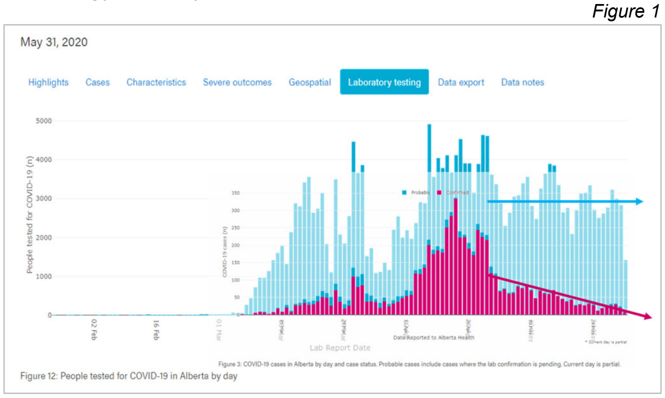
Peyto Exploration & Development Corp.
President's Monthly Report

June 2020 | From the desk of Darren Gee, President & CEO

Jason Kenny reported to Albertans last week that we appear to be out of the woods with respect to the COVID-19 pandemic. While we must still protect those most vulnerable, "for most Albertans, the risk of death from other pathogens, accidents and traffic fatalities is actually higher than it is for COVID." That is great news (relatively speaking), and the data appears to be bearing this out. Despite consistently testing 3,000-4,000 people per day in Alberta, the number of positive cases continues to drop, with now less than a dozen or so positive cases per day (See testing in blue and new cases in red below). Soon, we won't be finding anyone who is carrying this new virus and that will be a welcome relief to everyone.

The next job will be that of rebuilding our economy. And with well over 13% unemployment in Alberta, we are going to need the energy industry more than ever.

Figure 1



Source: Alberta.ca

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
Acq/Disp	-2	1	0	0	0	1	0	0	0	0	0
Land & Seismic	8	3	2	1	2	7	2	2	0	4	0
Drilling	116	24	11	14	36	86	16	8	5	28	7
Completions	72	20	14	10	21	65	8	7	4	19	2
Tie ins	21	10	3	3	9	26	3	2	2	7	1
Facilities	18	4	5	8	5	21	7	2	2	10	2
Total	**232**	**62**	**34**	**37**	**73**	**206**	**35**	**21**	**12**	**69**	**13**

Production ('000 boe/d)*

	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Jan	Feb	Mar	Q1 20	Apr	May
Sundance	56	50	49	50	51	50	49	47	48	49	49	49	49	49	49	48
Ansell	20	18	16	16	18	18	15	14	14	15	15	14	14	14	13	14
Brazeau	24	19	16	15	19	15	13	12	11	13	11	11	13	12	13	14
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	2	2	3	3	3	2	2	3	2	3	2	1	2	2	1
Total	**105**	**92**	**85**	**87**	**92**	**88**	**82**	**77**	**78**	**81**	**79**	**78**	**79**	**79**	**79**	**78**
Deferral		2	0				1	2								
Capability	105	94	86	87	92	88	83	78	78	81	79	78	79	79	79	78
Liquids %	10%	10%	11%	12%	10%	12%	14%	14%	15%	14%	15%	15%	14%	15%	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.***

Our Demographics Dilemma

Someone outside our industry asked me the other day, "wouldn't this be a good time to load up all the young people in the industry with stock options and motivate the next generation to rebuild our energy industry back to what it was?" My immediate answer was, huh? Haven't you read the news? Society isn't interested in this industry, it's to blame for all that's wrong, from capitalism to global warming. Who wants to have a career associated with that? Besides, young people aren't interested in getting rich, they're more interested in days off and free time. That's the narrative, right? Or, is it? It was an interesting question that got me thinking back to when I joined this industry 30 years ago.

As a young engineer-in-training, I entered Canada's oil and gas industry at Canada's only state owned oil and gas company, Petro-Canada. Back then the oil and gas industry was a vibrant, exciting and dangerous adventure with abundant opportunities for growth and wealth creation, albeit still at the mercy of extreme commodity price volatility with boom and bust cycles. Back then, big companies invested in new grads with intense training programs to ensure their techinical future. I recall taking almost as many industry courses as I did university courses over the span of my first two years – everything from drilling operations, to facility design, to reservoir engineering and geology. There was an inherent sense that the industry was an important part of our economy, our society and the culture of Canada. And starting out, you were proud to be a part of something meaningful and significant.

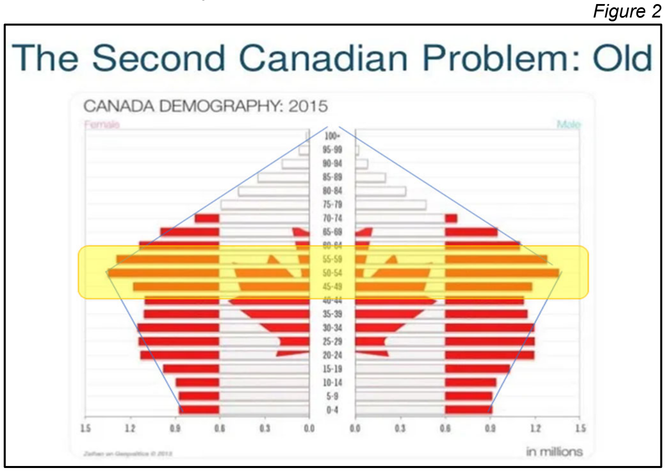
It was the oil and gas industry that was responsible for much of the settlement in new and remote areas of Western Canada. Towns like Fox Creek, Valleyview, Slave lake, Provost, and Medicine Hat, were all thriving communities due to the oil and gas companies that set up shop there. People didn't leave Alberta looking for work, they came here looking for opportunity.

