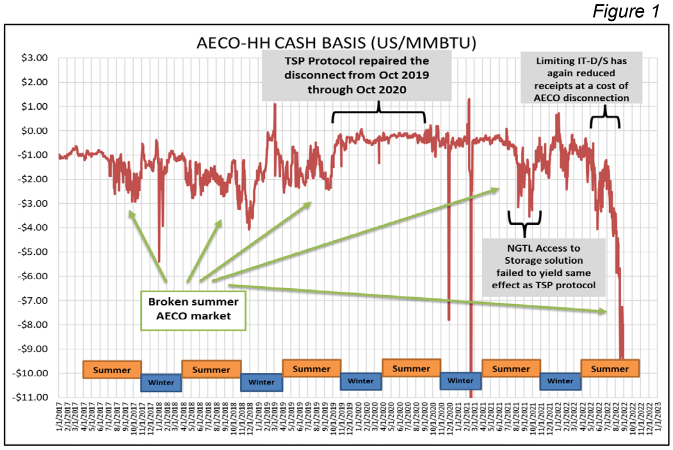
September 2022 | From the desk of Darren Gee, Chief Executive Officer

Whoever said *"Insanity is doing the same thing over and over and expecting different results"* was clearly a watcher of the natural gas markets in Alberta. (Or a golfer, it equally applies).

Over the last two weeks, we again witnessed the AECO market brutally disconnect from the rest of North America with the differential to NYMEX reaching an all time high of $9.50 (not including the freak winter storm Uri that froze Texas in Feb 2021). This disconnection is principally caused by a very inefficient system that uses price as the mechanism to force volume off the NGTL network when maintenance or expansion restricts capacity. Fortunately, we only have a small volume (~2,000 boe/d), required for operational flexibility, that is shut in when spot prices collapse.

Figure 1



Source: ICE

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	Q1 22	Apr	May	Jun	Q2 22	Jul
Acq/Disp	3	36	0	0	1	36	22	0	0	0	0	0
Land & Seismic	8	1	1	2	4	8	1	7	1	1	8	1
Drilling	105	34	28	43	54	159	52	14	13	18	45	22
Completions	70	18	15	26	27	87	33	6	8	12	25	9
Tie ins	23	5	4	7	9	25	10	4	3	3	10	3
Facilities	26	16	8	12	14	50	47	9	6	6	21	8
Total	**236**	**109**	**57**	**90**	**109**	**365**	**166**	**39**	**29**	**40**	**108**	**42**

Production ('000 boe/d)*

	2020	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Apr	May	Jun	Q2 22	Jul	Aug
Sundance	48	48	50	49	56	51	57	55	53	55	54	55	56
Ansell	14	17	15	15	16	16	16	16	16	15	15	14	14
Brazeau	14	17	18	18	16	17	18	22	25	24	23	24	25
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	4	5	5	7	5	9	10	9	8	9	9	9
Total	**80**	**88**	**89**	**89**	**97**	**91**	**101**	**104**	**104**	**103**	**104**	**104**	**105**
Liquids %	14%	14%	14%	12%	11%	13%	11%	12%	13%	13%	13%	13%	13%

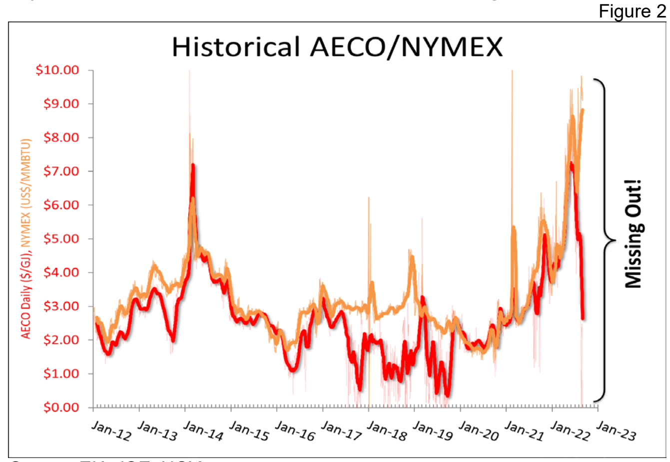
This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Fixing AECO

A broken AECO market is a recurring problem that requires a better fix. For companies like Peyto (larger gas producers) the fix has been to simply avoid this market. But that doesn't solve the problem, it just works around it. In order to solve it, we need to understand it and come up with a better way.

