

Peyto Exploration & Development Corp.

President's Monthly Report

July 2020

From the desk of Darren Gee, President & CEO

So far, the summer drilling season has been very wet. So much so, that despite the poor commodity prices being enough of a reason to limit rig activity, even if we had \$60 oil and \$3 gas prices, I do not think we'd see much improvement in the rig count. At Peyto, we are only able to continue a summer drilling program because of the pad drilling locations we had prepared prior to breakup. Figure 1 below is a picture of one of the roadways in the Edson area which is typical of what Northern Alberta and BC are dealing with. The ditches are rivers that are overflowing with water and the ground is saturated from the rains. Looking at flows on the major rivers is even more evidence of the cool wet weather with the Wapiti (near Grande Prairie) and Athabasca (near Hinton/Edson) Rivers at record levels for this time of year (www.rivers.alberta.ca).

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)*

	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Jan	Feb	Mar	Q1 20	Apr	May
Acq/Disp	-2	1	0	0	0	1	0	0	0	0	0	0
Land & Seismic	8	3	2	1	2	7	2	2	0	4	0	0
Drilling	116	24	11	14	36	86	16	8	5	28	7	6
Completions	72	20	14	10	21	65	8	7	4	19	2	4
Tie ins	21	10	3	3	9	26	3	2	2	7	1	1
Facilities	18	4	5	8	5	21	7	2	2	10	2	1
Total	232	62	34	37	73	206	35	21	12	69	13	12

Production ('000 boe/d)*

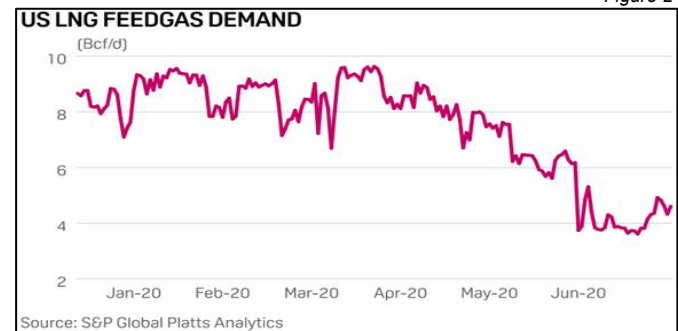
	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Jan	Feb	Mar	Q1 20	Apr	May	Jun	Q2 20
Sundance	51	50	49	47	48	49	49	49	49	49	48	46	47	
Ansell	18	18	15	14	14	15	15	14	14	13	14	14	14	
Brazeau	19	15	13	12	11	13	11	11	13	12	13	14	15	
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	
Other	3	3	2	2	3	2	3	2	1	2	2	1	2	
Total	92	88	82	77	78	81	79	78	79	79	79	78	78	78
Deferral			1	2										
Capability	92	88	83	78	78	81	79	78	79	79	79	78	78	78
Liquids %	10%	12%	14%	14%	15%	14%	15%	15%	14%	15%	14%	14%	14%	14%

*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.

More Gas Rigs Required

The impact of the COVID-19 pandemic on global LNG consumption has caused US exports to drop over the last few months by 4-5 BCF/d as global demand has temporarily disappeared and price has fallen (Figure 2).

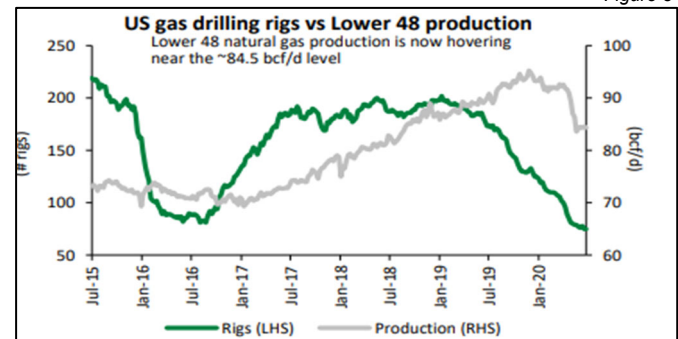
Figure 2



Source: S&P Global Platts Analytics

This explains the lower NYMEX gas prices and much of the 7 BCF/d drop in US production (from 92 to 85 BCF/d, Figure 3), in order to accommodate this lack of demand. With lower gas price, activity levels have responded with lower rig counts. Today, US dry gas production sits around 85 BCF/d with around 75 gas rigs running. One of the questions that then pops up is "can 75 gas rigs maintain 85 BCF/d of supply or will supply continue to fall due to the lack of new drilling?" If supply keeps falling then naturally price should eventually strengthen.

Figure 3



Source: Desjardins

The way in which industry answers this question is to look at rig productivity, or how much new supply does each gas rig add. That seems rather straightforward, except there are a couple other variables to consider. Is rig productivity stable or changing? Are there already drilled but uncompleted wells (DUCs) that could be used to add new supply? Is there other gas associated with oil production that could contribute regardless of the gas price and market demands?

Rig productivities have steadily improved in many of the big US shale gas basins due to improved rig efficiencies and well designs. See Figure 4 from the [EIA rig productivity report](#).

