

Peyto Exploration & Development Corp.

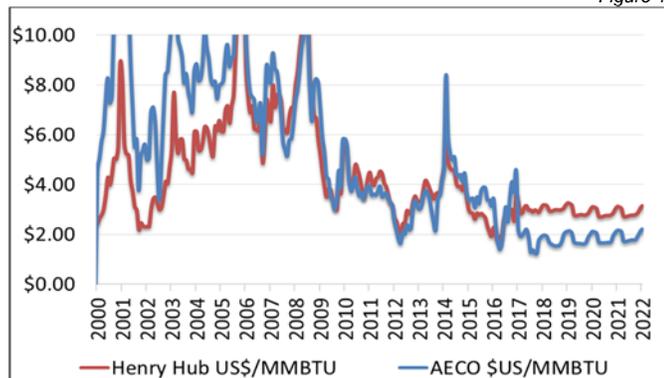
President's Monthly Report

November 2017

From the desk of Darren Gee, President & CEO

We currently have a broken gas market in Alberta. As illustrated in Figure 1, the Canadian and US natural gas prices have generally traded with pretty good correlation over the past 10 years. And so they should, as the two markets are extremely interconnected right now. The next 5 years of future strip, however, no longer reflects this relationship. For the people of Alberta and BC, whose royalties from gas revenues are based on this relationship, this is an alarming change. I personally believe it is because a portion of the available market is being withheld by the pipeline monopoly who is, in effect, extracting too much of the "economic rent" just to get the gas to market. This "rent" is normally regulated by the NEB but with such rapidly changing supply/demand dynamics, it has been ignored recently. Perhaps it will take some rather loud voices at the Provincial level (AB/BC) to rectify the situation. They've definitely not been shy about reviewing royalties when the "rent" question has been brought up in the past.

Figure 1



Source: NGX, EIA

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 Investment*

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

	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Apr	May	Jun	Q2 17	Jul	Aug	Sep	Q3 17
Acq.	28	0	5	1	34	4	0	0	0	0	0	0	0	0
Land & Seismic	4	1	1	4	9	9	1	1	0	2	0	1	0	1
Drilling	63	30	64	63	219	67	10	13	26	48	25	23	25	73
Completions	33	8	27	37	105	36	4	5	12	21	15	11	8	34
Tie ins	12	3	13	14	42	13	2	3	4	9	7	4	4	15
Facilities	37	9	4	11	60	25	8	5	4	17	4	2	5	11
Total	176	50	114	130	469	154	25	28	45	98	51	41	43	135

Production*

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

	2015	Q1 16	Q2 16	Q3 16	Q4 16	2016	Q1 17	Q2 17	Jul	Aug	Sept	Q3 17	Oct
Sundance	59	61	54	58	59	58	59	56	54	57	55	55	58
Ansell	17	25	20	21	22	22	21	20	20	23	22	22	21
Brazeau	7	12	11	14	17	14	18	19	21	22	19	21	23
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	1	1	1	1	1	1	1	3	2	2	3
Total	86	101	88	96	102	97	101	98	99	107	100	102	106

*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.

Hypothetical Scenario Analysis¹

As illustrated in the above discussion, the future AECO natural gas prices don't seem to be correlating with other North American gas prices. With such an uncertain future with respect to AECO prices, being nimble with one's capital program is even more critical. Large capital programs that are put in place due to seasonal constraints (like winter access only) or predetermined commitments (rig contracts, midstream take-or-pay, transport take-or-pay, etc.) don't allow for the necessary flexibility to be able to time the capital deployment with optimal service costs or commodity prices.

Thankfully at Peyto, we've always been very nimble with our capital programs. Having year round access in a concentrated area close to central Alberta, which is a significant staging area for oil and gas service providers, allows us to maintain such dexterity. It also allows us to consider, at any point in time, several potential capital deployment scenarios. The scenario we eventually choose is determined by which one yields the greatest possible return. The profits we generate from those capital investments then ultimately determines, among other things, the dividends we pay to investors.

So for a company like Peyto, with the same efficiencies and financial flexibility, what could a few of those hypothetical capital scenarios look like?

For arguments sake, let's look at three different cases; no capital program at all, a smaller capital program with no external funding (approx. \$350MM), and a larger capital program which would require some additional funding (\$600MM). For the time being, let's just assume the current 2018 average strip for AECO natural gas price is \$2.00/GJ and ignore how seasonal price volatility might affect the timing of capital deployment and the timing of production additions. We can also assume a \$65 CND/bbl oil price (from which an NGL blend would realize approximately 75%).

Remember, this is all a hypothetical analysis and any approved budget that we at Peyto might announce this fall will likely be something different. These scenarios are merely shown to demonstrate the financial strength of a profitable underlying business and the flexibility inherent in it. Therefore, shown below are the production forecasts for a base of production and any wedge of new production that a capital program could build, assuming an actual, full-cycle capital efficiency like Peyto has of ~\$10,500/boe/d. If new facilities are not required for incremental volumes, then capital efficiency is reduced by approximately 15% to \$8,900/boe/d. Note in each case, there is a sample calculation of cashflow, compared to dividend payments, debt requirement or repayment, and earnings.

