Peyto Exploration & Development Corp.
President's Monthly Report

October 2021 — From the desk of Darren Gee, President & CEO

The world needs to make up its mind. Are we getting off hydrocarbons because fossil fuels are the reason the world is burning up? Or are we going to have to develop a lot more of them because we have no viable alternative, and everyone will freeze to death if we don't? It's amazing to me how energy policies being dictated by governments around the world are flying in the face of consumer consumption behaviour and have become the direct cause of what can now be described as a full-blown energy crisis in some parts of the world. The current fuel shortage in Europe (Figure 1) that has driven prices so high as to shut down several industries is a case in point and reminds me of a famous quote:

"The hardest thing to explain is the glaringly evident which everybody has decided not to see." – Ayn Rand.

Figure 1

A sign informs customers that fuel has run out at a petrol station in Hemel Hempstead, Britain, September 29, 2021. REUTERS/Matthew Childs/File Photo

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	Apr	May	Jun	Q2 21	Jul	Aug
Acq/Disp	0	0	0	1	0	0	2	1	3	36	0	0	0	0	0	0
Land & Seismic	2	1	2	7	4	1	1	2	8	1	0	0	1	1	1	1
Drilling	11	14	36	86	28	20	28	29	105	34	11	10	7	28	13	16
Completions	14	10	21	65	19	9	20	22	70	18	7	4	4	15	9	9
Tie ins	3	3	9	26	7	3	6	7	23	5	2	1	1	4	1	3
Facilities	5	8	5	21	10	4	5	7	26	16	2	1	5	8	5	4
Total	**34**	**37**	**73**	**206**	**69**	**37**	**62**	**68**	**236**	**109**	**22**	**16**	**19**	**57**	**29**	**32**

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
Sundance	49	47	48	**49**	49	47	47	49	**48**	48	50	48	49	52	49
Ansell	15	14	14	**15**	14	14	13	16	**14**	17	15	14	15	16	15
Brazeau	13	12	11	**13**	12	14	15	16	**14**	17	18	18	18	18	18
Kakwa	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
Total	**82**	**77**	**78**	**81**	**79**	**78**	**78**	**84**	**80**	**88**	**89**	**87**	**88**	**94**	**89**
Liquids %	14%	14%	15%	14%	15%	14%	14%	13%	14%	14%	14%	13%	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.***

More Oilfield Workers Wanted

I recently returned home from a good old fashioned investor conference in Toronto. It's been quite a while since there was an in-person confluence of industry leaders and investors, and I must say it was a welcome change from all the Zoom, Webex or Teams meetings we've all had over the last year and a half.

One of the most common questions I heard when meeting with investors or others interested in our industry is that of inflation in costs. Are we seeing any inflationary pressures, because of higher commodity prices driving higher service costs, or restrictions in supply chains driving up the cost of goods and materials?

The short answer is "a little". But that's never enough detail, particularly with respect to this issue. The long answer is we haven't seen much yet but depending on the upcoming levels of industry activity we expect there could be more. Of course, our hope at Peyto is that we can offset whatever inflation in costs there is with increased efficiency, particularly with the use of extended reach horizontal wells designed to get more for less.

We have attempted to prepare for inflation in materials like chemicals, line pipe, casing, and wellsite equipment by pre-ordering what we'll need for the next 9-12 months. But as we've seen in other industries, sometimes the supply chain issues occur where you least expect it. For instance, the semiconductor and transistor chip shortage is causing a significant interruption in everything from automobile manufacturing to home appliance availability. So, if we at Peyto needed a new compressor, for example, to expand our infrastructure and accommodate growing production (thankfully we don't), it would be a very long wait indeed. Just like the new car industry, if you don't have one today, don't expect one anytime in the next year or so. That specific issue has a rather significant impact on our industry's ability to add new production.

And that was the other interesting observation from the Toronto conference. While the message being spread to investors around the North American energy industry is one of disciplined capital investments being responsible for holding back new production, I don't think that's the real reason. I think the reason new supply isn't coming on the heels of higher commodity prices is that the industry doesn't have the capability to add it. And its not because we don't have the plays or the economics or a commodity price that works. It's because we don't have the ***people***.

Its for the same reason that barges aren't being unloaded in the Montreal harbor or that planes can't unload baggage in the Ottawa airport. There are not enough people to do the work. If you ask the drilling contractors or the frac companies or the

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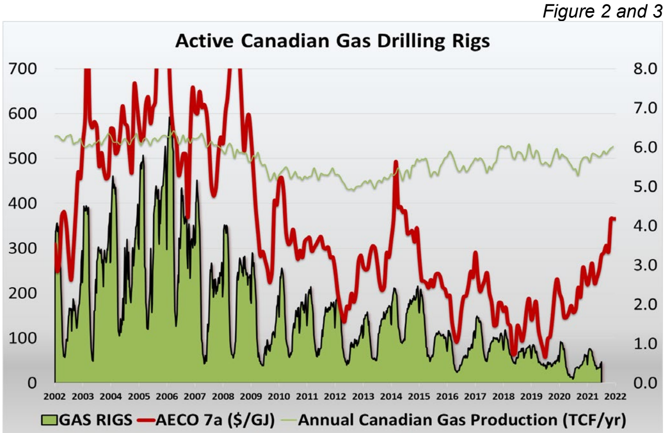
pipeline construction companies, do they have the trained people to allow the industry to speed up, the answer is all the same. No, we don't.

