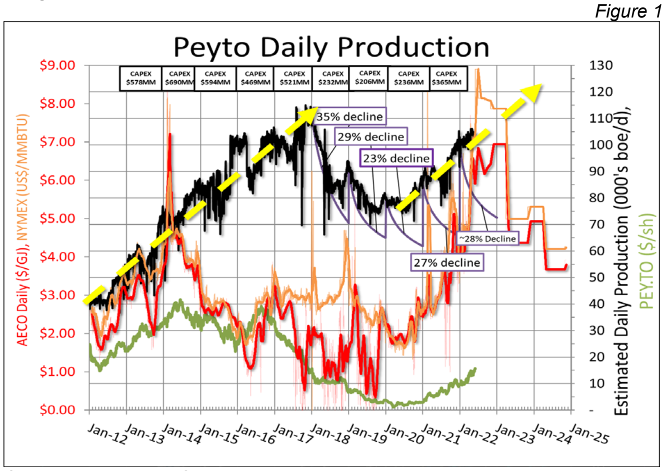
Peyto Exploration & Development Corp.
President's Monthly Report

June 2022 — From the desk of Darren Gee, Chief Executive Officer

The natural gas price run up continues to push prices to levels we haven't seen in a very long time (circa 2008) and even with the severe backwardation, gas prices are settling higher than those of the last decade. Our smaller capital programs of the last couple of years are delivering a similar growth profile to the rate of growth we saw from 2012 to 2017 due to lower base declines and better capital efficiency. So, this time around our free cashflow profile will look much better. Apparently, it will take the market a while longer to fully appreciate that fact, but we plan to be in this industry for a long time, so we can be patient.

Figure 1



Source: TMX, EIA, NGX, 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)**

	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Jan	Feb	Mar	Q1 22	Apr
Acq/Disp	3	36	0	0	1	36	0	22	0	22	0
Land & Seismic	8	1	1	2	4	8	0	1	0	1	7
Drilling	105	34	28	43	54	159	18	19	16	52	14
Completions	70	18	15	26	27	87	9	13	11	33	6
Tie ins	23	5	4	7	9	25	3	3	4	10	4
Facilities	26	16	8	12	14	50	32	8	7	47	9
Total	**236**	**109**	**57**	**90**	**109**	**365**	**62**	**65**	**39**	**166**	**39**

*Production ('000 boe/d)**

	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Apr	May
Sundance	49	47	47	49	48	48	50	49	56	51	57	55	53
Ansell	14	14	13	16	14	17	15	15	16	16	16	16	16
Brazeau	12	14	15	16	14	17	18	18	16	17	18	22	25
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	1	1	2	4	5	5	7	5	9	10	9
Total	**79**	**78**	**78**	**84**	**80**	**88**	**89**	**89**	**97**	**91**	**101**	**104**	**104**
Liquids %	15%	14%	14%	13%	14%	14%	14%	12%	11%	13%	11%	12%	13%

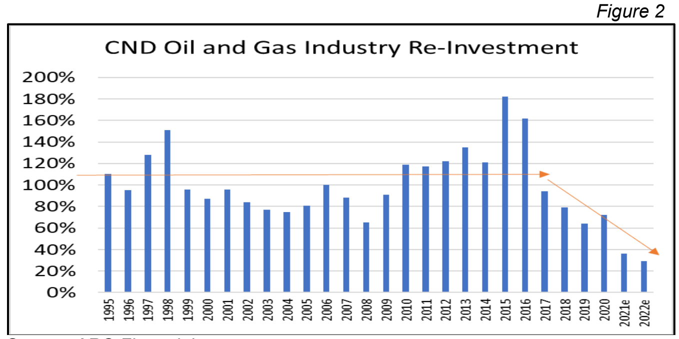
This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Why Are Energy Companies Not Investing More?

These days the news is all about inflation, how the cost of everything is going up. Although some will point to supply chain issues constrained by two years of Covid being the cause, one of the bigger reasons is the cost of energy. Higher energy costs are embedded everywhere, from the extraction of raw materials to the manufacture of goods, to the transportation of those goods, even to the fertilizer to grow our food. So it's hard to imagine central bankers can curb inflation if energy costs remain high.

The reality is that higher energy costs were coming, even before Covid and especially before Russia invaded Ukraine, because of a lack of investment in fossil fuel development. If Canada, as one of the larger oil and gas producers in the world (4th largest gas and 5th largest oil producer), is any proxy, we've been under-investing in energy development for the last 6 years. ARC Financial does a great job of tracking the Canadian industry's re-investment of cashflows and it has clearly been dropping since 2016 (Figure 2).

Figure 2



Source: ARC Financial

That under-investment may not necessarily be with respect to just production, but more with respect to infrastructure (pipelines, export/import, refining, etc). I would also suggest that the lack of infrastructure investment has been due to, in Canada anyway, government intervention – attempts by government to reduce consumption by trying to obstruct and limit infrastructure that further enables fossil fuel production and consumption *(and other political motivations as I suggested two months ago)*.

