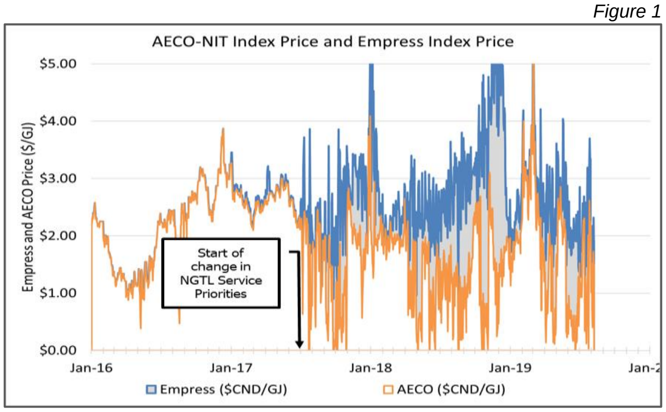
Peyto Exploration & Development Corp.
President's Monthly Report

September 2019 | From the desk of Darren Gee, President & CEO

Despite 16 days in August with AECO under $0.50/GJ, it looks like the Alberta natural gas market may finally be getting some help. On August 26, an application was filed by TC Energy for a temporary change to the service protocol on their NGTL system which would allow them to restrict receipts onto the system to balance with available market access, including access to storage. As I've discussed in the past, this should hopefully reconnect the AECO market with Empress and the rest of the North American markets, particularly during periods of planned summer maintenance while NGTL works to expand their system into 2021. As illustrated in Figure 1, it was primarily those summer months when the AECO market became really disconnected due to commercial constraints that resulted in a lack of access to seasonal storage. This is potentially big news for Canadian gas producers who have suffered a 40% price discount since Aug of 2017.

Figure 1



Source: Enerdata, 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)*

	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Apr	May	Jun	Q2 19	Jul
Acq/Disp	4	-4	0	0	2	-2	1	0	0	0	0	0
Land & Seismic	17	1	1	5	2	8	3	1	0	1	2	0
Drilling	256	14	7	37	57	116	24	4	1	6	11	5
Completions	134	17	1	18	36	72	20	5	2	7	14	3
Tie ins	53	4	1	6	11	21	10	1	1	1	3	1
Facilities	57	4	5	5	4	18	4	1	1	3	5	4
Total	**521**	**35**	**15**	**70**	**112**	**232**	**62**	**12**	**5**	**17**	**34**	**14**

Production ('000 boe/d)*

	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Apr	May	June	Q2 19	Jul	Aug
Sundance	57	56	50	49	50	51	50	49	51	48	49	47	47
Ansell	21	20	18	16	16	18	18	16	15	14	15	14	14
Brazeau	21	24	19	16	15	19	15	14	13	12	13	12	12
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	3	2	2	3	3	3	2	3	2	2	2	2
Total	**103**	**105**	**92**	**85**	**87**	**92**	**88**	**83**	**83**	**79**	**82**	**78**	**76**
Deferral			2	0				1	-	3	1	1	2
Capability	103	105	94	86	87	92	88	84	83	81	83	79	78
Liquids %		9.5%	10.1%	10.6%	11.5%	10.4%	12.0%	13.0%	14.0%	13.6%	13.5%	13.3%	14.0%

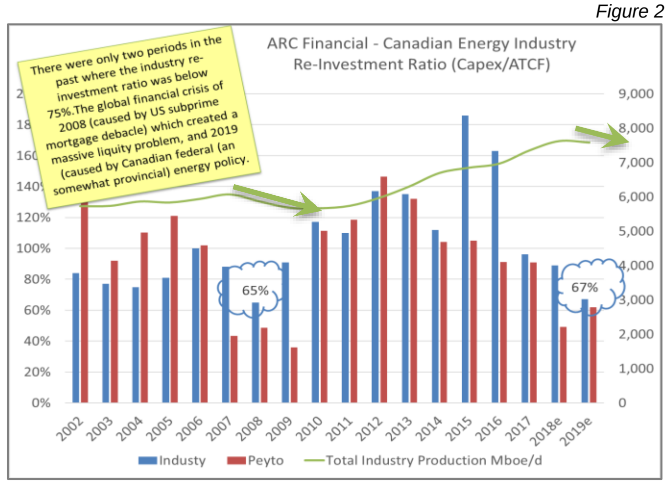
*This estimate is based on real field data, not a **forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.***