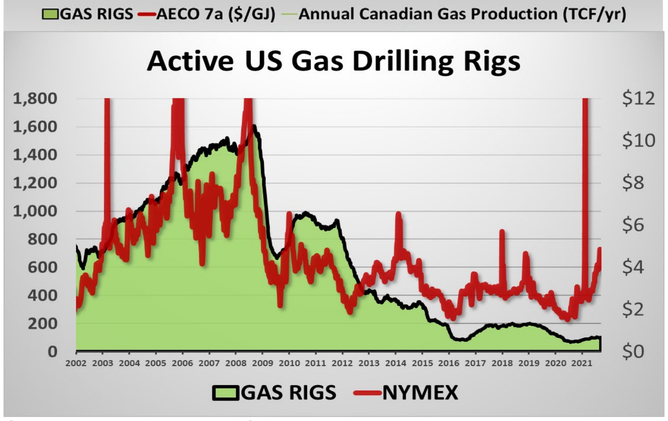
And there are many reasons (in no particular order) why these companies can't attract workers back to the jobs but almost all of them stem from government policy:

1. Recent extended downturn and lack of steady work.
2. Oilfield/rig hand wages used to be much more than minimum wage.
3. Nobody learns in school about a career in oil and gas.
4. Sitting at home collecting CERB is more comfortable.
5. Legalized marijuana use versus standardized drug testing.
6. Vilification of the Canadian energy industry.
7. Media reports that re-training for oilfield workers will be required.

If we look at the most recent rig activity, we have the people and equipment to run approximately 75 gas rigs and then we're pretty much tapped out. And when you factor in spring breakup, fall snows, and holiday shutdowns, not including any COVID impact, we're lucky if we can average a gas rig count of 50-60 for the entire year. That's barely enough to hold the basin at 16 BCF/d (6 TCF/yr). But not nearly enough to grow the basin in Western Canada for another 2 BCF/d of market access through BC LNG exports. Particularly if you [can't even license a new gas well in BC].

Figure 2 and 3





Source: EIA, Baker Hughes, CER, Peyto

In the US it's not much different. It's capability, not discipline that is preventing more activity from growing production and satisfying a higher price. And that realization leads one to a much different conclusion on future natural gas prices.

We'd all love to talk about a future energy transition, but the inconvenient truth today is that without more energy workers we are much more likely to experience an energy crisis before we experience an energy transition.

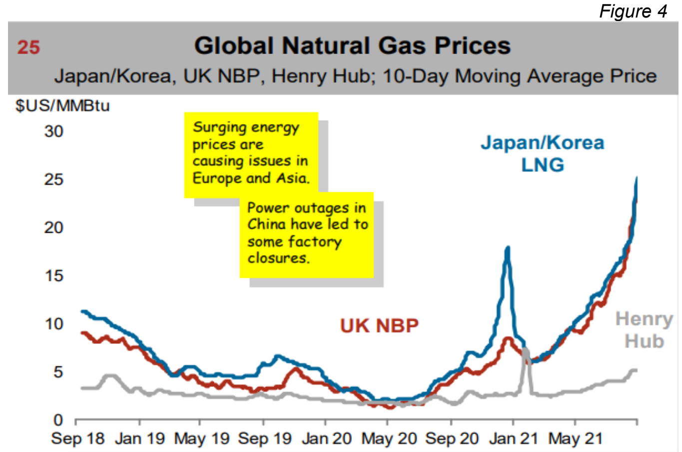
Activity Levels and Commodity Prices

It's rare for natural gas prices to drive up oil prices. Usually, it's the other way around since oil (diesel) is still used as the primary fuel to find and develop natural gas (rigs, frac pumpers, cranes, trucks of all types and sizes, etc.). But a recent report by Goldman Sachs suggested that the predicted natural gas shortage around the world could indeed drive oil prices higher.

Global gas prices have surged as inventories remain at exceptionally low levels ahead of peak winter demand. This risk premium reflects prices testing for the marginal solutions of gas-to-oil power and industrial substitution, ahead of power blackouts....tightness in global gas supplies creates a clear and potentially meaningful bullish catalyst for the oil market this winter, larger than the downside risk to global oil demand from another Delta-like COVID wave. The bullish impact of even moderate gas-to-oil substitution in power would be greater for the fuel oil and LPG markets relative to distillates given their smaller market size.

The reversal of fortune for natural gas prices in the UK and Japan over the last year has been quite amazing. Wouldn't it be something if both Henry Hub and AECO prices hit $25 this winter as well?

Figure 4



International natural gas prices strongly impact the economics of proposed LNG projects.

Source: Bloomberg

Source: ARC Financial

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.