

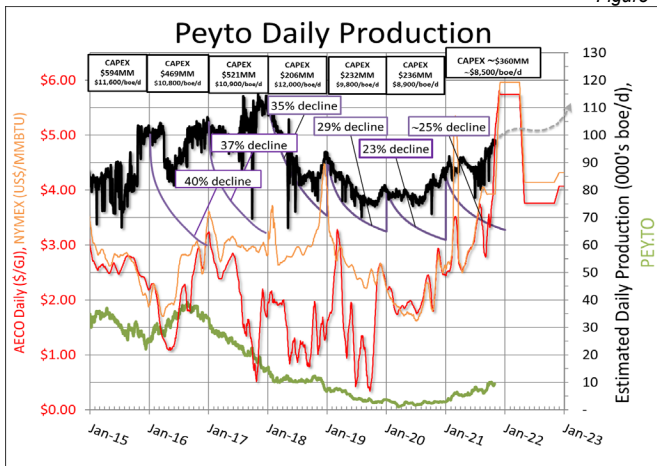
# Peyto Exploration & Development Corp. President's Monthly Report

November 2021

From the desk of Darren Gee, President & CEO

Peyto's fall drilling program is in full swing and we're smashing it out of the park with some [very strong well results](#) and operational efficiency. That's translating into rising production just in time for a spike in commodity prices. We should easily exceed our 100,000 boe/d year-end exit target. At the same time, daily natural gas prices recently touched \$6/GJ and CAD WTI (a proxy for our Condensate) is over \$100/bbl. Our realized prices will lag these spot prices somewhat due to our methodical hedging program, but this is all translating into significantly improved financial performance into the fourth quarter and 2022. Right now, everything seems to be up and to the right, which is exactly how we like it.

Figure 1



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)\*

	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Jul	Aug	Sep	Q3 21
Acq/Disp	0	0	0	1	0	0	2	1	3	36	0	0	0	0	0
Land & Seismic	2	1	2	7	4	1	1	2	8	1	1	1	1	1	2
Drilling	11	14	36	86	28	20	28	29	105	34	28	13	16	15	43
Completions	14	10	21	65	19	9	20	22	70	18	15	9	9	9	26
Tie ins	3	3	9	26	7	3	6	7	23	5	4	1	3	3	7
Facilities	5	8	5	21	10	4	5	7	26	16	8	5	4	3	12
<b>Total</b>	<b>34</b>	<b>37</b>	<b>73</b>	<b>206</b>	<b>69</b>	<b>37</b>	<b>62</b>	<b>68</b>	<b>236</b>	<b>109</b>	<b>57</b>	<b>29</b>	<b>32</b>	<b>29</b>	<b>90</b>

### 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
Sundance	49	47	48	49	49	47	47	49	48	48	50	48	49	52	49	53
Ansell	15	14	14	15	14	14	13	16	14	17	15	14	15	16	15	16
Brazeau	13	12	11	13	12	14	15	16	14	17	18	18	18	18	18	19
Kakwa	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
<b>Total</b>	<b>82</b>	<b>77</b>	<b>78</b>	<b>81</b>	<b>79</b>	<b>78</b>	<b>78</b>	<b>84</b>	<b>80</b>	<b>88</b>	<b>89</b>	<b>87</b>	<b>88</b>	<b>94</b>	<b>89</b>	<b>97</b>
Liquids %	14%	14%	15%	14%	15%	14%	14%	13%	14%	14%	14%	13%	12%	11%	12%	11%

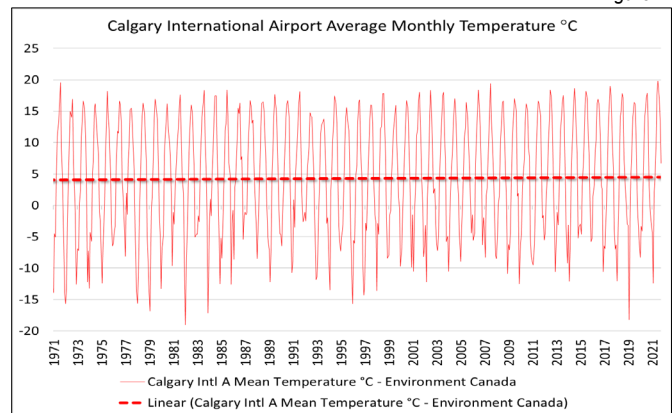
\*This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

