/GJ (\$3.00/mcf).

<sup>1</sup>Recycle Ratio is Field Netback divided by FD&A.

<sup>2</sup>Capital Expenditures, Field Netback (Revenue less Royalties, Operating costs and Transportation), and Production are estimated and remain unaudited at this time.

## 2016 RESERVES

The following table summarizes Peyto's reserves and the discounted Net Present Value of future cash flows, before income tax, using variable pricing, at December 31, 2016.

Reserve Category	Gas (BCF)	Oil & NGL (mstb)	BCFe (6:1)	mmboe (6:1)	Before Tax Net Present Value (\$millions) Discounted at			
					0%	5%	8%	10%
Proved Producing	1,342	24,507	1,489	248	\$5,406	\$3,536	\$2,922	\$2,623
Proved Non-producing	31	617	35	6	\$101	\$62	\$49	\$43
Proved Undeveloped	817	14,328	903	150	\$2,671	\$1,434	\$1,030	\$835
Total Proved	2,190	39,452	2,426	404	\$8,178	\$5,032	\$4,001	\$3,500
Probable Additional	1,345	26,268	1,502	250	\$5,488	\$2,723	\$1,950	\$1,601
Proved + Probable								
Additional	3,534	65,720	3,928	655	\$13,666	\$7,755	\$5,951	\$5,101

Note: Based on the InSite report effective December 31, 2016. Tables may not add due to rounding.

## ANALYSIS FOR SHAREHOLDERS

One of the guiding principles at Peyto is “to tell you the business facts that we would want to know if our positions were reversed.” Therefore, each year Peyto analyzes the reserve evaluation in order to answer the most important questions for shareholders:

1. Base Reserves - How did the “base reserves” that were on production at the time of the last reserve report perform during the year, and how did any change in commodity price forecast affect their value?
2. Value Creation - How much value did the 2016 capital investments create, both in current producing reserves and in undeveloped potential? Has the Peyto team earned the right to continue investing shareholders' capital?
3. Growth and Income - Are the projected cash flows capable of funding the growing number of undeveloped opportunities and a sustainable dividend stream to shareholders, without sacrificing Peyto's financial flexibility?
4. Risk Assessment – What are the risks associated with the assessment of Peyto's reserves and the risk of recovering future cashflows from the forecast production streams?

## 1. Base Reserves

Peyto's existing Proved Producing reserves at the start of 2016 (base reserves) were evaluated and adjusted for 2016 production as well as any technical or economic revisions resulting from the additional twelve months of production and commodity price data. As part of InSite's independent engineering analysis, all 1,191 producing entities were evaluated. These producing wells and zones represent a total gross Estimated Ultimate Recoverable (EUR) volume of 3.0 TCFe. Consistent with past years, this estimate is within 0.3% of previous estimates. In aggregate, Peyto is pleased to report that its total base reserves continue to meet with expectation, which increases the confidence in the prediction of future recoveries.

The commodity price forecast used by the independent engineers in this year's evaluation is slightly lower than last year which had the effect of reducing the Net Present Value of all reserve categories. For example, the debt adjusted NPV, discounted at 5%, of last year's Proved Producing reserves, decreased \$85 million, or 4%, due to the difference in commodity price forecasts and with Peyto's realized historical offsets to posted prices. InSite's price forecast used in the variable dollar economics is available on their website at [www.insitepc.com](http://www.insitepc.com).

For 2017, InSite is forecasting the total base production (all wells on production at Dec. 31, 2016) to decline to approximately 66,270 boe/d by December, 2017. This implies a base decline rate of approximately 36% from December 2016. This forecast decline rate is lower than the 2016 actual base decline of 40%. While rapid production growth has driven the base decline rate up in recent years, it is expected that the corporate decline rate will decrease into the future because production additions will represent a smaller proportion of total production, even as the Company's total production continues to grow. The historical base decline rates and capital programs are shown in the following table:

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017F
Base Decline (%/yr)	30%	29%	23%	26%	20%	22%	33%	35%	34%	38%	40%	40%	36%
Capital Expenditures (\$MM)	\$358	\$312	\$122	\$139	\$73	\$261	\$379	\$618	\$578	\$690	\$594	\$469	\$575

*\*The base decline represents the aggregate annual decline of all wells on production at the end of the previous year.*

## 2. Value Creation/Reconciliation

During 2016, Peyto invested a total of \$469 million to drill 128 gross (121 net) gas wells, continued to reduce field operating costs, and enhanced realized prices for its NGLs. In keeping with Peyto's strategy of maximizing shareholder returns, an evaluation of the economic results of this investment activity is necessary in order to determine, on a go-forward basis, the best use of shareholders' capital. Not only does this look back analysis give shareholders a report card on the capital that was invested, it also helps illustrate the potential returns that can be generated from similar future undeveloped opportunities.

