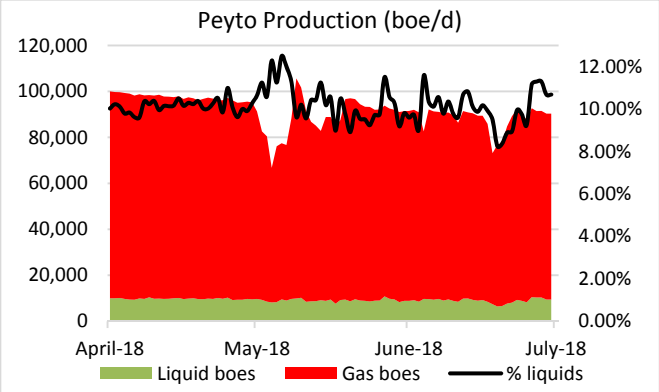
Peyto Exploration & Development Corp.
President's Monthly Report

July 2018 — From the desk of Darren Gee, President & CEO

Our decision to hold off drilling in the first half of the year, and let production decline thus not exposing new, flush production to negative spot prices, lately looks to be the right one. We combine that with our nimbleness and ability to throttle back dry gas production when gas prices go south, which means that we maintain the majority of our liquids revenue, even when we're preserving gas reserves. Other than our 3 day Oldman plant turnaround in mid-June, this strategy has worked successfully to maximize cashflow rather than production.

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).

Capital Summary (millions$ CND)*

	2016	Q1 17	Q2 17	Q3 17	Oct	Nov	Dec	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr	May
Acq/Disp	34	4	0	0	0	0	0	0	4	0	-4	0	-4	0	0
Land & Seismic	9	9	2	1	0	4	0	4	17	1	0	0	1	0	0
Drilling	219	67	48	73	25	29	15	69	256	10	3	1	14	0	0
Completions	105	36	21	34	17	14	12	42	134	8	5	5	17	0	0
Tie ins	42	13	9	15	6	5	5	16	53	2	1	1	4	0	0
Facilities	60	25	17	11	2	1	1	4	57	0	1	3	4	0	2
Total	**469**	**154**	**98**	**135**	**50**	**53**	**32**	**134**	**521**	**21**	**5**	**9**	**35**	**1**	**2**

Production ('000 boe/d)*

	2015	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr	May	June	Q2 18
Sundance	59	58	59	56	55	58	57	57	56	55	56	54	49	49	50
Ansell	17	22	21	20	22	21	21	21	21	20	20	19	18	18	18
Brazeau	7	14	18	19	21	25	21	27	24	22	24	21	19	18	19
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	1	1	1	2	3	2	3	2	3	3	2	2	2	2
Total	**86**	**97**	**101**	**98**	**102**	**110**	**103**	**110**	**105**	**101**	**105**	**97**	**89**	**89**	**92**
Deferral				-	6								4	2	2
Capability	86	97	101	98	108	110	103	110	105	101	105	97	93	91	94
Liquids %								9.4%	9.5%	9.7%		10.0%	10.3%	10.1%	

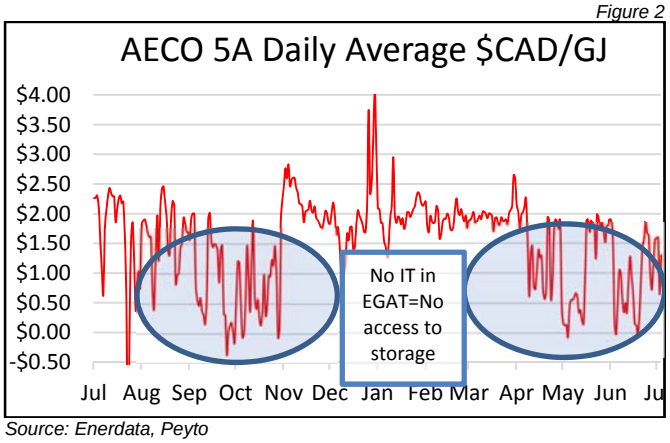
This estimate is based on real field data, not a* ***forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.*

Is AECO Volatility the New Normal?

A couple months ago, I wrote about the need for more natural gas storage in North America (May 2018 PMR), as we start to see more extreme temperature swings from winter to summer. I also noted how both U.S. and Canadian storage capacity hadn't grown over the last many years despite a significant increase in both supply and consumption. In fact, storage capacity in Canada has now effectively shrunk, or at least been rendered inaccessible due to changes in the prioritization of service on the NGTL system in Alberta.

