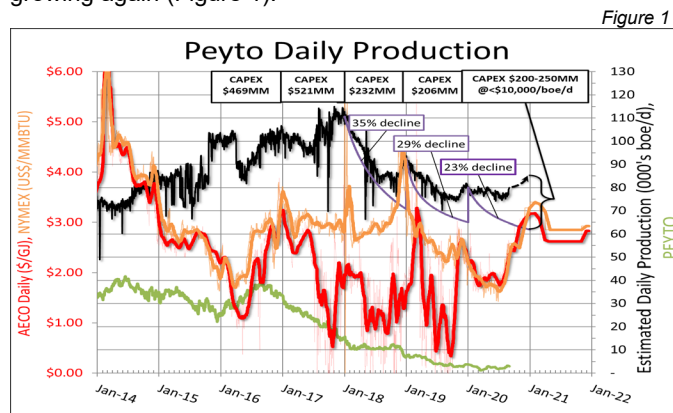


# Peyto Exploration & Development Corp. President's Monthly Report

September 2020

From the desk of Darren Gee, President & CEO

Fall is upon us and my thoughts turn to the upcoming winter. Not just because I am hopeful that we'll have a ski season this year (with COVID, who knows), but its usually an exciting time for natural gas prices. The Farmers Almanac is out and their prediction is for a cold and snowy winter in the northern half of North America (it's always cold and snowy in Canada!), while the SE US will be cool and the SW dry and warm. Texas and states around it are predicted to have a wild winter, and this after a wild hurricane season. The forecast for natural gas prices both north and south of the border is much more constructive than its been in some time which is why our investments are increasing and production is expected to be growing again (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	Q1 20	Apr	May	Jun	Q2 20	Jul
Acq/Disp	-2	1	0	0	0	1	0	0	0	0	0	2
Land & Seismic	8	3	2	1	2	7	4	0	0	0	1	0
Drilling	116	24	11	14	36	86	28	7	6	8	20	11
Completions	72	20	14	10	21	65	19	2	4	3	9	6
Tie ins	21	10	3	3	9	26	7	1	1	1	3	1
Facilities	18	4	5	8	5	21	10	2	1	1	4	3
<b>Total</b>	<b>232</b>	<b>62</b>	<b>34</b>	<b>37</b>	<b>73</b>	<b>206</b>	<b>69</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>37</b>	<b>23</b>

### Production ('000 boe/d)\*

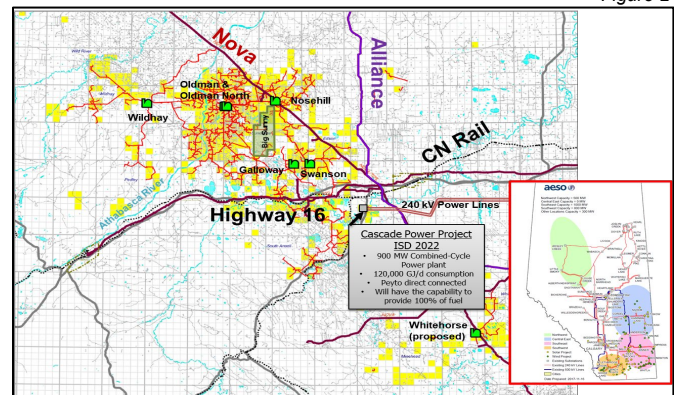
	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Jan	Feb	Mar	Q1 20	Apr	May	Jun	Q2 20	Jul	Aug
Sundance	51	50	49	47	48	49	49	49	49	49	49	48	46	47	45	45
Ansell	18	18	15	14	14	15	15	14	14	14	13	14	14	14	13	13
Brazeau	19	15	13	12	11	13	11	11	13	12	13	14	15	14	14	16
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	3	2	2	3	2	3	2	1	2	2	1	1	2	1	2
<b>Total</b>	<b>92</b>	<b>88</b>	<b>82</b>	<b>77</b>	<b>78</b>	<b>81</b>	<b>79</b>	<b>78</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>76</b>	<b>78</b>
Deferral			1	2												
Capability	92	88	83	78	78	81	79	78	79	79	79	78	78	78	76	78
Liquids %	10%	12%	14%	14%	15%	14%	15%	15%	14%	15%	14%	14%	14%	14%	15%	15%

