NEWS RELEASE

FEBRUARY 19, 2020 **SYMBOL: PEY - TSX**

PEYTO INCREASES PDP LIQUIDS 23% IN 2020, REPLACES 285% OF PRODUCED LIQUIDS

Peyto Exploration & Development Corp. ("Peyto" or the "Company") (TSX: PEY) is pleased to present the results and in-depth analysis of its independent reserve report effective December 31, 2019. The evaluation encompassed 100% of Peyto's reserves and was conducted by InSite Petroleum Consultants ("InSite"). The year 2019 marks the Company's 21st year of successful reserves development.

SUSTAINABILITY

- **Long Life, Low Decline:** Peyto's base production decline is forecast in the Insite report at 23% for 2020, while it's PDP Reserve Life Index ("RLI") increased 8% year over year to 9.4 years.
- **High Capital Efficiency:** The Company invested 64% of funds from operations in 2019 to replace over 75% of produced reserves in the year. Capital Efficiency for the last 3 years has averaged $10,900/boe/d.
- **Strengthening Balance Sheet:** Peyto continued to strengthen its balance sheet in 2019 with $117 million in free cashflow resulting in $78 million in net debt[3] repayment.
- **Minimal Liabilities:** The forecast cost of all of Peyto's future abandonment and reclamation liability (wells, sites, & facilities) is $55 million ($NPV_5$), which represents 1.7% of the total $3.3 billion of forecast future value of the developed reserves[1] (NPV_5), illustrating Peyto's disciplined, organic approach to finding and developing natural gas that has delivered one of the highest ratios of producing to non-producing wells in the industry.
- **Low Risk Reserves:** Peyto currently has 1,568 gross (1,370 net) producing wells that are forecast to remain on production for decades to come. The lack of mobile water in these low permeability reservoirs combined with Peyto's low cost operations and efficient processing facilities results in very long producing lives for the existing proven producing wells which are immune to the vulnerabilities of high cost midstream processing.
- **Meeting Canada's Needs:** With approximately half of the Emissions Intensity (emissions per unit of production) of the rest of the natural gas production and processing industry in Canada, Peyto's reserves are extracted for far less environmental impact*. When paired with high efficiency electricity generation, Peyto endeavors to provide Albertans and Canadians with some of the cleanest, most affordable and most reliable energy supply possible for their daily needs.

**Refer to Peyto's 2019 Sustainability Report at* http://www.peyto.com/Files/Corporate/2019SustainabilityReport.pdf

HISTORICAL TRACK RECORD

- Over the past 21 years, Peyto has explored for and discovered 6.7 TCFe of Alberta Deep Basin natural gas and associated liquids, of which 56% has now been developed[1].

Peyto 21-year cumulative production (to Dec. 31/19):	1.860 TCFe
Total Proved + Probable Additional Developed reserves:	1.951 TCFe
Total developed natural gas and liquids:	3.811 TCFe
Total Proved + Probable Additional Undeveloped reserves:	2.937 TCFe
Total explored for and discovered:	6.748 TCFe

  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 and NGL production for the purpose of generating the maximum possible return on capital for its shareholders as well as financial benefits for all Canadians.

- In those 21 years, a total of $6.2 billion was invested in the Canadian economy in the acquisition and development of 3.8 TCFe of total developed natural gas and associated liquids at an average cost of $1.62/Mcfe, while a weighted average field netback[3] of $3.67/Mcfe delivered $6.3 billion in FFO and resulted in a cumulative recycle ratio[2] of 2.3 times. Royalty payments made during this time period have totaled over $870 million.

- Based on the December 31, 2019 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 $34/share, comprised of $17/share of developed reserves and $17/share of undeveloped reserves. This includes a provision for all abandonment liability for wells, sites and facilities for which Peyto has ownership and responsibility.