This was particularly evident the week of June 17, 2018 when we saw AECO y-day natural gas prices swing violently from a low of -$50/GJ to a high of $2/GJ. Of course, one of the reasons for this volatility, particularly in the summer season, is a lack of access to traditional storage systems to buffer the difference between supply and demand (Fig.2). Normally, when supply exceeds demand (as it often does in summer), storage reservoirs absorb the excess supply which has the effect of stabilizing any price swings that an imbalance might create.

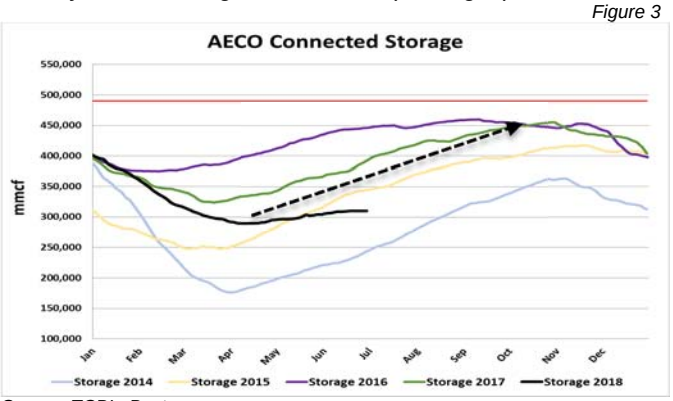
Figure 2



Source: Enerdata, Peyto

This lack of access to storage is also starting to show up in our inability to refill storage this summer (see Fig. 3).

Figure 3



Source: TCPL, Peyto

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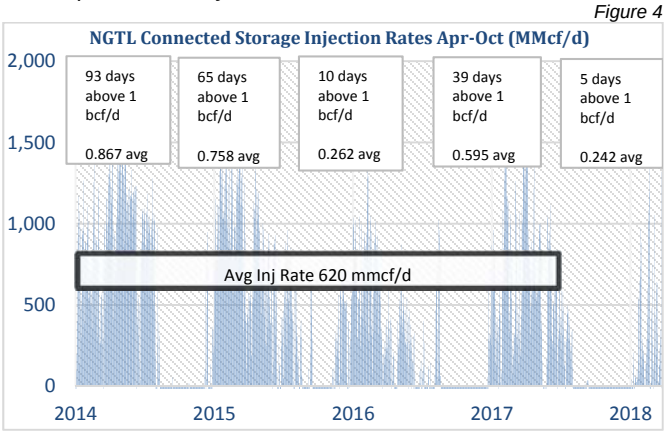
Even if NGTL priorities were to change, and service was made available to storage operators, there are physical limitations to how quickly volumes can be injected into storage. Looking at the last several years' injection rates (Fig. 4), the maximum daily rate of injection tops out at around 1.6 BCF/d, with an average seasonal injection rate of 0.62 BCF/d. But remember, as reservoirs fill that injection rate diminishes, just like as reservoirs deplete, production rate declines. So for the northern storage reservoirs that are already full or close to full, their injectivity has already decreased. This means that achieving historical average injection rates seen in the last few years may not be possible this year.

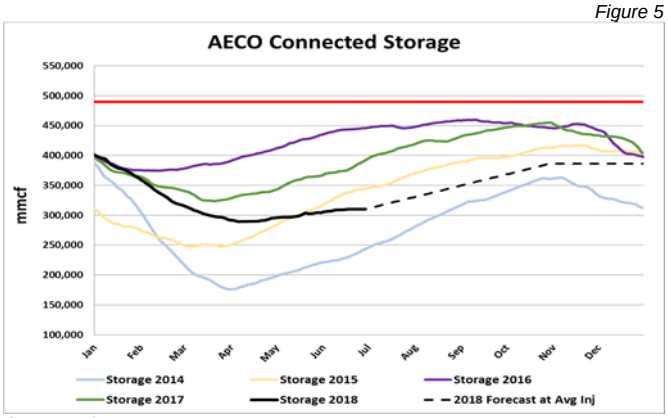
Figure 4



Source: TCPL, Peyto

Hypothetically, if we were to start injecting at the average rate of the last four years of 0.62 bcf/d, for the remaining injection season (until Nov 1, 2018), we'd only add about 76 BCF, bringing Western Canadian storage levels to just 386 BCF, or slightly above the 2014 level (Fig. 5). Or if we continue with the average injection rate for 2018 of 0.24 bcf/d, then we only get to 340 BCF, which would be an historic low.