### **Exploration and Development Activity**

Of the total capital invested in exploration and development activities in 2016, approximately 9% was spent acquiring lands and seismic, 13% on new facilities, and the remaining 78% was spent drilling, completing and connecting existing and new reserves. Of the 128 gross (121 net) wells drilled, 64% or 82 gross wells were previously identified as undeveloped reserves in last year's reserve report (55 Proved, 27 Probable Additional). The remaining 46 wells were not recognized in last year's report. This past year had a larger proportion of wells that weren't recognized in the previous year's reserve report as these wells were located in newer areas and deemed too exploratory to assign reserves at the time. As is the case in most years, a portion of Peyto's drilling locations were chosen from the Company's total internal drilling inventory which is larger and more comprehensive than that identified in the InSite report.

The undeveloped reserves originally booked to the 82 locations at year end 2015 totaled 253.8 BCFe (3.1 BCFe/well) of Proved Undeveloped plus Probable Additional reserves for a forecast capital investment of \$297.2 million (\$1.17/MCFe). In actuality, only \$245.6 million of capital (\$0.97/MCFe) was spent on these 82 wells during 2016, yielding Proved Producing plus Probable Additional reserves of 254.3 BCFe (3.1 BCFe/well).

With service cost deflation and an improvement in execution, far less capital was required to drill the undeveloped wells than originally forecast. The following table illustrates the Company's historical performance in converting future undeveloped locations into producing wells.

Reserve Year	Total Drills	Booked Locations Converted	Booked/ Total	Forecast Outcome		Forecast Cost per Unit	Actual Outcome		Actual Cost per Unit	Actual/ Forecast Cost per Unit
	gross wells	gross wells		BCFe	Capex* \$MM	\$/MCFe	BCFe	Capex* \$MM	\$/MCFe	
2010	48	30	63%	84	\$123	\$1.46	102	\$138	\$1.35	-8%
2011	70	51	73%	152	\$214	\$1.41	151	\$209	\$1.38	-2%
2012	86	60	70%	189	\$295	\$1.56	196	\$278	\$1.42	-9%
2013	99	69	70%	206	\$332	\$1.61	218	\$310	\$1.42	-12%
2014	123	90	73%	278	\$417	\$1.50	288	\$419	\$1.45	-3%
2015	140	103	74%	307	\$456	\$1.49	348	\$385	\$1.11	-26%
<b>2016</b>	<b>128</b>	<b>82</b>	<b>64%</b>	<b>254</b>	<b>\$297</b>	<b>\$1.17</b>	<b>254</b>	<b>\$246</b>	<b>\$0.97</b>	<b>-17%</b>
<b>Total</b>	<b>694</b>	<b>485</b>	<b>70%</b>	<b>1,470</b>	<b>\$2,134</b>	<b>\$1.45</b>	<b>1,557</b>	<b>\$1,985</b>	<b>\$1.27</b>	<b>-12%</b>

\*Capex represents only well related capital for drilling, completion, equipping and tie-in

This annual analysis of reserves that are converted from an undeveloped state to a producing state helps to validate the accuracy of the remaining future undeveloped reserves and their capital requirements. This accuracy, by which Peyto can predict future reserve recoveries and capital requirements, also helps to reduce the risk associated with valuing those undeveloped locations.

### Value Reconciliation

In order to measure the success of all of the capital invested in 2016, it is necessary to quantify the total amount of value added during the year and compare that to the total amount of capital invested. At Peyto's request, the independent engineers have run last year's reserve evaluation with this year's price forecast to remove the change in value attributable to commodity prices. This approach isolates the value created by the Peyto team from the value created (or lost) by those changes outside of their control (ie. commodity prices). Since the capital investments in 2016 were funded from a combination of cash flow, debt and equity, it is necessary to know the change in debt and the change in shares outstanding to see if the change in value is truly accretive to shareholders.