2019 HIGHLIGHTS

- For the year ended December 31, 2019, Peyto invested $206 million of total capital[3] to build 75 mmcf/d of natural gas and 4,700 bbl/d of NGLs (66% pentanes and condensate) at a cost of $12,000/boe/d, principally from its liquids rich Cardium resource play.
- The annual liquid yield of this new 2019 production was 71 bbl/mmcf, compared to all previous Cardium production of 45 bbl/mmcf, and the 2019 corporate average yield of 26 bbl/mmcf.
- The average liquid yield for all PDP reserves at year end increased 31% to 29 bbl/mmcf.
- Peyto developed 133 BCFe (22.2 mmboes) of new Proved Developed Producing ("PDP") reserves at a Finding, Development and Acquisition ("FD&A") cost of $1.55/Mcfe ($9.29/boe) while the average field netback[3] was $2.17/Mcfe ($13.01/boe), resulting in a 1.4 times recycle ratio[2]. The PDP FD&A cost was higher than the previous year as Peyto focused on increasing Cardium liquid reserves which yield a higher price and ultimately higher field netback. Peyto's total Cardium production, which now represents 29% of corporate production, yielded a 54% higher field netback in 2019 ($2.95/Mcfe) than non-Cardium production.
- Peyto replaced 137% of annual production with new Total Proved ("TP") reserves at a FD&A cost of $1.41/Mcfe ($8.45/boe) and replaced 140% of annual production with new Proved plus Probable Additional ("P+P") reserves at a FD&A cost of $1.25/Mcfe ($7.48/boe) (including increases in Future Development Capital ("FDC") of $136 million and $102 million for the respective categories). For comparative purposes, FD&A costs before changes in FDC were $0.85/Mcfe and $0.83/Mcfe, respectively.
- Total Company reserves were down 3% on a PDP basis at 1.6 TCFe but up on a TP and P+P basis by 2% and 1% to 3.2 TCFe and 4.9 TCFe, respectively, both in absolute and on a per share basis. Liquid reserves increased by 23%, 25% and 5% in the PDP, TP, and P+P categories.
- The Reserve Life Index for the PDP, TP and P+P reserves increased to 9.4, 18.7 and 28.8 years, respectively.
- At year end, P+P reserves of 815 mmboes (4.148 TCFe of gas, 63 mmbbls of pentanes and condensate, 25 mmbbls butane, and 35 mmbbls propane, and inclusive of 1,280 future locations) had been assigned to just 16% of Peyto's total Deep Basin rights.

2020 OPERATIONS UPDATE

- A novel coronavirus outbreak in China and an oversupply of natural gas in North American have caused commodity prices for WTI oil, NYMEX gas and AECO gas to all fall sharply, since Peyto announced it's 2020 capital budget on December 12, 2019.
- Peyto's drilling program for 2020 has been adjusted for this change in commodity prices with activity deferred until later in the year to account for the forecast commodity price recovery. As such, Peyto still expects that capital investments for 2020 will range from $250 to $300 million as previously reported. This revised schedule includes drilling approximately 80 net wells with a focus on the Cardium liquids-rich resource play.
- Peyto has protected funding for the capital program with revenue that is diversified between marketed natural gas liquids and pre-sold natural gas production. Peyto has already sold 150 MMcf/d of natural gas and 563 bbl/d of condensate for the year at an average of $1.94/mcf and $59.62/bbl. See Peyto's website at http://www.peyto.com/Files/Operations/Marketing/hedges.pdf for up to date marketing arrangements.
- The Company continues to seek additional intra-Alberta, direct sales, supply partnerships with Alberta electricity producers. As previously announced, Peyto has entered into a gas supply agreement with Kineticor Resource Corp. for their proposed 900 MW, high efficiency, combined cycle Cascade Power Plant near Edson,

Alberta, forecast to commence operations in 2023. The Company has agreed to supply 60,000 GJ/d (approximately 52 MMcf/d) of natural gas for 15 years to this facility via a direct connection that will eliminate transportation fuel requirements by 50% and will be insulated from NGTL cost variability. Peyto is proud to be an important part of Alberta's clean energy future with these types of partnerships.

