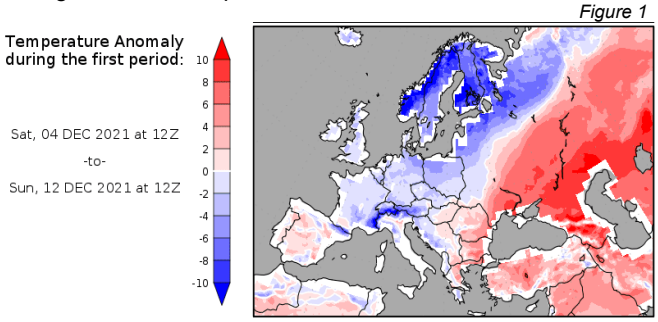
Peyto Exploration & Development Corp.
President's Monthly Report

December 2021 — From the desk of Darren Gee, Chief Executive Officer

With winter slow to arrive in North America, gas traders are starting to question their thesis on supply, demand, storage and ultimately price. For the last few years this slow arrival has tended to be the case, until winter ultimately does arrive, which it always does, and then we are surprised by some of the extremely cold storms and weather events (remember Texas last winter?). Winter's impact on North American natural gas markets is a bit more muted this year as a greater percentage of North American gas supply is being exported to Europe. So perhaps, like the Russian troops amassing at Ukraine's border, we should be paying attention to the cold finger of winter bearing down on Europe.

Figure 1



Source: http://wxmaps.org/outlooks.php

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)*

	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Jul	Aug	Sep	Q3 21	Oct
Acq/Disp	0	0	1	0	0	2	1	3	36	0	0	0	0	0	0
Land & Seismic	1	2	7	4	1	1	2	8	1	1	1	1	1	2	0
Drilling	14	36	86	28	20	28	29	105	34	28	13	16	15	43	16
Completions	10	21	65	19	9	20	22	70	18	15	9	9	9	26	8
Tie ins	3	9	26	7	3	6	7	23	5	4	1	3	3	7	2
Facilities	8	5	21	10	4	5	7	26	16	8	5	4	3	12	3
Total	**37**	**73**	**206**	**69**	**37**	**62**	**68**	**236**	**109**	**57**	**29**	**32**	**29**	**90**	**29**

Production ('000 boe/d)*

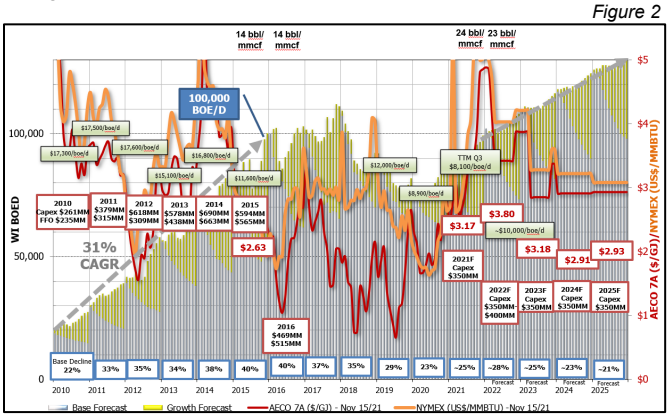
	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Jul	Aug	Sept	Q3 21	Oct	Nov
Sundance	49	47	48	49	49	47	47	49	48	48	50	48	49	52	49	53	58
Ansell	15	14	14	15	14	14	13	16	14	17	15	14	15	16	15	16	16
Brazeau	13	12	11	13	12	14	15	16	14	17	18	18	18	18	18	19	17
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	3	2	2	2	1	1	2	4	5	5	5	6	5	7	7
Total	**82**	**77**	**78**	**81**	**79**	**78**	**78**	**84**	**80**	**88**	**89**	**87**	**88**	**94**	**89**	**97**	**99**
Liquids %	14%	14%	15%	14%	15%	14%	14%	13%	14%	14%	14%	13%	12%	11%	12%	11%	12%

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.

100,000 boe/d, again.

It was back in late 2015 when Peyto first drilled its way to 100,000 boe/d of production (Figure 2). For the six years prior, since the start of 2010, Peyto had been on a fairly aggressive organic growth path with compound annual growth of greater than 30%/year. And while natural gas prices were anything but predictable over that same period, our realized price had remained relatively stable at around the $3.50/GJ mark. It had taken more than our cashflow to do it though. We invested a total of $3.1 billion over that 6-year period while only realizing $2.5 billion in funds from operations. But the returns we were generating on that invested capital were good and justified doing.

Figure 2

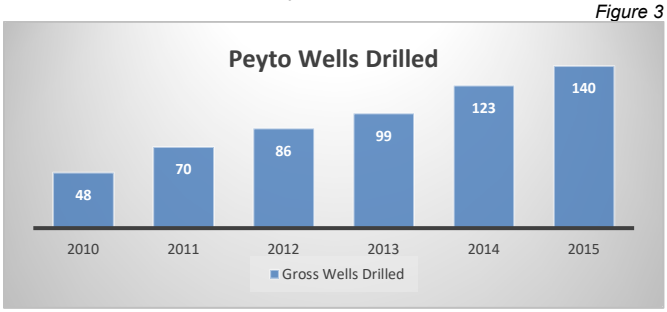


Source: Peyto

Predictably, our base decline increased over that time, since we were adding an ever-larger amount of new production that had >50% first year decline, so that by 2015 we were offsetting a 40%/year decline rate. Even with improving capital efficiency (from $17,000/boe/d in 2010 to $11,600/boe/d in 2015) it would have taken close to all our cashflow just to offset the decline and hold production flat in 2016.

