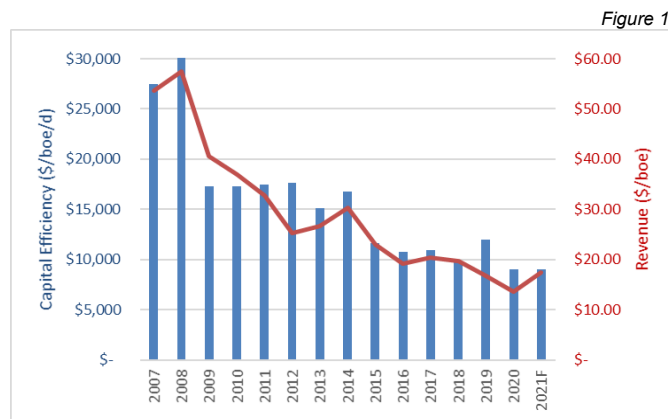


Peyto Exploration & Development Corp. President's Monthly Report

January 2021

From the desk of Darren Gee, President & CEO

We rang in the new year at Peyto with a bang, exceeding our year end production target of 85,000 boe/d. Even after subtracting some of the back out we caused on our base production, 2020's new additions were at the lowest cost in Peyto's history at around \$9,000/boe/d. Good thing too, since our revenue per boe was also the lowest in our history. Thankfully next year, with what we have already hedged, and with our market diversification costs falling, our revenue will be going up. Hopefully we can keep costs where they are now and continue to push on our well designs to get even more from every dollar invested.



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	Q2 20	Jul	Aug	Sep	Q3 20	Oct	Nov
Acq/Disp	-2	1	0	0	0	1	0	0	2	0	0	2	1	0
Land & Seismic	8	3	2	1	2	7	4	1	0	0	0	1	0	1
Drilling	116	24	11	14	36	86	28	20	11	8	9	28	13	12
Completions	72	20	14	10	21	65	19	9	6	9	5	20	7	9
Tie ins	21	10	3	3	9	26	7	3	1	2	3	6	2	3
Facilities	18	4	5	8	5	21	10	4	3	1	1	5	1	2
Total	232	62	34	37	73	206	69	37	23	20	18	62	23	27

Production ('000 boe/d)*

	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Oct	Nov	Dec	Q4 20	2020
Sundance	51	50	49	47	48	49	49	47	47	49	49	50	49	48
Ansell	18	18	15	14	14	15	14	14	13	15	15	18	16	14
Brazzau	19	15	13	12	11	13	12	14	15	16	16	15	16	14
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	3	2	2	3	2	2	2	1	1	1	1	1	2
Total	92	88	82	77	78	81	79	78	78	83	83	86	84	80
Liquids %	10%	12%	14%	14%	15%	14%	15%	14%	14%	14%	13%	13%	13%	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.

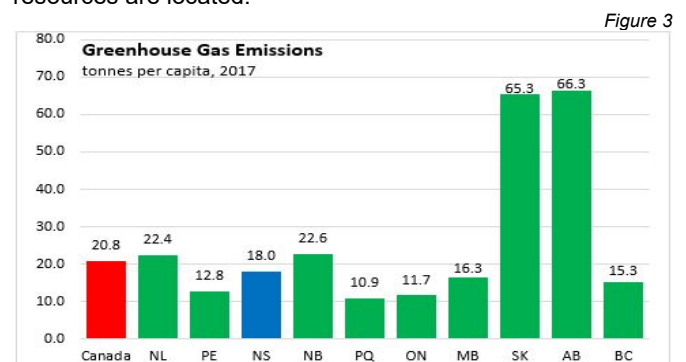
Make the West Pay

On December 11, 2020, the last day of parliament before the Christmas break, the Federal Liberal government announced a much more aggressive schedule to increase their highly controversial Carbon Tax up to \$170/tonne by 2030. Needless to say this came as a dramatic shock to everyone, but particularly to Albertans and their primary industries.

For one thing, the majority of Albertans live in a much colder climate, that takes far more energy to survive, than the average Canadian (fig 2). At least half of Albertans live at a latitude (>53.5°N) that is north of Ontario's Fort Albany, or Newfoundland's Labrador City. And since we don't have any large waterways that can be dammed up, we've used what resources we have to heat our homes and power our hospitals.



Those resources, of course, are carbon intensive. And just like our neighbor in Saskatchewan, the majority of our wealth creating industries are carbon intensive too - oil and gas, mining, forestry, and agriculture. It's the main reason Albertans endure the harsh northern climes, because that's where the resources are located.



Source: <https://www.novascotia.ca/finance/statistics/news.asp?id=15125>

Now perhaps for the average Canadian, a \$170/t carbon tax isn't all that material, especially if there is a promise of a rebate (although I'm pretty sure nobody will be getting more back than it's costing them). For instance, at \$170/t and based on average 2017 data (see figure 3), an Ontarian might see

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\$2,000/year in tax impact while the average Quebecois, \$1,850. But these pale in comparison to the average Albertan who would see a carbon tax impact in the order of \$11,300/yr. And while the Trudeau Liberals might be able to buy off voters in Ontario and Quebec with \$2k in rebates, those in Alberta and Saskatchewan will be shouldering the majority of the burden.

What this program really just equates to is more wealth transfer from West to East. A National Energy Program (NEP) of a different stripe. It reminds me of a famous quote by Walter E. Williams:

"... two-thirds of the federal budget consists of taking property from one American Canadian and giving it to another. Were a private person to do the same thing, we'd call it theft. When government does it, we euphemistically call it income redistribution, but that's exactly what thieves do - redistribute income."