[1]*Total Proved + Probable Additional Developed Reserves includes Proved Developed Producing+Probable Additional reserves and Proved Developed Non-Producing+Probable Additional reserves.*
[2]*Recycle Ratio is Field Netback divided by FD&A.*
[3]*Capital Expenditures, Field Netback (Revenue less Royalties, Operating costs and Transportation), Net Debt and Production are estimated and remain unaudited at this time.*

2019 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, 2019.

					Before Tax Net Present Value ($millions) Discounted at			
Reserve Category	**Gas (BCF)**	**Oil & NGL (mstb)**	**BCFe (6:1)**	**mmboe (6:1)**	**0%**	**5%**	**8%**	**10%**
Proved Developed Producing	1,366	38,969	1,600	267	$4,173	$2,622	$2,112	$1,866
Proved Non-producing	34	1,112	40	7	$90	$57	$45	$40
Proved Undeveloped	1,256	44,637	1,524	254	$3,721	$1,836	$1,250	$977
Total Proved	2,655	84,718	3,164	527	$7,984	$4,514	$3,407	$2,883
Probable Additional	1,492	38,600	1,724	287	$5,095	$2,304	$1,563	$1,240
Proved + Probable Additional	4,148	123,318	4,888	815	$13,079	$6,818	$4,970	$4,122

Note: Based on the InSite report effective December 31, 2019. Tables may not add due to rounding.

ANALYSIS FOR PEYTO 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 provides an extensive analysis of the reserve evaluation that goes far beyond industry norms 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 2019 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. <u>Base Reserves</u>

Peyto's existing Proved Producing reserves at the start of 2019 (the base reserves) were evaluated and adjusted for 2019 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 1,493 producing entities (zones/wells) were evaluated. These producing wells and zones represent a total gross Estimated Ultimate Recoverable or EUR volume of 3.9 TCFe (remaining PDP+PA reserves plus cumulative production to date), which is down 0.7% from previous estimates and included a slight positive revision to liquid reserves and a slight negative revision to gas recoveries. The first-year decline of the base reserves is forecast to include changing liquid recoveries, resulting in a change in the shape of the base decline curve from previous years. In aggregate, however, 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 significantly 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 Developed Producing reserves, decreased $460 million, or -24%, due to the difference in commodity price forecasts and 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.

For 2020, InSite is now forecasting the total base production (all wells on production at Dec. 31, 2019) to decline to approximately 61,800 boe/d (324 MMcf/d of gas and 7,800 bbl/d of NGLs) by December 2020. This decline incorporates the changing liquid yields for new Cardium wells and implies a total base decline rate of approximately 23% from December 2019. The 2020 forecast decline rate is lower than the 2019 actual base decline of 29% which also exhibited this liquid yield dynamic in the new Cardium wells. The historical base decline rates and capital programs are shown in the following table:

	2008	2009	2010[1]	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020F**
Base Decline (%/yr)*	26%	20%	22%	33%	35%	34%	38%	40%	40%	37%	35%	29%	**23%**
Capital Expenditures ($MM)	$139	$73	$261	$379	$618	$578	$690	$594	$469	$521	$232	$206	**$275**

**The base decline represents the aggregate annual decline of all wells on production at the end of the previous year.*
1. Horizontal drilling began in 2010.

2. Value Creation/Reconciliation

During 2019, Peyto invested a total of $206 million in organic activity to buy and evaluate exploration lands, expand its pipeline gathering network, and drill 61 gross (53 net) wells. 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 detailed 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 2019, approximately 4% was spent acquiring lands and seismic, 13% on pipeline and facility projects, and the remaining 83% was spent drilling, completing and connecting existing and new reserves. Thirty-nine of the 61 gross wells drilled, or 64%, were previously identified as undeveloped reserves in last year's reserve report (34 Proved, 5 Probable Additional). The remaining 22 wells were locations developed in the year and were not recognized in last year's report. The discovery and development of a new, higher liquid-rich region of Peyto's Cardium play has unveiled a more profitable resource as evident in increased liquid bookings.

Peyto's booked Cardium locations increased again as a result of the 2019 drilling program which focused on this extensive, liquids rich resource play. With the increase from 375 to 442 booked locations in 2019 (357 PU and 73 PA), the Cardium reserve volumes now represent 29% of the Company's total P+P volume and 36% of the Company's total P+P value (NPV discounted at 5%) up from 26% and 30%, respectively, last year. The following table illustrates the history of Peyto's Cardium drilling and booked P+P inventory since 2009.