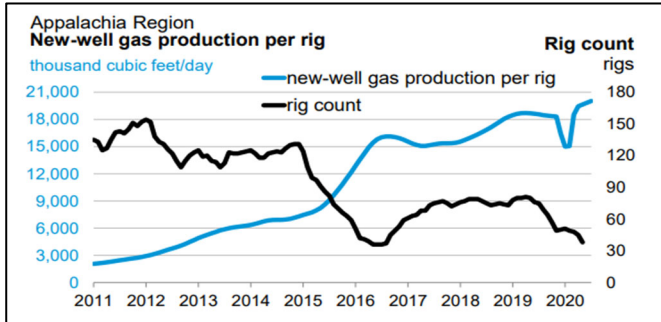
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Much of the improvements happened up to 2016, however, and we haven't seen too much change since that time (Fig. 4).

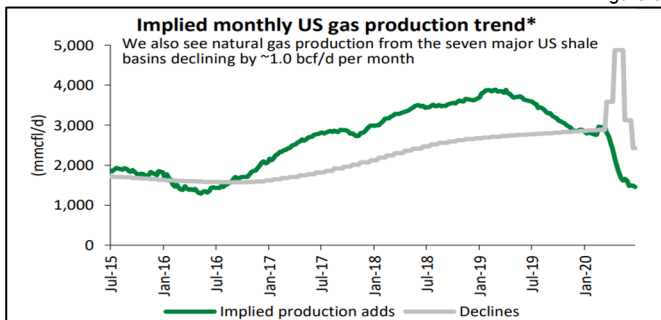
Figure 4



Source: EIA

In total, approximately 70 out of the 75 gas rigs running are in the Appalachian and Haynesville basins. These rigs are adding approximately 13 BCF/d per year, based on their respective rig productivities (example: 20 mmcf/d per month per rig in Appalachia), but with 85 BCF/d in the US declining at approximately 30%/yr, there needs to be about 25 BCF/d added, meaning we're 12 BCF/d short. Or in other words, we're losing around 1.0 BCF/d per month.

Figure 5



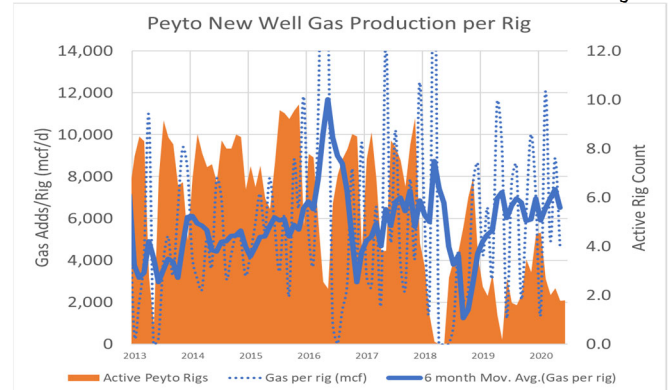
Source: Desjardins

That drop assumes, of course, no change to associated gas volumes or harvesting of DUCs. According to the EIA, between those two big basins, there are some 800 already drilled but uncompleted wells. So the conclusion from most analysis is that, no, the 75 rigs can't offset the 25 BCF/d of decline, but with the help of the DUCs and adding back the associated gas as oil prices strengthen, we may be able to backfill the decline in the short term, but not for the long term. All of this is contributing to the bear and bull cases for US gas prices in the short and longer term.

What about the WCSB? We only have 9 gas rigs running in western Canada. They can't possibly add enough supply to offset the decline on a basin of 15 BCF/d, can they? Unfortunately, we don't track rig productivities in Canada. But if we used Peyto's rig productivity as a proxy, it clearly shows we need more rigs running. Our rig productivity shows us

adding around 7 mmcf/d per month for each rig we have running. So for Peyto to offset the 23%/yr decline on 400 mmcf/d or so, we'd only need 1.1 gas rigs running. But for our basin of 15 BCF/d, which is likely declining at 25%/yr or more, we need at least 45 gas rigs running, not 9. The obvious conclusion is our basin too must shrink, which ultimately drives up gas prices.

Figure 7

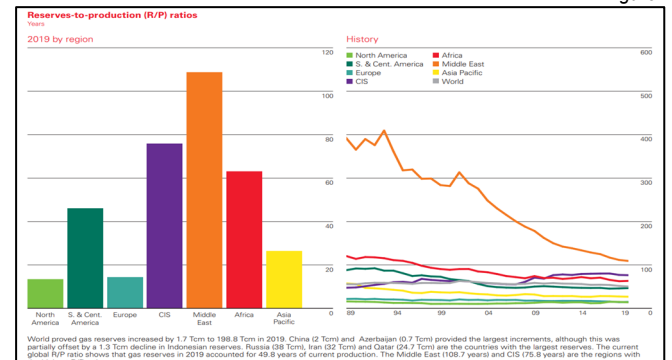


Source: Peyto

Activity Levels and Commodity Prices

BP just put out their 69th edition of the Statistical Review of World Energy and I always like to see how the Proved Reserve Life Index (or Proved Reserves-to-production ratio) for natural gas has changed in the large producing countries and regions of the world. It helps frame the understanding of whether we're long gas or not and whether we should expect to be oversupplied or undersupplied for the foreseeable future.

Figure 7



Source: BP

Interestingly, North America still has the shortest Proved reserve life of any producing jurisdiction in the world. Our reserve life of 13 years pales in comparison to the Middle East at 109 years or former Soviet Union region with 76 years. Even Europe has a longer gas reserve life than North America! It's one of the reasons I struggle with the concept of "awash in gas forever" in North America.

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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.