

Peyto Exploration & Development Corp. President's Monthly Report

May 2017

From the desk of Darren Gee, President & CEO

Spring has finally sprung and as is usual for this time of year our operations are stuck in the mud. We've been spoiled these past couple of years by unusually dry springs and short break ups. This year appears, so far anyway, to be more typical or perhaps even on the wetter side. We have managed to drill from pad sites with four of our drilling rigs, however, moving frac spreads around is virtually impossible. Pipelining is also problematic. Road bans by county, forestry and other industry players have been strictly enforced as nobody can afford any extra money for repairs (neither can we). There is a lot of iron and a lot of water involved in a typical frac these days, so you can imagine the cost of dragging it through the mud.

Figure 1



Source: Peyto

As in the past, this report includes an estimate of monthly capital spending as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below) as well as any production deferrals.

Capital Investment*

2016/17 Capital Summary (millions\$ CND)*

	Q1 16	Q2 16	Q3 16	Oct	Nov	Dec	Q4 16	2016	Jan	Feb	Mar	Q1 17
Acq.	28	0	5	0	0	1	1	34	0	0	3	4
Land & Seismic	4	1	1	1	3	0	4	9	8	0	1	9
Drilling	63	30	64	26	24	13	63	219	22	25	20	67
Completions	33	8	27	10	13	14	37	105	11	13	13	36
Tie ins	12	3	13	4	5	6	14	42	3	4	6	13
Facilities	37	9	4	2	4	5	11	60	9	5	11	25
Total	176	50	114	43	49	38	130	469	53	47	54	154

Production*

2016/17 Production ('000 boe/d)*

	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016	Jan	Feb	Mar	Q1 17	Apr
Sundance	59	61	54	58	59	58	59	59	59	59	58
Ansell	17	25	20	21	22	22	21	21	22	21	20
Brazeau	7	12	11	14	17	14	19	18	17	18	18
Kakwa	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	1	1	1	1	2	2	1	1	2
Total	86	101	88	96	102	97	102	100	102	101	100

* This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

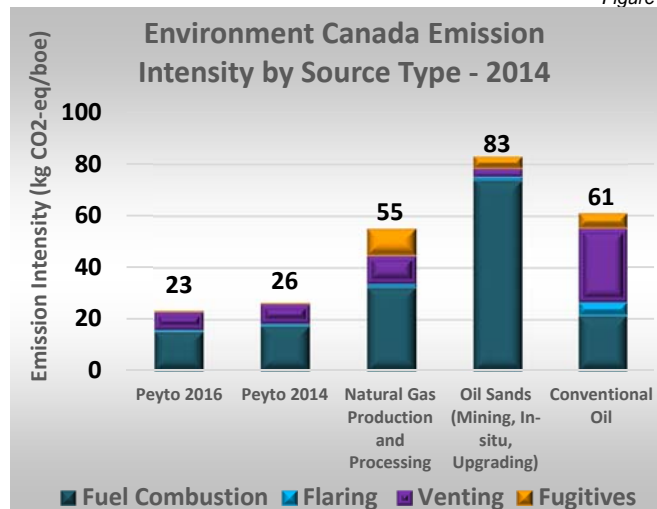
Improving Environmental Performance

Last October, we unveiled our first Sustainability Report which discussed our philosophies with respect to the environment, health and safety, community, and our dedication to continuous improvement in all facets of our performance. It also included a report card which tracked a number of factors like CO₂ and Methane emissions, water use, etc. We have now updated this report card for 2016 which will be published to our website soon.

It's been an important year from an environmental perspective. Peyto has made some significant gains with respect to water recycling and emissions reductions while maintaining our impeccable safety record and cost structure. As I mentioned in my Sept. 2016 monthly report, Peyto's climate leadership (<http://www.peyto.com/Files/PMRReport/2016/20160905PMR.pdf>) is as much driven by profitability as it is by responsibility.

Despite already having significantly less emissions than the majority of the natural gas industry in Canada, we managed to reduce our 2016 emission intensity per boe of production even further. As illustrated in Figure 1, our emission intensity dropped from 25 kg of CO₂ equivalent per boe in 2014 to 23 kg in 2016, a 12% improvement.

Figure 2



Source: Environment Canada, Peyto

Improvements occurred in all categories from fuel combustion, to flaring, to venting. Of course our fugitive emissions, or leaks from pressurized equipment and fittings, were already superior to the industry but we are improving that as well.

