

Peyto Exploration & Development Corp.

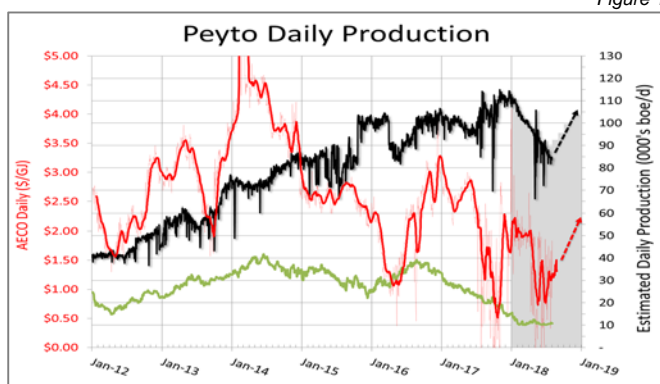
President's Monthly Report

August 2018

From the desk of Darren Gee, President & CEO

Hopefully the frustration of watching gas prices and production fall through the first half of 2018 is now behind us, we can focus on building our production back up to previous levels just in time for stronger winter pricing. For larger companies, a momentum shift like that can be very difficult. Thankfully at Peyto, we have always had a very small and nimble staff that can pivot quickly and go from focusing on long dated exploration initiatives to near term development operations and execution. As I've stated before, this summer drop may become our new "modus operandi" as we deal with the extreme seasonal volatility in commodity prices resulting from a lack of access to storage.

Figure 1



Source: Peyto, TD

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	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr	May	Jun	Q2 18
Acq/Disp	34	4	0	0	0	4	0	4	0	4	0	0	0	0
Land & Seismic	9	9	2	1	4	17	1	0	0	1	0	0	0	1
Drilling	219	67	48	73	69	256	10	3	1	14	0	0	7	7
Completions	105	36	21	34	42	134	8	5	5	17	0	0	1	1
Tie ins	42	13	9	15	16	53	2	1	1	4	0	0	0	1
Facilities	60	25	17	11	4	57	0	1	3	4	0	2	3	5
Total	469	154	98	135	134	521	21	5	9	35	1	2	12	15

Production ('000 boe/d)*

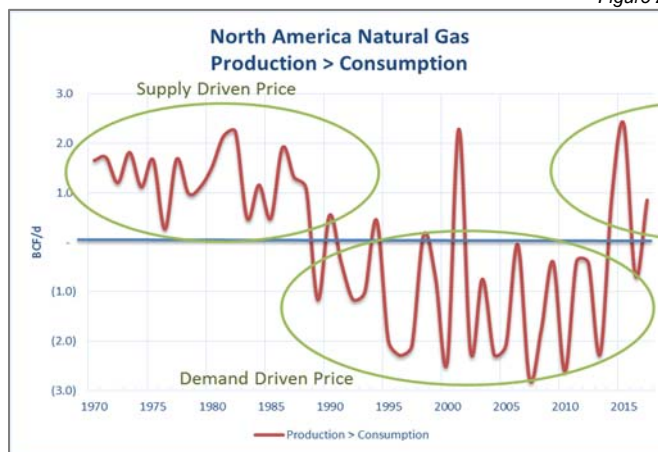
	Q1 17	Q2 17	Q3 17	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr	May	June	Q2 18	Jul
Sundance	59	56	55	58	57	57	56	55	56	54	49	49	50	49
Ansell	21	20	22	21	21	21	21	20	20	19	18	18	18	16
Brazeau	18	19	21	25	21	27	24	22	24	21	19	18	19	17
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	1	1	2	3	2	3	2	3	3	2	2	2	2	2
Total	101	98	102	110	103	110	105	101	105	97	89	89	92	86
Deferral			6							4	2	2	2	1
Capability	101	98	108	110	103	110	105	101	105	97	93	91	94	87
Liquids %						9.4%	9.5%	9.7%	9.5%	10.0%	10.3%	10.0%	10.1%	10%

* 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.

Awash in Gas Forever?

In an oversupplied market, supply tends to set the price. In an undersupplied market, demand tends to set the price. In North America right now, we have more supply than demand for natural gas and there is a belief that it will stay that way for the foreseeable future (Fig. 2). Therefore, the amount and the cost of supply of natural gas is and will be setting the price of the commodity. Today, I think most people believe this to be a true characterization. But it hasn't always been this way. In fact, it was only a decade ago that we believed the reverse.

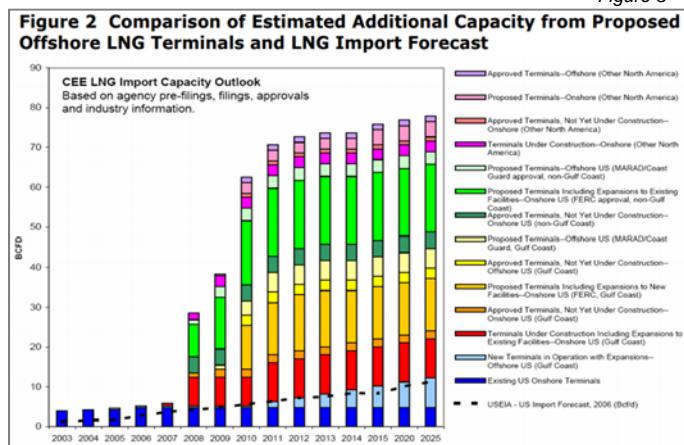
Figure 2



Source: BP Statistical View of World Energy 2018, Peyto

Ten years ago we believed the exact opposite. We were short supply and demand was growing. Demand was setting the price. And in North America we were busy preparing to install a large number of LNG import facilities to increase supply of natural gas for that growing demand [See Figure 3 from a research piece done in 2006 showing massive projections for LNG imports (70 BCF/d!) by the year 2010].