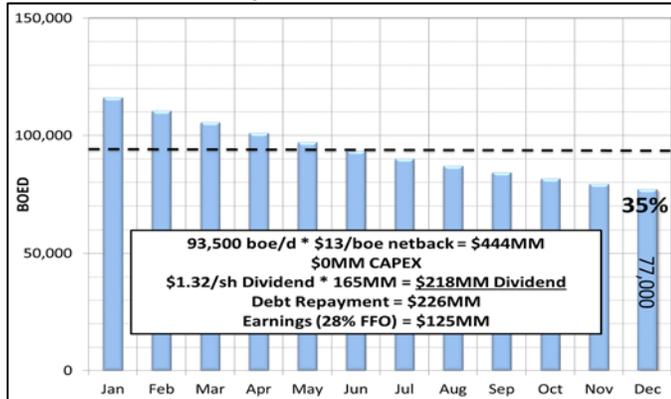
1) See Forward Looking Statements on Page 3

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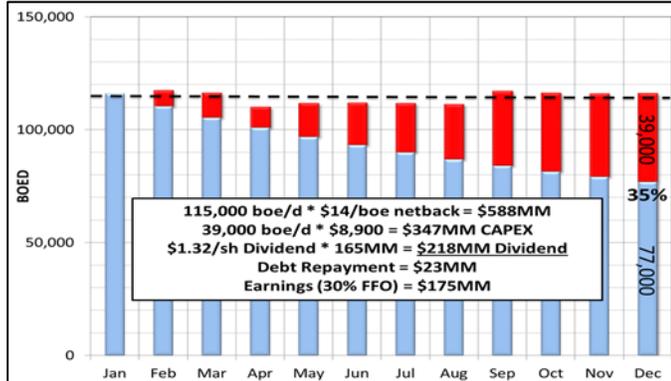
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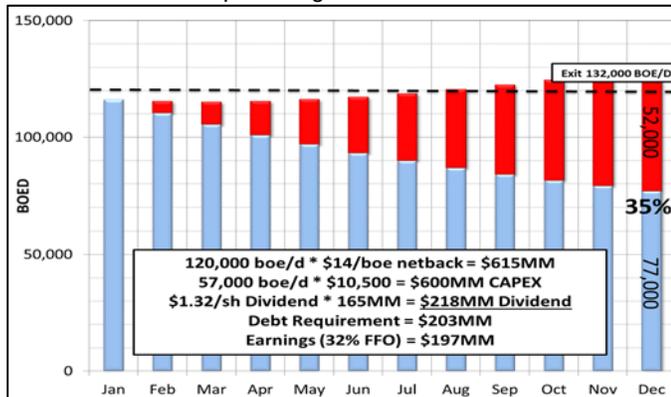
Case 1: No Capital Program



Case 2: \$350MM Capital Program



Case 3: \$600MM Capital Program



The cash netback used in the above analysis is derived from the following combination of estimated revenues and cash costs. In the "No Capex" case, operating costs would likely be \$1.00/boe higher due to decreased facility utilization which drives \$1.00/boe less netback.

Sample Netback Calculation

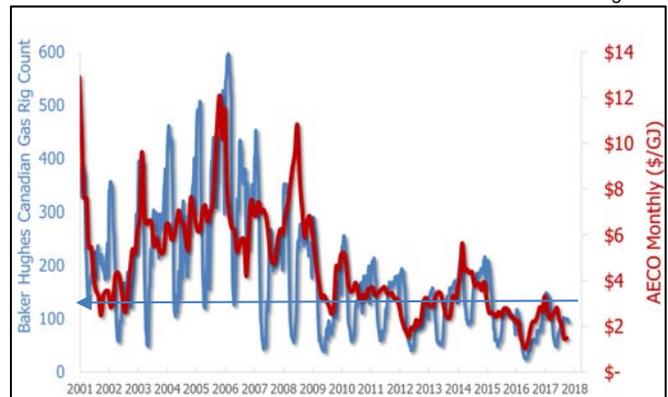
Revenue \$/mcf	\$3.11	91% Gas @ \$2.00/GJ AECO *115% Heat 9% NGLs @ \$49/bbl (75% of oil price) \$2.83/mcfe \$0.28/mcfe hedging gain \$3.11/mcfe Peyto Realized
Cash Costs \$/mcf	(\$0.78)	Royalties (\$0.14) Opex (\$0.25) Transport (\$0.16) G&A (\$0.03) Interest (\$0.20) Total Costs (\$0.78/mcfe)
Cash Netback \$/mcf	\$2.33	
Cash Netback \$/boe	\$13.98	
Operating Margin	75%	

As you can see, there are many different capital programs that can be contemplated with various resulting debt repayment or debt requirements. At the end of the day it really all boils down to what is the maximum possible return that can be generated from the various capital investment scenarios and is that return sufficient to justify the cost of any leverage that might be required.

At Peyto we have numerous, profitable opportunities to invest capital in. We just need to decide when the right time to invest that capital is and which ones will yield the greatest profit for our shareholders. That profit then determines the future dividend payments. The fact that Peyto is a real, profitable business makes it all a fairly simple and logical business decision.

Activity Levels and Commodity Prices

Figure 2



Source: Baker Hughes, NGX

A \$2/GJ gas world has generally correlated to a sub-100 Canadian gas rig count. That's not a lot of activity for the next several years to offset the decline on 15 BCF/d and likely not enough to keep the WCSB flat from a production standpoint. It re-enforces the old adage that the best cure for low gas prices, is low gas prices.

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1) 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.