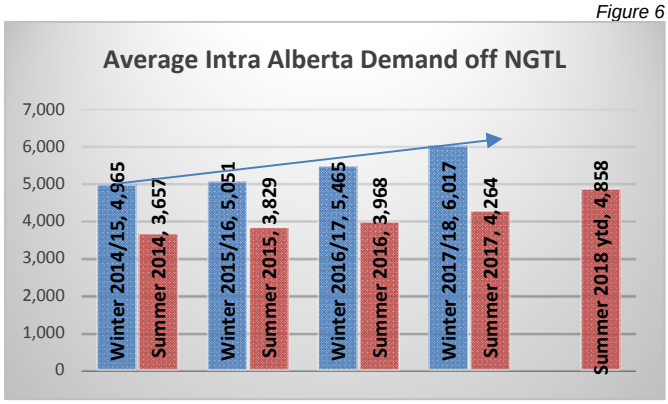
Figure 5



Source: TCPL, Peyto

Looking at Figure 5, we never draw storage down much below 200 BCF during winter, which means even with 386 BCF, we'd have only 186 BCF to work with all winter. This same kind of thing happened in the winter of 2014/15, which drove average AECO daily prices up to $4/GJ (Fig. 7). But as I said at the start of this discussion, we are not the same as four years ago. Now we have colder, cold days and greater extremes, not to mention greater overall consumption. Intra Alberta demand in winter is up more than 20% since the winter of 2014/15 (Fig.6).

Figure 6



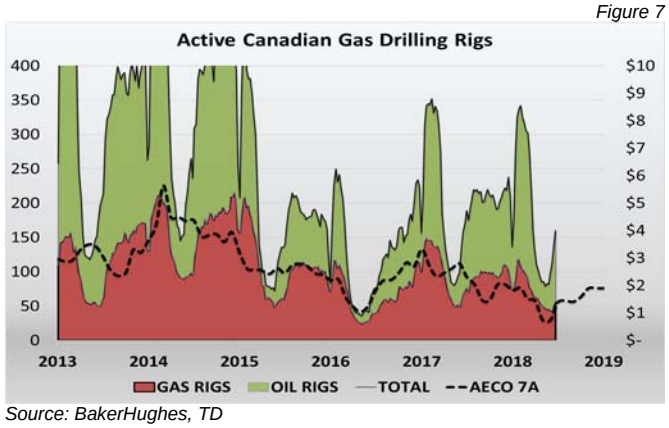
Source: TCPL, Peyto

All of this analysis leads one to the conclusion that we are in for some extreme volatility in prices this winter, just like we're experiencing this summer because we no longer have storage at our disposal to buffer prices. Lower lows in summer and higher highs in winter may be the new normal for Canadian gas prices. Those, like Peyto, that can throttle production to take advantage of these price swings will be winners in the long run and their average realized AECO price may be significantly better than today's forward curve.

Activity Levels and Commodity Prices

Both oil and gas rigs are picking up again after breakup (Fig. 7) but both are still lagging past years despite a more bullish oil outlook. We're perhaps looking for a repeat of 2016 for gas rigs if AECO continues to strengthen into winter.

Figure 7



Source: BakerHughes, TD

Forward Looking Statements

Certain information set forth in this monthly report, including management's expectation of future natural gas prices and the reasons therefore and management's estimate of monthly capital spending, field estimate of production, production decline rates and forecast 2018 netback, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Peyto's 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 monthly report are made as of the date of this monthly report. Except as required by applicable securities law, we assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risks and assumptions affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

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

Certain measures in this monthly report do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These measures may not be comparable to similar measures presented by other issuers. Non-IFRS measures are commonly used in the oil and gas industry and by Peyto to provide potential investors with additional information regarding Peyto's liquidity and its ability to generate funds to conduct its business. Non-IFRS measures used herein include netback and funds from operations.

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. Funds from operations is a non-IFRS 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 Peyto'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 IFRS measure is cash flows from operating activities.