During the year we participated in an Alberta Fugitive emissions study conducted by Greenpath Energy on behalf of

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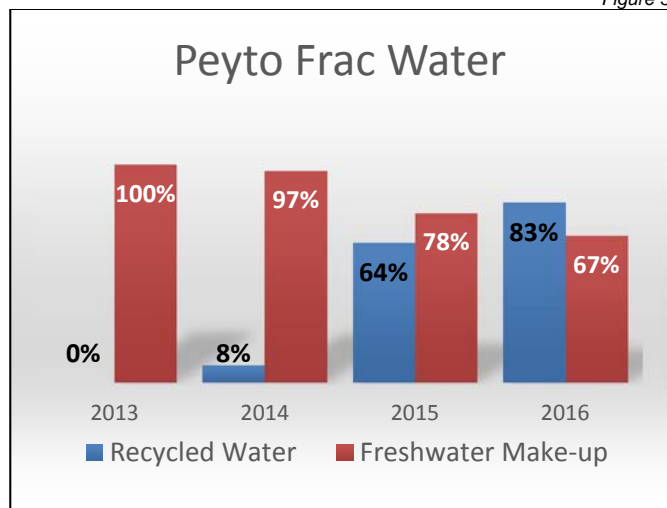
the AER. This study focused on identifying and quantifying fugitive emission leaks at wellsites throughout the province. As part of the study, Greenpath surveyed 69 random Peyto wellsites looking for leaks and fugitive emissions. From the Greenpath data we concluded that our wellsites emit an average of 0.41 tCO₂eq/yr, which is 27 times less than the industry standard CAPP fittings fugitive emissions estimate.

In addition, we've conducted annual fugitive emissions surveys at all of our gas plants. According to those surveys we estimate that CAPP emissions factors overstate the fugitive emissions at our gas plants by about 40%.

By these comparisons alone, Peyto already has an exceptional environmental record with respect to emissions. But we're not done yet. We have begun the process of installing reduced emission chemical pumps at our wellsites to eliminate the small amount of vented gas occurring during the cycling of these pneumatic pumps. These new chemical pumps, which use either solar panels or Methanol fuel cells, will significantly reduce any vented methane across Peyto's operations.

On the water side, we've made significant progress recycling and filtering recovered frac water to reduce the amount of fresh water used in subsequent fracturing treatments (see Figure 2). We don't recover all the water, only 40%, but what we do recover, we're now re-using 83% of it.

Figure 3



Source: Peyto

Our goal was to have less than 50% freshwater make-up by 2018 and we're well on our way to achieving that.

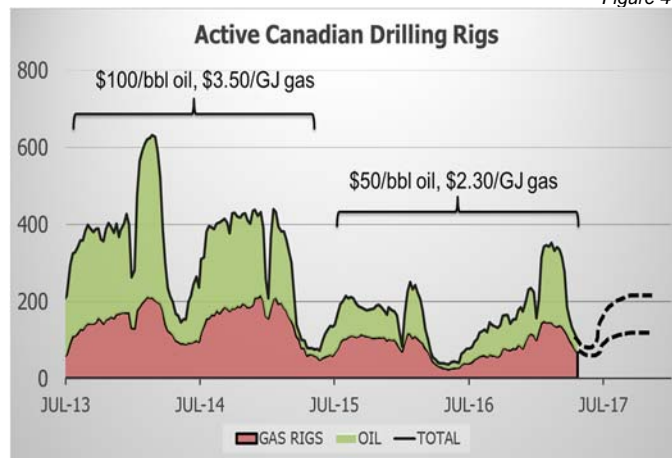
Many of these initiatives have the inherent benefit of saving us money, which has always been the focus at Peyto, so we didn't need any Carbon Tax or Climate Change legislation from either

provincial or federal politicians to force us into such action. Of course, they will take credit for our achievements, but really, it was our shareholders, who justifiably demand profitability, that should get the credit. It only makes common sense.

Activity Levels and Commodity Prices

Drilling rig counts across western Canada have fallen off due to breakup. This will also be an opportunity for industry players to reassess their capital budgets for the year and their funding requirements. Unfortunately, commodity prices haven't materialized the way most predicted last fall when these winter drilling programs were put into motion. I suspect many will come to the conclusion they can't fund as large a drilling program as they wanted. And whether they officially announce such revisions or use other excuses, I think the result will be a lower rig count after break up. The reality is that to run 400-ish rigs in Western Canada we need more than \$50 oil and sub-\$3 gas. The service industry has been right-sizing itself for half that many rigs over the last couple of years. To expand will take increased day rates and more workers, which can only be justified by increased commodity prices (that we don't have).

Figure 4



Source: EIA, Baker Hughes, Peyto

On the gas side, such financial pragmatism should be welcome. We don't have the egress to accommodate any real growth from the basin anyway. As it is, the industry has more deliverability than can be transported out of the basin when you consider the required maintenance and downtime of the major arteries like the Nova, Alliance and Spectra systems.

For Peyto, an activity level that drops back to around 200 rigs will be welcome relief from potential service cost pressures. We can then take advantage of our low cost position to continue investing counter cyclically to the rest of the industry, just like we have been for the last few years.