At year-end 2016, Peyto's estimated net debt had increased by 2.5% or \$27.3 million to \$1.132 billion while the number of shares outstanding had increased by 3.4% or 5.67 million shares to 164.777 million shares. The change in debt includes all of the capital expenditures, as well as any acquisitions, and the total fixed and performance based compensation paid out for the year. Although these estimates are believed to be accurate, they remain unaudited at this time and may be subject to change.

Based on this reconciliation of changes in BT NPV, the Peyto team was able to create \$1.357 billion of Proved Producing, \$1.979 billion of Total Proven, and \$3.423 billion of Proved plus Probable Additional undiscounted reserve value, with \$469 million of capital investment, cost reductions and NGL price enhancements. The ratio of capital expenditures to value creation is what Peyto refers to as the NPV recycle ratio, which is simply the undiscounted value addition, resulting from the capital program, divided by the capital investment. For 2016, the Proved Producing NPV recycle ratio is 2.9. This means for each dollar invested, the Peyto team was able to create 2.9 new dollars of Proved Producing reserve value.

The historic NPV recycle ratios are presented in the following table.

<b>Value Creation</b>	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15	31-Dec-16
NPV <sub>0</sub> Recycle Ratio										
Proved Producing	4.7	2.1	5.4	3.5	2.4	1.6	1.5	1.5	2.3	<b>2.9</b>
Total Proved	5.5	2.5	18.9	6.1	4.7	2.2	2.0	1.7	3.3	<b>4.2</b>
Proved + Probable	3.8	2.2	27.1	10.3	6.6	3.2	4.0	2.6	5.0	<b>7.3</b>

\*NPV<sub>0</sub> (net present value) recycle ratio is calculated by dividing the undiscounted NPV of reserves added in the year by the total capital cost for the period (eg. 2016 Proved Producing (\$1,357/\$469) = 2.9).

Based on this reconciliation of value, the NPV<sub>5</sub> of the Company's remaining P+P reserves, on a debt adjusted, per share basis, has increased 20% from \$33.60 in 2015 to \$40.19 in 2016.

### 3. Growth and Income

As a dividend paying, growth oriented corporation, Peyto's objective is to profitably grow the resources which generate sustainable income (dividends) for shareholders. In order for income to be more sustainable and grow, Peyto must profitably find and develop more reserves. Simply increasing production from the existing reserves will not make that income more sustainable. Reserve Life Index (RLI), or a reserve to production ratio, provides a measure of this long term sustainability.

During 2016, the Company was successful in replacing 153% of annual production with new Proved Producing reserves, resulting in an 8% increase in total PP reserves. Fourth quarter production, however, increased 5%, from 97,028 boe/d to 101,767 boe/d, which had the effect of increasing the Proved Producing reserve life index slightly from 6.5 years to 6.7 years. The RLI in all categories declined from 2009 until 2013 with the adoption of horizontal multi-stage fracture well designs where large initial production rates are combined with steep initial declines.

For comparative purposes, the Total Proved and P+P RLI index was 11 and 17 years, respectively. Management believes that the most meaningful method to evaluate the current reserve life is by dividing the Proved Producing reserves by the actual fourth quarter annualized production. This way production is being compared to producing reserves as opposed to producing plus non-producing reserves.

The following table highlights the Company's historical RLI Index.

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Proved Producing</b>	11	12	13	14	14	11	9	9	7	7	7	7
<b>Total Proved</b>	14	14	16	17	21	17	16	15	12	11	11	11
<b>Proved + Probable Additional</b>	19	20	21	23	29	25	22	22	19	18	17	18

### Future Undeveloped Opportunities

As at December 31, 2016, Peyto had 703 net sections of Alberta Deep Basin lands. In many of these sections, mineral rights are held in a number of stacked prospective horizons expanding this land base by over four fold to a total of 2,987 net sections of rights over 7 separate Cretaceous horizons. Over Peyto's 18 year history, the Company has found and developed 3.1 TCFe of EUR reserves which resides in 248 of these net sections. Effectively, Peyto has invested \$5.2 billion to fully develop 8.3% of its existing land base which has also resulted in the generation of \$2.2 billion in cumulative earnings to date.

Likewise, the remaining undeveloped land base holds significant future potential. The independent reserve evaluators have forecast development activity for the next five years as shown in the following table of future development capital.