While in the minds of many voters this Federal Carbon Tax may be disguised by some moral imperative to save the planet, in the minds of Albertans (and those in Saskatchewan) it is simply another attempt to redistribute what little remaining wealth the West has. And it will drive the wedge separating Canada even deeper, further stoking the flames of Western separation.

The problem with measuring the specific economic impact on any one person or household is that energy cost is imbedded everywhere. It's far more than simply just applying a carbon tax to the obvious energy bills each month like natural gas, electricity and gasoline (although those will be significant enough for the average household in Alberta that uses 7,200 kWh of electricity, 120-150 GJ/yr of natural gas and ~4,000 l/yr of gasoline – see figure 4).

Figure 4

	Carbon Tax \$/tonne	Natural Gas eq \$/GJ	Gasoline eq \$/L	Electricity eq \$/kWh	Annual Natural Gas Tax	Annual Gasoline Tax	Annual Power Tax	Total Annual Avg Tax
					150	4,000	7,200	
2020	30	1.50	7.1	0.011	\$ 225	\$ 284	\$ 80	\$ 589
2021	40	2.00	9.5	0.015	\$ 300	\$ 380	\$ 107	\$ 787
2022	50	2.50	11.8	0.019	\$ 375	\$ 472	\$ 133	\$ 980
2023	65	3.25	15.4	0.024	\$ 488	\$ 616	\$ 173	\$ 1,277
2024	80	4.00	18.9	0.030	\$ 600	\$ 756	\$ 213	\$ 1,569
2025	95	4.75	22.5	0.035	\$ 713	\$ 900	\$ 253	\$ 1,866
2026	110	5.50	26.0	0.041	\$ 825	\$ 1,040	\$ 293	\$ 2,158
2027	125	6.25	29.6	0.046	\$ 938	\$ 1,184	\$ 333	\$ 2,455
2028	140	7.00	33.1	0.052	\$ 1,050	\$ 1,324	\$ 373	\$ 2,747
2029	155	7.75	36.7	0.057	\$ 1,163	\$ 1,468	\$ 413	\$ 3,043
2030	170	8.50	40.2	0.063	\$ 1,275	\$ 1,608	\$ 453	\$ 3,336

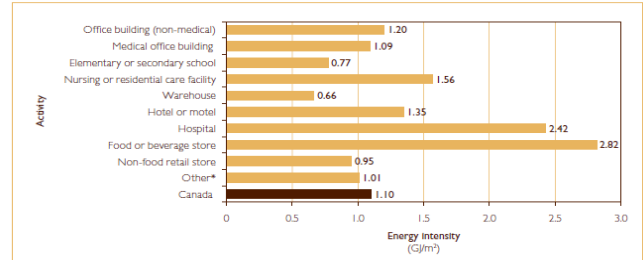
Source: Peyto

You also have to consider all the other parts of the economy that consume energy and will be impacted with carbon tax costs. Everything from food production/distribution to health services. Hospitals and grocery stores are, by the way, some of the largest industrial users of energy in our society.

Take the Alberta Children's Hospital for example. At 70,000 m², consuming 2.42 GJ/m² and \$8.50/GJ of carbon tax, that hospital in 2030 will be burdened with almost \$1,500,000 of added operating cost. So much for being able to afford any raises for our nurses and doctors!

Figure 5

Figure 1.5 – Energy intensity by primary activity



* Other includes all other commercial buildings. See Appendix C for more details.

Source: <https://oee.nrcan.gc.ca/publications/statistics/scieiu09/scieiu2009buildings.pdf>

The Alberta provincial government (along with Saskatchewan and Ontario) is currently challenging the constitutionality of the Federal Carbon Tax in Canada's supreme court. If that challenge fails, the Kenney government may have more to ask Albertans in the promised 2021 referendum than just about removing equalization payments from the Constitution of Canada, he may be asking if we should be removing Alberta altogether.

Activity Levels and Commodity Prices

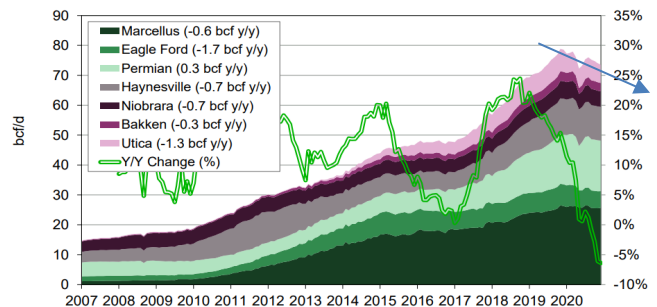
Back in August of 2020, US gas production started to shrink. And this was after it appeared most of the shut-in oil and its associated gas had already come back online. Most of the decline was associated with the Utica, Haynesville and Eagleford shale plays while the Marcellus and Permian stayed relatively flat. By the end of 2020, production was off 5 bcf/d from these key plays, or 6% year-over-year, and this was **the first time in over a decade** US gas supply had fallen.

Consumption, on the other hand, was only down 2% YoY and that's with the impact of lower industrial demand due to COVID shutdowns and a warmer than normal Q12020 winter at the tail end of the last El Nino.

All this supply-demand re-balancing is what set up the bullish run on natural gas prices in the fall of 2020 and continues to create the positive momentum in Jan 2021.

Figure 6

US Key Plays - Gas Production



Source: TD

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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.