Figure 3



http://www.beq.utexas.edu/files/energyecon/global-gas-and-lng/CEE_offshore_LNG.pdf

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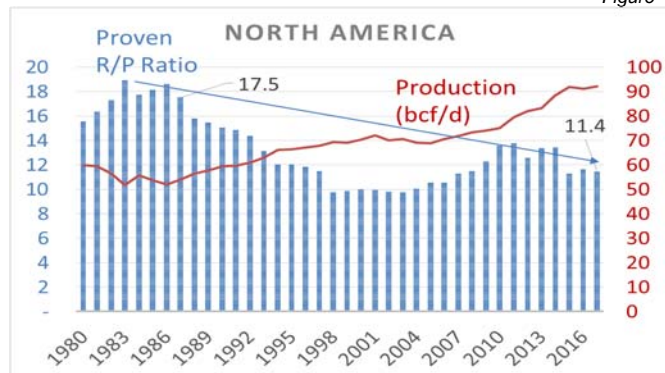
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Obviously, all those import facilities didn't happen. But at the time we all believed that was going to be the future. Just like today, we all believe we'll be awash in natural gas in North America forever more. So in turn, we are planning a large number of LNG *export* facilities to take our permanent, excess supply to world markets. But perhaps, we should be mindful of those history lessons. If we were so awash in natural gas in North America, wouldn't you think our Proven reserves would be growing? Yet, they don't seem to be. Figure 4 is the Proven reserve life index (reserve to production ratio) for Natural Gas in North America which has been relatively flat for the last 20 years. In fact, the last time we were in a supply driven market in North America (1970-1990), we had 50% more proven reserves (relative to production) than we do today.

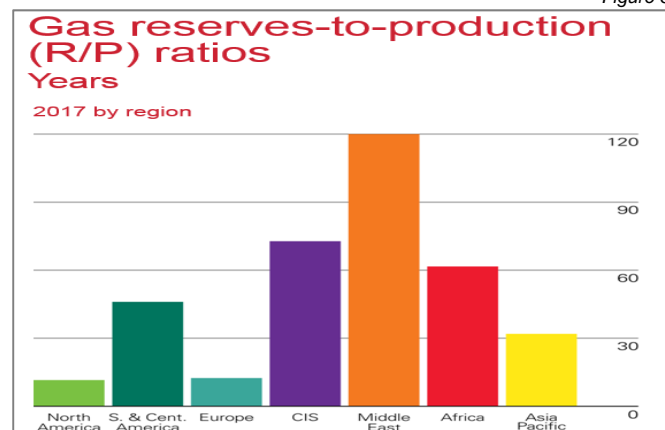
Figure 4



Source: BP Statistical View of World Energy 2018, Peyto

Of all the places, North America is the last place we should be thinking we're awash in gas. We may be one of the largest gas basins (~100 BCF/d prodn/consumption) in the world but we also have the shortest Proven RLI, at just over 11 years (Figure 5) which is a far cry from the 120 years in the Middle East.

Figure 5



Source: BP Statistical View of World Energy 2018

Don't get me wrong, I'm all for connecting our hydrocarbon markets with the rest of the world and expanding the free

market economy for energy, particularly for cleaner burning natural gas. But to conclude we will always have a supply driven price here seems rather foolhardy. Perhaps we should be building those LNG facilities to be bi-directional instead of just export only because a decade from now the supply demand dynamic could look a lot different than it does today.

Activity Levels and Commodity Prices

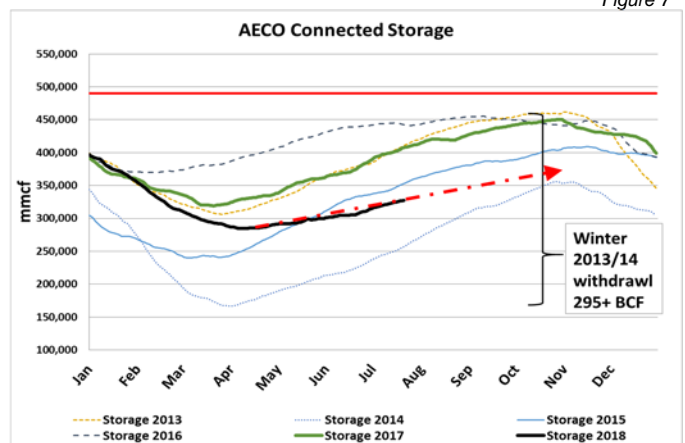
Figure 6



Source: GasAlberta

One year ago the AECO futures prices were almost 70% higher than they are today, and yet when we look at the AECO connected storage situation it looks dramatically worse today than last year. At some point, the market will have to come to the realization that we may not have enough gas to fulfil the firm deliver contracts out of the province this winter **and** satisfy all the inter-Alberta demand. Unfortunately, incremental upstream supply isn't going to help very much because the pipe doesn't have the capacity to get that supply to the Alberta demand. If we end up getting a cold winter, and we want to pull 300 BCF out of storage, like in 2014, we won't have it. Then its look out AECO!

Figure 7



Source: Peyto, TCPL

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

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.