Booked Cardium Locations	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	**2019**
Opening Inventory	119	144	169	211	200	191	183	182	190	187	**375**
Wells Drilled	(19)	(17)	(17)	(18)	(9)	(8)	(0)	(2)	(7)	(48)	**(50)**
Locations Added/Removed	**44**	**42**	**59**	**7**	**0**	**0**	**(1)**	**10**	**4**	**236**	**117**
Closing Inventory	144	169	211	200	191	183	182	190	187	375	**442**

It is noted that horizontal multi-stage fracture technology began to be widely used after 2010 which changed the nature of the drilling inventory. Also, the Company's total internal drilling inventory is larger and more comprehensive than that identified in the InSite report.

The undeveloped reserves at year end 2018 originally booked to the 39 locations referred to above, totaled 129 BCFe (3.3 BCFe/well) of Proved Undeveloped plus Probable Additional reserves for a forecast capital investment of $111 million ($0.86/Mcfe). In actuality, $109 million of capital ($0.88/Mcfe) was spent on these 39 wells during 2019, yielding Proved Developed Producing plus Probable Additional reserves of 124 BCFe (3.2 BCFe/well). The actual reserves developed have a higher liquid content than originally forecast, however, which generates higher netbacks.

The following table illustrates the Company's historical performance in converting future undeveloped locations into producing wells and demonstrates that Peyto has consistently converted more reserves at better cost than was forecast.

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%
2016	128	82	64%	254	$297	**$1.17**	254	$246	**$0.97**	-17%
2017	142	97	68%	298	$295	**$0.99**	321	$305	**$0.95**	-4%
2018	70	37	53%	104	$115	**$1.10**	120	$118	**$0.98**	-11%
2019	**61**	**39**	**64%**	**129**	**$111**	**$0.86**	**123**	**$109**	**$0.88**	**+2%**
Total	**967**	**658**	**68%**	**2,001**	**$2,655**	**$1.33**	**2,121**	**$2,517**	**$1.19**	**-11%**

**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 future undeveloped locations.

Value Reconciliation

In order to measure the success of all capital invested in 2019, 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 can be 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 2019, Peyto's estimated net debt had decreased by 6% or $78 million to $1.147 billion while the number of shares outstanding remained the same at 164.9 million shares. The change in debt includes all 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 $363 million of Proved Developed Producing, $ 1.131 billion of Total Proven, and $1.892 billion of Proved plus Probable Additional undiscounted reserve value, with $206 million of capital investment, cost reductions, and marketing arrangements. 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 2019, the Proved Developed Producing NPV recycle ratio is 1.8 which means for each dollar invested, the Peyto team was able to create 1.8 new dollars of Proved Developed Producing reserve value.

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**Wt. Avg.**
Capital Investment ($MM)	$73	$261	$379	$618	$578	$690	$594	$469	$521	$232	$206	
NPV_0 Recycle Ratio												
Proved Developed Producing	5.4	3.5	2.4	1.6	1.5	1.5	2.3	2.9	2.3	4.6	1.8	**2.3**
Total Proved	18.9	6.1	4.7	2.2	2.0	1.7	3.3	4.2	3.2	11.7	5.5	**3.8**
Proved + Probable Additional	27.1	10.3	6.6	3.2	4.0	2.6	5.0	7.3	4.0	15.1	9.2	**5.8**

**NPV_0 (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. 2018 Proved Developed Producing ($1,066/$232) = 4.6).*

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. 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 2019, the Company again deployed a conservative capital program but was successful in effectively replacing 75% of annual production with new PDP reserves using less than 64% of funds from operations. Fourth quarter production decreased by 11%, from 86,738 boe/d (459 MMcf/d gas, 10,273 bbl/d NGLs) to 77,457 boe/d (397 MMcf/d gas, 11,220 bbl/d NGLs). The change in both PDP reserves and fourth quarter production resulted in increasing the Proved Developed Producing reserve life index from 8.7 years to 9.4 years

For comparative purposes, the Total Proved and P+P RLI index was 19 and 29 years, respectively. Management believes that the most meaningful method to evaluate the current reserve life is by dividing the Proved Developed 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.