Year	Future Development Capital	
	Proved Reserves Undisc., (\$Millions)	Proved+ Probable Additional Reserves Undisc., (\$Millions)
2017	\$432	\$550
2018	\$336	\$600
2019	\$253	\$570
2020	\$178	\$499
2021	\$81	\$301
Thereafter	\$25	\$43
Total	\$1,305	\$2,563

Every year Peyto finds and develops new drilling inventory that the independent evaluators review to create a forecast of future development activity. Their forecast is by no means a complete assessment of Peyto's current opportunities, nor is Peyto content to just sit back and harvest these current opportunities. Each year the results from the drilling activity spawns additional offsetting locations both on currently owned lands and lands Peyto does not yet own but attempts to acquire. The pace of inventory generation has historically exceeded the pace of drilling activity at a ratio of 2:1, resulting in a growing number of future drilling locations recognized in Peyto's reserve report. The rate at which booked inventory has exceeded drilling activity is shown in the table below and is expected to continue in the future.

(gross locations)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Average
Wells Drilled	48	53	29	52	70	86	99	123	140	128	<b>83</b>
Locations Added To Reserves Report	73	93	96	149	151	156	220	257	208	245	<b>165</b>
Inventory Generation Rate	1.5	1.8	3.3	2.9	2.2	1.8	2.2	2.1	1.5	1.9	<b>2.0</b>

During 2016 Peyto purchased 50 net sections of new land with 117 internally identified drilling targets. As well, Peyto's development drilling activity proved up additional future drilling locations. As a result, the number of future drilling locations recognized in the reserve report has increased from 830 gross (676 net) locations to 947 gross (784 net) locations. Of these future locations, 51% are categorized by the independent reserve evaluators as Proven Undeveloped with the remaining 49% as Probable Undeveloped. The net reserves associated with the undeveloped locations (not including existing uphole zones) total 2.1 TCFe (346 mmoes) while the total capital required to develop them is estimated at \$2.563 billion or \$1.24/MCFe. This is forecast to create Net Present Value of \$3.460 billion (5% discount rate, post capital recovery) or \$21 per share at the current commodity price forecast.

The undiscounted, forecast for Net Operating Income for the Total Proved and P+P reserves over the first 5 years totals \$3.4 billion and \$5.0 billion, respectively, more than sufficient to fund the future development capital shown above, ensuring those reserve additions are accretive to shareholders.

The total estimated Future Development Capital for both Total Proved and P+P reserves were lowered from the previous year by \$76 million and \$94 million, respectively, which reflects the continued drop in service costs combined with improvements in operational execution. Future well costs are forecast to increase at a pace consistent with the forecast of increasing commodity prices. It is not expected that well costs will remain at current levels in a rising commodity price environment.

#### 4. Risk Assessment

Effectively 100% of Peyto's natural gas and natural gas liquid reserves exist in low permeability (tight), sandstone reservoirs in the Alberta Deep Basin. In almost all cases, the volumetric capacity of these sandstone reservoirs can be determined using traditional geological and reservoir engineering techniques, which, when complimented by production performance data, increases the certainty of the reserve estimates. In the majority of Peyto's core areas, continuous drilling activity has further refined the geologic and geometric definition of these reservoirs to a higher level of certainty.

In addition, these Deep Basin sandstone reservoirs do not contain mobile water nor are they supported by active aquifers. Mobile water traditionally increases the risk associated with reservoir recovery by impeding the flow of hydrocarbons through the reservoir and up the wellbore. Water production, separation and disposal processes also increase operating costs which shortens the economic life of producing wells, further contributing to reduced recovery. As many of these traditional reserves determination and recovery risks are not present in Peyto's Deep Basin reservoirs, Management has a higher level of confidence in its reserves and their ultimate recovery.

Peyto's high operating margins have meant that forecasts of net operating income are less affected by commodity price volatility than in most traditional reserve evaluations. As a result, the predicted economic life of Peyto's producing wells are less sensitive to changes in commodity prices. These high operating margins are achieved through the Company's high level of ownership and control of all levels of production operations, through a concentrated geographic asset base, and by striving to be the lowest cost producer in the industry.