\*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 Alberta Gas Fired Power

An announcement last week by [Kineticor Resource Corp.](#) that they have begun construction of their Cascade Power plant was welcome news. The Cascade project is a 900 MW combined cycle, high efficiency, natural gas-fired power generation facility to be located just west of Edson, AB right in the heart of Peyto's Greater Sundance Area. Their plant will be situated immediately to the southeast of our Swanson gas plant, and our proposed Big Sunny gas storage scheme, in a hamlet called Bickerdike (Figure 2).

Figure 2



Source: Peyto, AESO, Kineticor

This \$1.5 billion, 2 year long construction project will be a boon for the people of Edson who have felt the harsh effects of a broken AECO market over the last several years as natural gas producers like us have had to reduce capital programs and activity levels.

Not only will this project replace coal-fired power in Alberta, and thus reduce Canada's greenhouse gas emissions, we expect it will be one of the most efficient natural gas-fired power plants in the province. One of the big reasons for that is half of the natural gas consumed at the plant will be directly connected – via Peyto. This saves the transmission cost and fuel to transport gas from other parts of the province to their plant. We estimate there will not only be a significant financial savings, that can be shared between the two of us, but also a significant emissions savings in the order of 25,000 tonnes of CO<sub>2</sub>e/yr (fuel gas burn, NGTL compression emissions, etc).

We had originally negotiated the commercial terms of a gas supply agreement to feed this plant back in 2018 whereby we committed to supply 60,000 GJ/d for a period of 15 years, so we're glad the construction has finally begun. It means we can now begin development of this supply. Of course, 60,000 GJ/d for 15 years is no small volume of gas. With our heat content that translates into 52 mmcf/d or a total developed reserve volume of around 285 BCF (21% of our YE 2019 PDP gas reserves). In reality though, its actually quite a bit more than

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that. As I illustrated back in my February 2020 report, holding a production level flat for a significant period of time (like 15 years), takes more than just that volume of production, it takes almost twice as much (Figure 3).

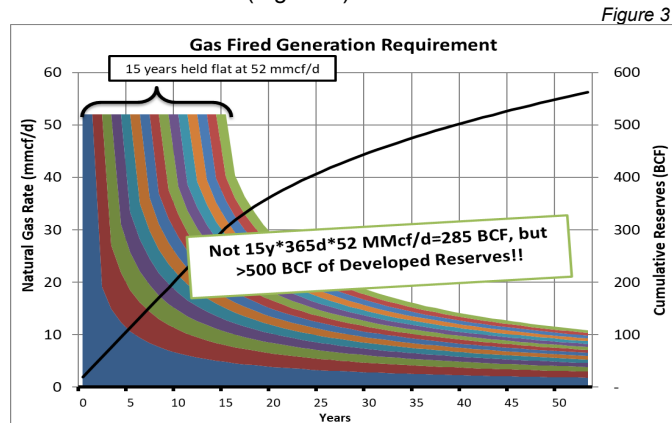


Figure 3

Source: Peyto

But that's okay. We have more than enough future locations at Peyto to build this incremental supply. Particularly since the the expected power prices going forward (Fig. 4) will give us sufficient revenue to make even our driest gas plays economic.