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Proved Developed	12	13	14	14	11	9	9	7	7	7	7	7	9	9
Total Proved	14	16	17	21	17	16	15	12	11	11	11	11	16	19
Proved + Probable	20	21	23	29	25	22	22	19	18	17	18	18	25	29

Future Undeveloped Opportunities

As at December 31, 2019, Peyto had 881 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 almost four-fold to a total of 3,247 net sections of rights over Duvernay, Montney and seven Cretaceous horizons. During Peyto's 21-year history, the Company has found and developed 3.8 TCFe of total natural gas and associated liquids which resides in 348 of these net sections. Effectively, Peyto has invested $6.2 billion to fully develop 11% of its existing land base which has also resulted in the generation of $6.3 billion of cumulative funds from operations and $2.6 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 six years as shown in the following table of future development capital.

	Future Development Capital	
Year	Proved Reserves Undisc., ($Millions)	Proved+ Probable Additional Reserves Undisc., ($Millions)
2020	$231	$261
2021	$387	$524
2022	$360	$593
2023	$369	$614
2024	$408	$647
2025	$252	$643
2026	$97	$245
Thereafter	$3	$21
Total	$2,107	$3,547

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 spawn 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.

(gross locations)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**10 yr, Avg.**
Wells Drilled	29	52	70	86	99	123	140	128	142	70	**61**	**97**
Locations Added to Reserves Report	96	149	151	156	220	257	208	245	165	223	**118**	**189**
Inventory Generation Rate	3.3	2.9	2.2	1.8	2.2	2.1	1.5	1.9	1.2	3.2	**1.9**	**1.9**

Peyto's development drilling activity has proved up additional future drilling locations with the number of future drilling locations recognized in the reserve report increasing from 1,201 gross (982 net) locations to 1,280 gross (1,035 net) locations. Of these future locations, 64%, or 630, are categorized by the independent reserve evaluators as Proven Undeveloped with the remaining 36%, or 405, as Probable Undeveloped. In addition, the PU and PA categories include deep cut facility installations at two of Peyto's Greater Sundance gas plants. The net reserves associated with the undeveloped locations (not including existing uphole zones) totals 2.9 TCFe (484 mmboes, consisting of 2.44 TCF of gas and 78 mmbbls of NGLs) while the total capital required to develop them is estimated at $3.5 billion or $1.21/Mcfe. This is forecast to create Net Present Value of $3.5 billion (5% discount rate, post capital recovery) or $21 per share of incremental value at the Insite commodity price forecast.

The undiscounted, forecast for Net Operating Income for the TP and P+P reserves over the 7 year future development capital schedule, as contained in the evaluator's report, totals $4.1 billion and $5.7 billion, respectively, more than sufficient to fund the future development capital shown in the table above, ensuring those reserve additions are accretive to shareholders.

The total estimated Future Development Capital for both Total Proved and P+P reserves increased from the previous year by $136 million and $102 million, respectively, which reflects the increase in future locations combined with the significant improvement in drilling and completion costs.

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 attempts to further reduce the risk of predicted operating incomes with an active market diversification and hedging program that is designed, over time, to expose 40% of its natural gas sales to AECO based pricing, link 40% to US pricing and sell 20% directly to intra-Alberta industrial markets. As always, Peyto will continue to hedge future prices to smooth out the volatility in both Alberta and US natural gas markets through a series of frequent transactions which is similar to "dollar cost averaging" the future gas price.