### Life at 4°C

The fall is the time of year when "gas guys" like me (*after 30+ yrs in this industry I think I can call myself that*) start talking about weather. That's because natural gas is such an important fuel when it comes to heating your home and generating your electricity for the winter. So naturally, we want to know what kind of winter we'll have and what affect the cold weather will have on natural gas consumption and prices. Full disclosure: I'm an engineer, not a meteorologist.

Looking back on the last 50 years in Calgary (Figure 2), the average annual temperature is around 4.4°C (40°F). And considering it's been around that average temperature for the past 120 years (as far back as Environment Canada offers) it's likely going to continue to hover around there going forward. If you want to experience what it's like to survive at that temperature without reliable energy, I invite you to sit in a tub of water that's at 4°C.

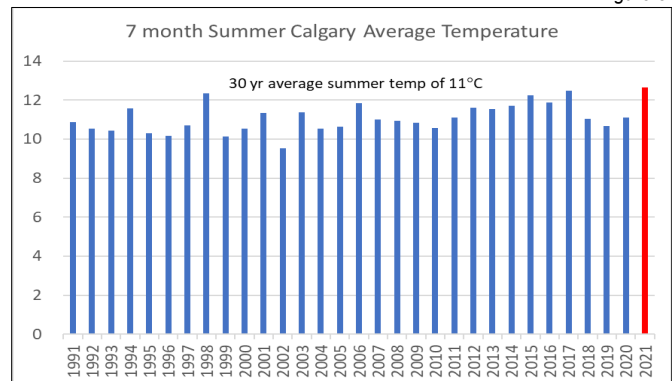
Figure 2



Source: Environment Canada

This past summer in Calgary (Apr-Oct) was a particularly warm one, averaging around 12.7°C, or 15% higher than the 30-year average summer temperature of 11°C (Figure 3).

Figure 3



Source: Environment Canada

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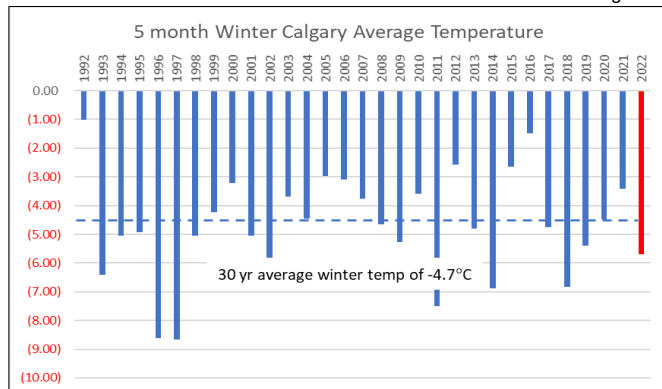
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Which means we should probably expect this winter coming up to be colder than normal, to average things back out to that annual 4.4°C. Statistically speaking then, one should expect this coming winter to average minus 5.7°C, or 20% colder than the 30-year average (Figure 4).

Figure 4

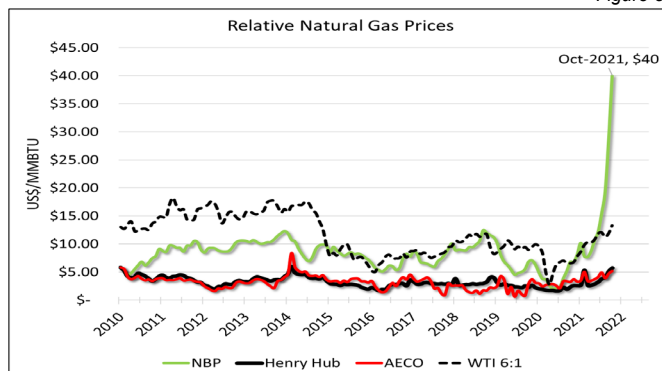


Source: Environment Canada

So, what does that mean for natural gas prices and consumer heating/power bills? Likely higher on both accounts.