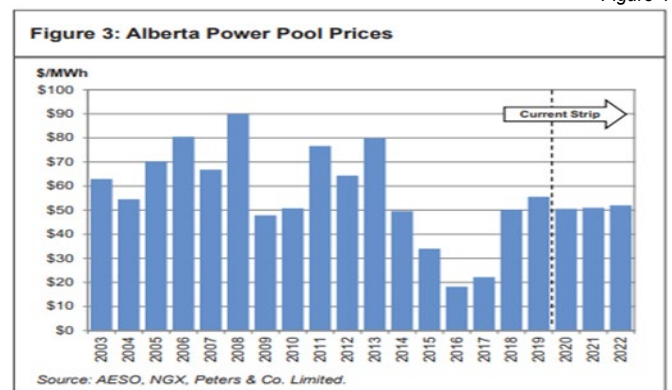
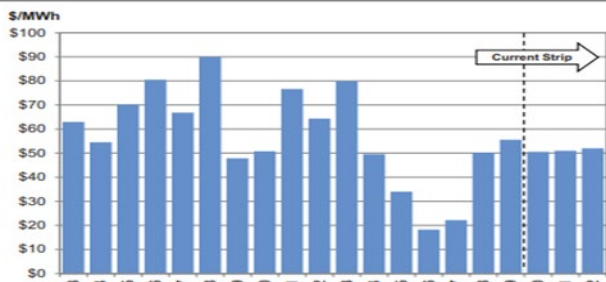


Figure 4

Figure 3: Alberta Power Pool Prices



Source: AESO, NGX, Peters & Co. Limited.

The other reason I really like this project is that natural gas fired electricity is by far the most efficient and reliable way Alberta can generate power. As is being proven right now with [rolling blackouts in California](#), the renewable options like wind and solar have significant drawbacks. Here's an excerpt from the linked article.

*For more than a century, the centralised electricity industry has been based on the principle generation-follows-load (i.e. production follows and responds to consumption rather than the other way around).*

*Consumers decide how much and when they want electricity, and then generators and transmission operators respond to*

*ensure there is always sufficient power available to meet demand at the flick of a switch.*

*For the most part, the modern power system is based on passive load-following. Prices play a limited role in balancing short-run electricity demand with supply, at least for most retail and small business customers.*

*Gas-fired units are ideally suited to load-following and provide short-term reserves because their output can be ramped up and down rapidly in a time period ranging from minutes to around an hour and a half.*

*Coal-fired units take much longer to ramp up and down (3-12 hours) but can still follow load if given enough notice based on the forecast curve.*

*Nuclear generators are designed to operate at constant output and cannot efficiently follow load so are normally used to provide base load only.*

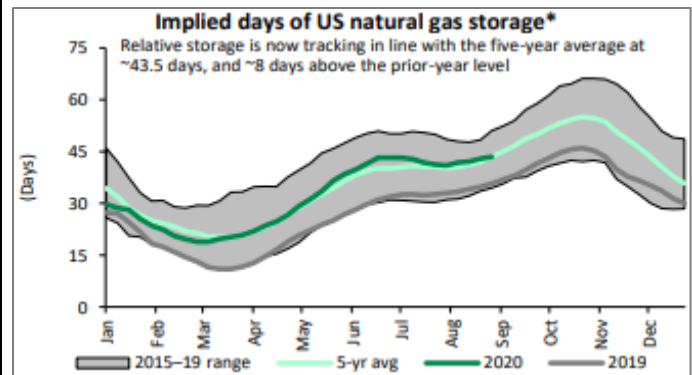
*Wind farms and solar generators produce variable output depending on time of day, season and local weather conditions, so they too cannot follow load.*

The conclusion is gas fired power is the best and most reliable. So when we want to have our cake and eat it too, with respect to immediate energy supply and low environmental impact, the logical choice is natural gas. Just another reason we're in the gas business at Peyto.

### Activity Levels and Commodity Prices

Despite high absolute levels of US gas storage, considering increased consumption over the last few years, the "implied days" of storage (Fig. 5) is actually tracking normal levels. If we continue with current anemic drilling activity and there is a colder than normal winter, as the Almanac predicts, the US will become significantly short supplied. NYMEX could really rip if that happens.

Figure 5



Source: Desjardins.

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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.