Finally, Peyto is the operator of over 99% of its producing wells and has one of the highest ratios of producing to non-producing wells in the industry. Approximately 98% of Peyto's asset base has been organically developed by Peyto and contains very few abandonment liabilities. At December 31, 2019, Peyto owned 1,528.5 net wells of which over 90% are on production today and most are expected to produce for decades to come. Of the non-producing wellbores, 21 are considered medium risk, inactive wells that require downhole suspension over the next several years. The capital requirement for this work is estimated at $1.5 million. For perspective, the current existing developed reserves have a forecast value of $3.3 billion ($NPV_5$ of the PDP + PA and PDNP + PA), while the cost to abandon and reclaim all wells, sites and facilities is estimated at $55 million using the same 5% discount rate for future costs.

These cumulative factors listed above, 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.

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.

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Proved Developed Producing										
FD&A ($/Mcfe)	**$1.55**	$1.18	$1.36	$1.44	$1.64	$2.25	$2.35	$2.22	$2.12	$2.10
RLI (yrs)	**9**	9	7	7	7	7	7	9	9	11
Recycle Ratio	**1.4**	2.3	2.1	1.8	2.0	1.9	1.6	1.6	2.1	2.4
Reserve Replacement	**75%**	98%	171%	153%	193%	183%	190%	284%	230%	239%
Total Proved										
FD&A ($/Mcfe)	**$1.41**	$1.21	$1.39	$1.01	$0.72	$2.37	$2.23	$2.04	$2.13	$2.35
RLI (yrs)	**19**	16	11	11	11	11	12	15	16	17
Recycle Ratio	**1.7**	2.2	2.0	2.6	4.5	1.8	1.6	1.7	2.1	2.1
Reserve Replacement	**137%**	294%	225%	183%	188%	254%	230%	414%	452%	456%
Future Development Capital ($ millions)	**$2,107**	$1,971	$1,488	$1,305	$1,381	$1,721	$1,406	$1,318	$1,111	$741
Proved + Probable Additional										
FD&A ($/Mcfe)	**$1.25**	1.02	$1.49	$0.62	$0.54	$2.01	$1.86	$1.68	$1.90	$2.19
RLI (yrs)	**29**	25	18	18	17	18	19	22	22	25
Recycle Ratio	**1.7**	2.6	1.9	4.2	6.1	2.1	2.0	2.1	2.4	2.3
Reserve Replacement	**140%**	342%	279%	283%	287%	328%	450%	527%	585%	790%
Future Development Capital ($millions)	**$3,547**	$3,445	$2,978	$2,563	$2,657	$2,963	$2,550	$2,041	$1,794	$1,310

- 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. 2018 Total Proved ($232.4+$482.7)/(516.3-451.3+33.6) = $7.25/boe or $1.21/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. 2018 Proved Developed Producing 273,921/(86.738x365) = 8.7). Peyto believes that the most accurate way to evaluate the current reserve life is by dividing the proved developed producing reserves by the annualized 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. 2018 Proved Developed Producing (($15.95)/$7.08=2.3). 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. 2018 Total Proved ((516.33-451.27+33.58)/33.58) = 294%).

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.

LONG TERM DEBT

On October 25, 2019, the Company voluntarily repaid $120 million of senior unsecured notes due December 4, 2020. Further, on December 18, 2019 the Company voluntarily repaid $50 million of senior unsecured notes due July 3, 2022, and $35 million of senior unsecured notes due May 1, 2025. The funds were repaid, without make-whole, from the unsecured revolving credit facility. The next note maturity is September 6, 2022 while the stated term date of the revolving credit facility is October 13, 2022. In addition, Peyto's senior debt to EBITDA covenant was amended effective December 31, 2019 to 3.5 times. This covenant is scheduled to revert to 3.25 for the first fiscal quarter ending December 31, 2021. In light of the current commodity prices, Peyto will be monitoring its capital spending and balance sheet to ensure Peyto remains compliant with all financial covenants.

GENERAL

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 2020. Shareholders are encouraged to actively visit Peyto's website located at www.peyto.com. For further information, please contact Darren Gee, President and Chief Executive Officer of Peyto at (403) 261-6081.

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 2019 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 2020 capital program, which may constitute future oriented financial information or a financial outlook. Such information was approved by the Board of Directors of Peyto on December 12, 2019, and such information is included herein to provide readers with an understanding of the Company's anticipated capital expenditures for 2020. 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.