Over that same period, we continued to invest in new lands and in facilities (>$600MM) to accommodate the growing production which equated to about 20% of the total capital invested (ranged from 14% to 25% in any given year from 2010 to 2015). This built an infrastructure base that could handle up to 110,000 boe/d of net Peyto production.

Figure 3



Suite 300, 600 – 3rd Avenue SW
Calgary, AB T2P 0G5
Fax: 403 451 4100

TSX Symbol: PEY
E-mail: info@peyto.com

It also took an increasing number of wells to be drilled every year, which meant an increasing number of rigs and people to manage all that activity, as well as an increasing number of new locations to be proved up and brought forward (Figure 3). By the end of 2015, it was becoming a bit of a treadmill. Then in 2016, the beginning of the AECO price disconnection hit our industry like a freight train and everything changed.

And now, after several years of gas price volatility, here we are, at the end of 2021, with production climbing back to that 100,000 boe/d mark for a second time (still Figure 2). Only this time, things are much different. For one, our production base is older. Which means that there are more wells producing the same volume and the instantaneous decline of that collection of base wells (28%) is much less than it was for the base wells back in 2016 (40%). Back then, we needed to build close to 40,000 boe/d to hold 100,000 boe/d flat. Today, we only need to build 25,000-28,000 boe/d.

Also, back then it was costing us $12,000 to $17,000/boe/d to build new production. The previous 3yr average was $14,500/boe/d. Today, it's less than $10,000/boe/d with the current 3yr avg of $9,600/boe/d being 33% less. So, what might have cost us $580MM ($14,500*40,000) now only costs $269MM ($9,600*28,000). Part of that improvement is less facilities investment - less than 15% this year, maybe 20% next year. But mostly, that improvement is better wells at lower cost.

The other thing that's different this time around is the revenue potential of our production stream. Back in 2015 we produced around 14 bbl/mmcf of natural gas liquids, whereas today its around 24 bbl/mmcf. That extra 10 bbls/mmcf adds to our revenue and delivers a higher netback for the same combination of commodity prices.

If we look at a simple comparison of back then vs today, using the higher liquids weighting and lower capital requirements in comparison to what 100,000 boe/d could throw off at CND$3.50/GJ gas price and US$70/bbl oil price, the difference in free cashflow is astonishing (Figure 4).

Now, I'm not suggesting these are the prices we'll see, and as we've indicated, we plan on putting more capital to work than $269MM and that should yield material production growth, but this does illustrate how far we've come and the benefits we enjoy today that we didn't have back then. Our sunk investment into all that infrastructure means we get to utilize pipelines and facilities that we had to build last time. Same goes with roads, seismic, wellsites and other surface investments. And the efficiencies we've developed through repetitive drilling and completion processes and through optimization of wellbore design don't need to be repeated. So, hitting 100,000 boe/d, just like being added to the TSX Composite index, will be that much sweeter the second time around.

Figure 4

		Back then	Today
		14 bbl/mmcf	24 bbl/mmcf
	% Gas	92.3%	87.4%
	% Liquid	7.8%	12.6%
		100.0%	100.0%
Revenue Components			
Gas Price	$3.50/GJ		
@ 1.15 hc	$4.03/mcf	$ 3.72	$ 3.52
Liq Price	$US 70/bbl		
	$CN 92/bbl		
	$60/bbl Peyto	$ 0.78	$ 1.26
Total Revenue	($/mcfe)	$ 4.49	$ 4.78
	Cash costs	$ (1.20)	$ (1.20)
	Netback	$ 3.29	$ 3.58
		$ 19.76	$ 21.49
@ 100,000 boe/d	FFO ($MM)	$ 721	$ 785
Capex Reqd to hold flat ($MM)		$ 580	$ 269
	Free CF	$ 141	$ 516

Source: Peyto

Activity Levels and Commodity Prices

The plot in Figure 5 shows just how quickly NYMEX gas price for next summer (Apr22-Oct22) ran from US$2.50/MMBTU to US$4.00/MMBTU (took just 4 months). Since that time, it's hung in at around the $4 mark despite a slow start to winter.

Figure 5

Source: NGX

We no longer have any gas exposed to the AECO market for the next few years so it's the NYMEX we watch closely as it drives all the major hubs we're exposed to (Ventura, Dawn, Malin, Empress, Emerson2) and right now that market looks pretty stable in the $4 range well out into 2023.

Figure 6

	Fixed Price Henry Hub $US/MMBtu	Delta	Fixed Price AECO $C/GJ	Delta	Basis AECO $US/MMBtu
Cash	4.228	-0.395	3.562	-0.19	-1.30
January	4.258	-0.309	3.610	-0.32	-1.29
February	4.188	-0.318	3.665	-0.29	-1.17
March	4.014	-0.266	3.241	-0.24	-1.35
April	3.786	-0.148	3.040	-0.13	-1.29
May	3.756	-0.144	2.962	-0.12	-1.32
June	3.791	-0.141	2.944	-0.12	-1.37
Jan21-Mar22	4.153	-0.547	3.505	-0.31	-1.27
Apr22-Oct22	3.819	-0.140	2.987	-0.12	-1.37
Nov22-Mar23	4.064	-0.127	3.514	-0.10	-1.19
Apr23-Oct23	3.235	-0.040	2.815	0.00	-0.94
Nov23-Mar24	3.572	-0.027	3.293	-0.02	-0.89

Source: TD (Dec 1, 2021)

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.