A typical Alberta home uses about 18-20 GJ/month of natural gas in the winter months and only 2-3 GJ/month in the summer. I checked my own bills for the last 12 months and my house used 136 GJ, so that seems about right. Which means if this winter is 20% colder than normal, we're all likely to consume more gas keeping warm. Since the average home, apartment, office, supermarket, hospital, et alibi is kept at a balmy 21°C (room temperature), offsetting that additional -1.0°C over the winter will take an additional 5% fuel. Now maybe 5% doesn't seem like much, but when you get to the end of storage volumes and you need 5% more, there is only one way for prices to go. And that is through the roof.

Figure 5



Source: EIA, TD, BMO

Which is exactly where Europe is right now. They are currently faced with natural gas prices that have skyrocketed (Figure 5). And we're not even into winter yet!

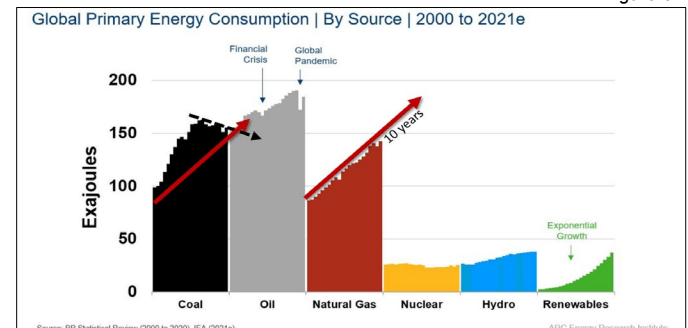
It is not unreasonable to expect that in the dead, dark, and calm of this coming winter, when the gas runs out, their natural gas bills will be ten times what they used to be. If that were to happen to us here in Canada it would cause heating bills for many households to be beyond reach.

There is a lesson to be learned from Europe's mad rush to defund and abandon traditional, reliable heating fuels. We need to be very careful in Canada that we don't follow their lead. Or we'll be just like the Germans who are now more afraid of their natural supply than they are of the [Dunkelflaute](#).

### Activity Levels and Commodity Prices

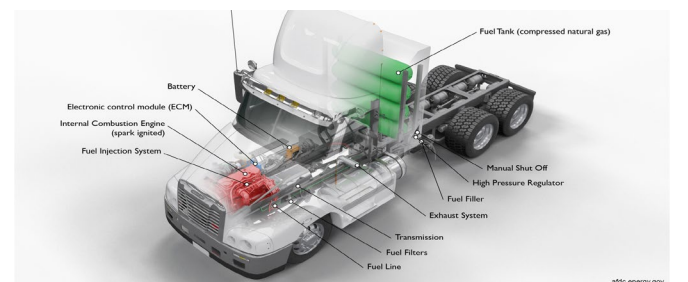
Global consumption of natural gas has continued its decade long growth trend, without so much as a blink to the Covid pandemic. It's now to the point that natural gas consumption will very soon surpass coal for the first time ever (Figure 6). That is clearly something to be celebrated, even by those advocating the end of fossil fuels. At this pace, natural gas could even surpass oil by the end of this decade. This is partly due to the fuel switching and partly due to the globalization of natural gas with growth in the LNG market.

Figure 6



Source: ARC Financial

A recent [announcement by Cummins](#) of a heavy-duty, 15 litre natural gas powered engine for use in long-haul trucks may allow natural gas to start displacing oil in a serious way. Natural gas distribution networks are already in place so adoption should be much easier, and anticipation is high. Oil has long been the magic fuel of choice for transportation but need and innovation are changing that.



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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.