Canadian Energy's Liquidity Crisis

It was 11 years ago this September, at the height of the subprime mortgage crisis, that the US federal government had to step in to save Fannie Mae and Freddie Mac (Federal Mortgage Association and Federal Home Loan Corporation) from disaster. A week later Lehman Brothers went bankrupt, the Dow Jones crashed, and the world began to feel the full effect of a global liquidity crisis. Banks stopped lending and fear spread like an Amazon forest wildfire.

In Canada, we still felt the effect of this global liquidity crisis even though, compared to many countries, we mostly had our financial house in order. Unlike others, we already had a highly regulated banking sector and the federal government of the time had been prudently reigning in spending and focusing on paying down debt. Still, money was extremely tight, as evidenced by the energy industry's inability to access capital for investment. That year, our industry invested less of its after-tax cashflow than ever before as companies scrambled to "improve liquidity" by hoarding cash. That was the lowest level of re-investment in recent history. At least, until maybe today (see Figure 2).

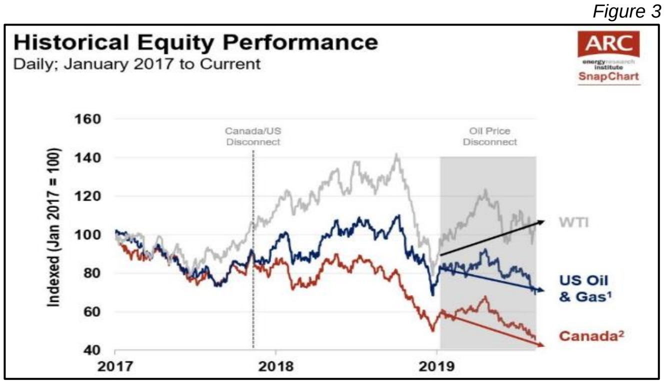
Figure 2



Source: ARC Financial, Peyto

For 2019, the prediction is that the industry is experiencing a very similar liquidity crisis and will be just as frugal with its re-investment behaviour (ARC Financial's current re-investment forecast is 67% of After Tax Cashflow or $15B less than CF, and more and more companies are still announcing capital cuts). The current liquidity crisis is due to two separate factors. One is the utter abandonment of the oil and gas industry by capital markets (Figure 3), which you could argue was caused by the current federal government's jurisdictional high jacking of the industry through regulatory obstruction of necessary pipeline egress (certain provincial governments including the former Alberta Provincial government didn't help either).