Junior companies were a big part of the industry back then too. These were the guys that risked it all looking for the big score. An exploratory discovery that would make them millions, or the next big innovation in oilfield tools that would redefine the industry. There was an entreprenurial spirit in the industry that was infectious.

Of course, times weren't always good. There were some tough times too when oil prices would crash, driven by global dynamics. But the industry always picked itself up, and dusted itself off, ready to go at it again. We were ready to take on the world, even if we only really sold all our excess production to the US. Now that was an industry the young people wanted to be a part of! But that doesn't seem to be the case today.

Perhaps its actually a lack of young people. And I don't mean that facetiously. When you look at the demographics of Canada, we do have a serious aging problem. There are a lot of baby boomers (1946-64) and Generation Xers (1965-1980) in our population that are entering or have entered retirement age, but not a lot coming up behind them (see Figure 2 from Peter Zeihan's work). I think our oil and gas industry is an extension of exactly that problem.

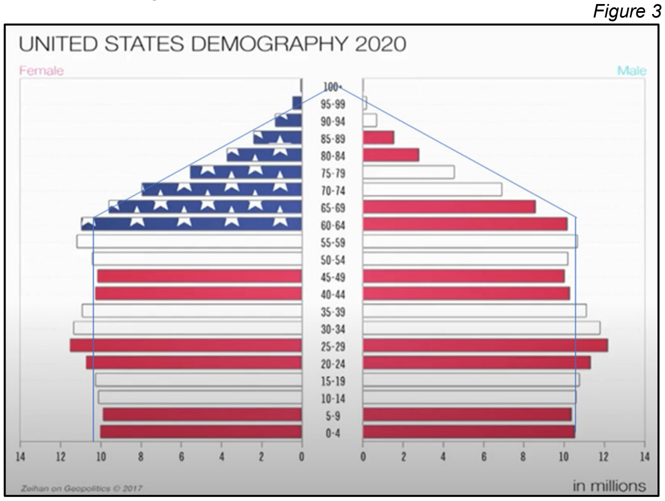
Figure 2



Source:https://zeihan.com/the-accidental-superpower-maps/

Sadly, our biggest competitor for oil and gas now, doesn't seem to have this problem. Looking at the same depiction for the US (Figure 3), shows a less disproportionate burden of boomers and gen-xers.

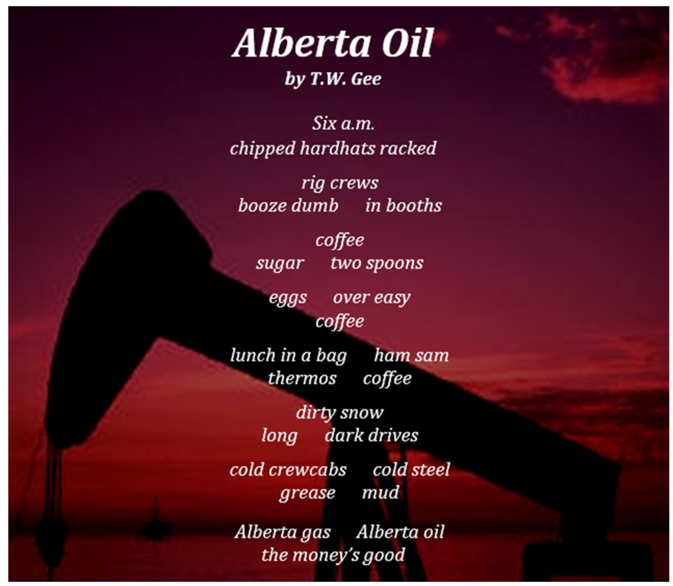
Figure 3



Source:https://zeihan.com/the-accidental-superpower-maps/

The Generation Xers, like myself, that were attracted to oil and gas originally, were followed by Millennials, who have not experienced a very good time in this industry and for the most part have been left disenfranchised. Behind them is Generation Z and they're the ones we really can't attract because they have been fed a constant diet of politically motivated, anti-oil and gas, anti-capitalist rhetoric throughout their primary, secondary and post-secondary educations.

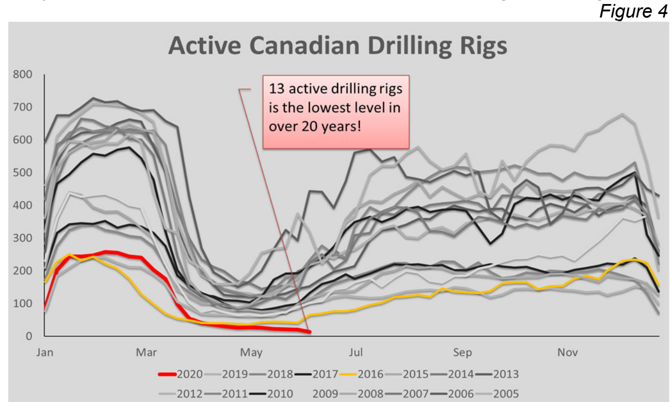
So what's the solution? Personally, I think it starts with education, first at home, then in our province and then across our country. Both my parents spent their entire careers in Alberta public education, both as teachers, and later, senior administrators. And both had a healthy respect and understanding what the Canadian Energy Industry did for them and Canada. My father even put some of that healthy perspective into poetry. We need to start with more of that.



Activity Levels and Commodity Prices

Canadian rig counts are setting new records. Unfortunately, they are for all time lows rather than all time highs. Not good.

Figure 4



Source: Baker Hughes

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 -ased 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.

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