Sure, we had a price war between Russia/Saudi/US which clobbered oil prices and wiped out a lot of capital, and scared away investors and bankers alike. But the obstruction to infrastructure investments began before that and has continued thereafter. And the reality is, all that obstruction has not reduced demand. As Ayn Rand was attributed with - ***'We can ignore reality, but we cannot ignore the consequences of ignoring reality.'***

So, is all this government intervention really to blame for high energy costs? They certainly won't admit it. The news keeps

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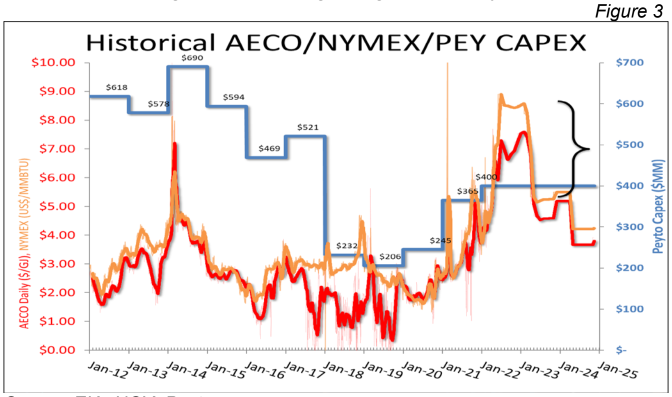
saying it's because shareholders are demanding that energy companies return the capital to them rather than invest more and that's the real reason there is less supply and high energy cost. I suppose that could be a possible explanation, in jurisdictions where the energy industry is owned by private investors, like here in North America. But then shouldn't supply be growing rapidly and investments be high in those countries where energy is state owned? And yet it's not. I believe in N.A. it's the government intervention that's responsible and interest rate hikes aren't going to reduce inflation when it's driven primarily by bad energy policies.

Perhaps to best answer why companies are not investing more in growing production is to tell you why Peyto isn't investing more. It is definitely **NOT** because we need higher commodity prices. The current commodity strip, combined with current costs, results in fantastic returns and should be motivating us, and others, to invest all we can into new wells and increased production. It certainly would have in the past (Figure 3). The only problem is, we (and I mean the CND gas industry) tried that before and because the infrastructure to get that new production to market didn't get built (LNG export projects cancelled), or took too long (NGTL expansion delays), it not only reduced the commodity price, but sent it into negative territory (2018-2019). And the reason that infrastructure either didn't get built or took too long was because of our governments getting in the way.

Figure 3



Source: EIA, NGX, Peyto

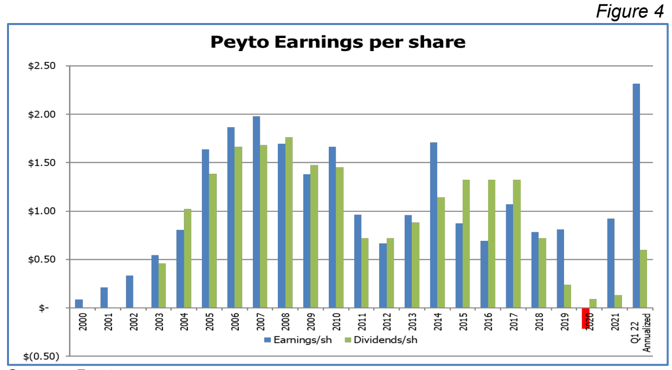
If you think I'm recalling history wrong and just blaming big, bad government policy, go back and read my monthly reports from 2018 onwards. Every month I was recounting what was happening in real time. Today the message from Ottawa remains the same: reduce/restrict production by denying new infrastructure to try to force reduced consumption and thereby reduce emissions. Except that reducing production or supply doesn't cause reduced demand or reduced emissions. People still consume the same amount. I still drive to work and still plug in my iPhone. It just makes everything cost more, because there are no reliable, alternative energy sources. And citizens/voters should get angry.

"The Trudeau government has vetoed several energy projects and delayed others with extra reviews. Last month, the Liberal government rejected a proposed LNG facility north of Quebec City in the Saguenay region, which had previously been rejected by the Quebec government."

The other reason Peyto is not investing more today is because there are no more rigs to be had, frac spreads to hire or pipe to buy. And when heads of state and leaders of global organizations are telling young people not to work in the energy industry, there are no more people to hire.

So, like Peyto, our industry has decided, why fight it? Why not just invest less, supply less, enjoy higher commodity prices and greater profits (Figure 4)? Because one thing is certain, demand will not be less, as there is no viable alternative. And winter keeps coming.

Figure 4



Source: Peyto

Activity Levels and Commodity Prices

The current projected drop in the futures price of natural gas from March 31, 2023, to April 1, 2023 is unbelievable (Figure 3). Right now, that one day drop is $USD1.80/MMBTU and seems very unlikely to me. Which makes hedging next summer (Figure 5) difficult to stomach and one of the reasons we've slowed down our hedging pace. While the market is projecting supply/demand to be balanced by next summer, that season's price continues to climb higher each week, implying less and less conviction to that thesis.

Figure 5

Source: ICE

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.