Peyto further reduces the risk of predicted operating incomes with an active hedging program that aims to achieve a fixed price on a descending graduated schedule of 85% of gross production for the immediate summer or winter season and 75%, 65%, 55%, 45% and 30% thereafter for the successive following seasons. These fixed prices are achieved through a series of frequent transactions which is similar to "dollar cost averaging" the future gas prices in order to smooth out volatility. At present, Peyto has over 70% of forecast 2017 natural gas production pre-sold at an average price of \$3.00/mcf.

These cumulative factors, which reduce the traditional risk of realizing future cashflows from Peyto's reserves, is why, in Management's opinion, Peyto's reserves can be valued at lower discount rates than other, more conventional asset bases.

Effective January 1, 2017, the Alberta Government has instituted a new royalty system for production from Crown lands entitled the Modified Royalty Framework (MRF). The implications of the new system has been evaluated as it pertains to both base reserves already on production and future reserves to be developed. In aggregate, and over a reasonable range of commodity prices, the new MRF system has been determined to have no material impact on the royalty burden of the Company.

## PERFORMANCE RATIOS

The following table highlights annual performance ratios both before and after the implementation of horizontal wells in late 2009. These can be used for comparative purposes, but it is cautioned that on their own they do not measure investment success.

	2016	2015	2014	2013	2012	2011	2010	2009
<b>Proved Producing</b>								
FD&A (\$/MCFe)	\$1.44	\$1.64	\$2.25	\$2.35	\$2.22	\$2.12	\$2.10	\$2.26
RLI (yrs)	7	7	7	7	9	9	11	14
Recycle Ratio	1.8	2.0	1.9	1.6	1.6	1.9	2.0	1.8
Reserve Replacement	153%	193%	183%	190%	284%	230%	239%	79%
<b>Total Proved</b>								
FD&A (\$/MCFe)	\$1.01	\$0.72	\$2.37	\$2.23	\$2.04	\$2.13	\$2.35	\$1.73
RLI (yrs)	11	11	11	12	15	16	17	21
Recycle Ratio	2.6	4.5	1.8	1.6	1.7	1.9	1.8	2.3
Reserve Replacement	183%	188%	254%	230%	414%	452%	456%	422%
Future Development Capital (\$ millions)	\$1,305	\$1,381	\$1,721	\$1,406	\$1,318	\$1,111	\$741	\$446
<b>Proved plus Probable Additional</b>								
FD&A (\$/MCFe)	\$0.62	\$0.54	\$2.01	\$1.86	\$1.68	\$1.90	\$2.19	\$1.47
RLI (yrs)	18	17	18	19	22	22	25	29
Recycle Ratio	4.2	6.1	2.1	2.0	2.1	2.1	1.9	2.8
Reserve Replacement	283%	287%	328%	450%	527%	585%	790%	597%
Future Development Capital (\$millions)	\$2,563	\$2,657	\$2,963	\$2,550	\$2,041	\$1,794	\$1,310	\$672

- FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the capital costs for the period, including the change in undiscounted FDC, by the change in the reserves, incorporating revisions and production, for the same period (eg. Total Proved  $(\$469.4-\$76.2)/(404.4-374.8+35.5) = \$6.04/\text{boe}$  or  $\$1.01/\text{MCFe}$ ).
- The RLI is calculated by dividing the reserves (in boes) in each category by the annualized Q4 average production rate in boe/year (eg. Proved Producing  $248,316/(101.767 \times 366) = 6.7$ ). Peyto believes that the most accurate way to evaluate the current reserve life is by dividing the proved developed producing reserves by the actual fourth quarter average production. In Peyto's opinion, for comparative purposes, the proved developed producing reserve life provides the best measure of sustainability.
- The Recycle Ratio is calculated by dividing the field netback per boe, by the FD&A costs for the period (eg. Proved Producing  $(\$15.84)/\$8.62=1.8$ ). The recycle ratio is comparing the netback from existing reserves to the cost of finding new reserves and may not accurately indicate investment success unless the replacement reserves are of equivalent quality as the produced reserves.
- The reserve replacement ratio is determined by dividing the yearly change in reserves before production by the actual annual production for the year (eg. Total Proved  $((404.4-374.8+35.5)/35.5) = 183\%$ ).

## RESERVES COMMITTEE

Peyto has a reserves committee, comprised of independent board members, that reviews the qualifications and appointment of the independent reserve evaluators. The committee also reviews the procedures for providing information to the evaluators. All booked reserves are based upon annual evaluations by the independent qualified reserve evaluators conducted in accordance with the COGE (Canadian Oil and Gas Evaluation) Handbook and National Instrument 51-101. The evaluations are conducted using all available geological and engineering data. The reserves committee has reviewed the reserves information and approved the reserve report.