Figure 3

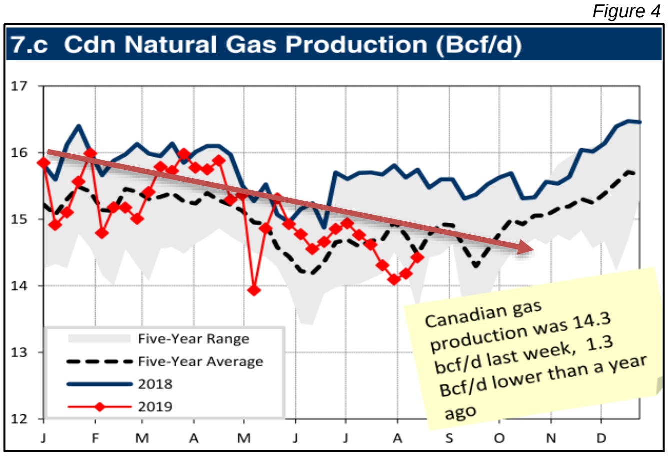


Source: ARC Financial

The second factor is the Supreme Court of Canada's decision on Redwater Energy Corp. which effectively forced lenders to set a portion of a company's borrowing capacity aside to account for future environmental liabilities. This lack of available equity capital and now constrained access to debt capital has starved the industry into the current liquidity crisis. Producers are hoarding cash again, paying down debt, buying back stock and paying out dividends rather than re-investing it into the ground. If one was to announce increased capital spending or reduced liquidity today, the market would be quick to punish them. This was evidenced several times in the recent Q2 2019 earnings season.

Logically, as the industry re-invests less, production declines because producing reservoirs continue to deplete. That's what happened last time (Figure 2) and that is what appears to be happening now. It's particularly evident on the gas side when you couple the liquidity crisis with AECO gas price volatility (Figure 4).

Figure 4



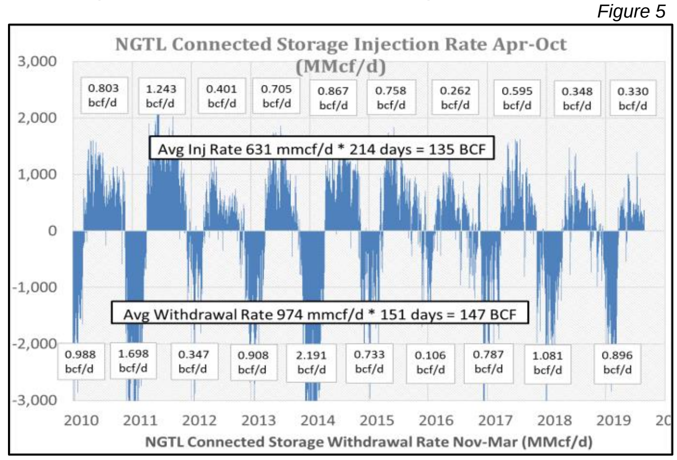
Source: Raymond James

However, unlike 2008 when we were reacting to a global problem, the crisis today is very much homemade. While the energy industries in other countries flourish, spurred by record global consumption and reduced regulation, here in Canada, we have obstructed our own industry. But to what gain? What have we accomplished by handicapping ourselves? Have we helped the global environment? Are we healthier, wealthier or wiser? No. All it's done is cost Canadians jobs, prosperity, and freedom. Freedom that we enjoy from other oppressive, energy producing jurisdictions that are now satisfying global demand with less responsibly produced energy than we could provide.

On the bright side, since this is a crisis that we created for ourselves, it's a problem we can also solve ourselves. We don't need the rest of the world to come together to fix it. Just some internal leadership to make the True North strong and free once again. Canadians supporting Canada's Future, check it out!

Activity Levels and Commodity Prices

Figure 5



Source: NGTL, Peyto

A quick check on storage injections this summer shows that we're significantly behind on the refill. Last winter we took 135 BCF out of storage to keep the heat on, but we're only on pace to refill about 60 BCF this summer. This is the second summer in a row that we'll fail to come even close to a complete refill. The winter before we withdrew 163 BCF and only refilled 74 BCF. As a result of that partial refill, last March we saw AECO gas prices spike to over $5.50/GJ when deliverability from our southern storage reservoirs started to falter (at the 225 BCF mark for total Alberta storage). Barring a rapid fill up this fall, we could be faltering (storage wells losing deliverability as pressure depletes) much earlier this winter, perhaps as early as January. NGTL says they have never cut firm deliveries at the border before. I say, never say never. If we get a cold winter on the backs of this cool summer, we may very well have to cut deliveries to keep enough gas in Alberta for the local residents. Thankfully, one of the advantages of living on top of all this hydrocarbon means we won't ever "freeze in the dark!"

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.