## 2017 OUTLOOK

Although currently guarding against service cost inflation, Peyto is actively developing opportunities at some of the best efficiencies in the Company's history and delivering some of the best returns in the industry today. The earnings generated from every well drilled provides confirmation of that fact. While the most recent full cycle supply cost of  $\$2.20/\text{MCFe}$ , comprised of  $\$1.44/\text{MCFe}$  of PP FD&A plus  $\$0.76/\text{MCFe}$  of total cash costs, is the lowest in Peyto's 18 year history, Management feels they can be reduced even more, with continued focus on cost control and operational execution, which would further enhance shareholder returns.

Although rapidly changing industry activity levels and volatile commodity prices are expected to continue, Peyto's laser-like focus on maximizing returns for shareholders remains steadfast. Peyto has put in place risk mitigation strategies to deal with restricted access to take-away capacity, gas price volatility, and service cost inflation. These strategies will help protect the value of existing producing reserves and the profitability of future reserves that will be developed.

A continuously growing number of profitable future opportunities gives confidence that the Peyto strategy and its team can continue to generate returns for its shareholders for many years to come.

## GENERAL

For more in depth discussion of the 2016 reserve report, a conference call will be held with the management on Wednesday, February 15th, 2017, at 9:00 a.m. Mountain Standard Time (MST), or 11:00 a.m. Eastern Standard Time (EST). To participate, please call 1-844-492-6041 (North America) or 1-487-219-0837 for International participants. Shareholders and interested investors are encouraged to ask questions about Peyto and its most recent results. Alternatively, questions can be submitted to [info@peyto.com](mailto:info@peyto.com). The conference call can also be accessed through the internet at <http://edge.media-server.com/m/p/xn3bcd7q>. The conference call will be archived on the Peyto Exploration & Development website at [www.peyto.com](http://www.peyto.com).

A complete filing of the Statement of Reserves (form 51-101F1), Report on Reserves (form 51-101F2), and Report of Management and Directors on Oil and Gas Disclosure (form 51-101F3) will be available in the Annual Information Form to be filed by the end of March 2017. Shareholders are encouraged to actively visit Peyto's website located at [www.peyto.com](http://www.peyto.com). For further information, please contact Darren Gee, President and Chief Executive Officer of Peyto at (403) 237-8911.

*This news release contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: management's assessment of Peyto's future plans and operations, including the 2017 program, capital expenditures, the volumes and estimated value of Peyto's reserves, the life of Peyto's reserves, production estimates, project economics including NPV, netback and recycle ratio, the ability to enhance value of reserves for shareholders and ensure the reserves generate the maximum possible return. Forward-looking statements or information are based on a number of material factors, expectations or assumptions of Peyto which have been used to develop such statements and information but which may prove to be incorrect. Although Peyto believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking information and statements because Peyto can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, the impact of increasing competition, the timely receipt of any required regulatory approvals, the ability of Peyto to obtain qualified staff, equipment and services in a timely and cost efficient manner, drilling results, field production rates and decline rates, the ability to replace and expand reserves through development and exploration, future commodity prices, currency, exchange and interest rates, regulatory framework regarding royalties, taxes and environmental matters and the ability of Peyto to successfully market its oil and natural gas products. By their nature, forward-looking information and 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. 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 information and statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive therefrom. The forward-looking information and statements contained in this news release speak only as of the date of this news release, and Peyto does not assume any obligation to publicly update or revise any of the included forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

*This news release contains information, including in respect of Peyto's 2017 capital program, which may constitute future oriented financial information or a financial outlook. Such information was approved by management of Peyto on November 8, 2016, and such information is included herein to provide readers with an understanding of the Company's anticipated capital expenditures for 2017. Readers are cautioned that the information may not be appropriate for other purposes.*

*Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.*

*Finding, development and acquisition costs, reserves replacement and netbacks do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included by Peyto to give readers additional measures to evaluate the Peyto's performance; however, such measures are not reliable indicators of the future performance of Peyto and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon.*

*Some values set forth in the tables above may not add due to rounding. It should not be assumed that the estimates of future net revenues presented in the tables above represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.*

*The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.*