The people of Alberta, who are the ultimate owners of the natural gas resource deserve more. They specifically elected a government that would ensure AECO was looked after. With gas royalties priced off an AECO price, that has recently been close to zero while the rest of North America basks in prices that are closer to $10, Alberta is missing out in a big way. Think of all the hospitals and doctors and nurses, the schools and teachers, the roads and infrastructure that those missed royalties could fund. As an Albertan, it's not right.

Figure 2



Source: EIA, ICE, NGX

Historically, you could argue the AECO market has functioned properly with the exception of 5 bad summers (2017, 2018, 2019, 2021 and now 2022). We need to focus on what caused those bad summers and put forward solutions to help prevent that from occurring again. In our opinion, the primary cause originally stems from an over contracted and under built NGTL system. TC and shippers (Producers) allowed the system, in the wake of post Alliance decontracting (2014-2015), to accept incremental receipt contracts without serious consideration of demand capabilities. This issue was exacerbated by expansions into NE BC (the Montney) to develop incremental production intended to supply westcoast LNG facilities (which ended up being significantly delayed). In its regulatory applications, NGTL oversold (in hindsight) its ability to move gas in a pre-LNG world, stating new supply would offset declines. As new supply showed up, with no incremental system capabilities to get it to market, FTR (firm receipt) cuts occurred when routine maintenance and operational issues arose. This resulted in shippers requesting more FTR to help buffer the cuts which NGTL gladly offered. The offering out of

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

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

incremental FTR was not sustainable and only created a vicious circle of deeper cuts and more resultant FTR contacting.

Once it was realized this was problematic, the decision was made to use "access to storage" as a means of managing upstream supply constraints (the new Standard Protocol). Restricting access to storage, which is the balancing mechanism between winter/summer demand differences, caused the AECO price to collapse which theoretically pushed gas off the system (via shut-ins) during times of constraint. However, a collapsed AECO price also forced shippers to seek alternatives to other markets, resulting in TC selling out and expanding both NGTL's EGAT and WGAT while also filling downstream affiliated pipes (TC Canadian Mainline and GTN). This occurred all at the expense of AECO which exhibted extreme volatility and uncertainty.

So here we are, finally building the facilities that were always required but 4 years too late (2017 vs 2021/22). To be fair, NGTL (TC) isn't solely to blame for all of this. We must as shippers all share responsibility in ignoring the fundamentals of supply and demand, as we did not accept 5-6 years ago that the system was full and not all our gas could get to market without orderly expansion. Some will argue that building to the lesser of supply and demand was and is still appropriate as it enables gas on gas competition which supports an open market. We don't disagree, but for a market to be truly open, it needs competition in all aspects, including pipelines, and it can't be subject to manipulation or monopolization by any single party. Cutting downstream markets (ie Access to Storage) to handle upstream restrictions, violates the principles of the open market, which is why there needs to be new rules/requirements around design and restriction philosophy.

So with that, the solution is obvious. We need to design the system better and accommodate future supply and demand requests collectively, keeping to a comfortable ratio between peaking/coincident factors (0.84 has been suggested by the NGTL data). This does not mean over-building, as some seem to always suggest. If we can appropriately design the system, storage will just work the way it always has, silently and effectively. This solution, paired with a restriction philosophy that always curtails services where it is the most hydraulically beneficial to the system (regardless of service priority) with a focus on maximizing system throughput, will allow AECO to thrive. And how do we achieve all this?

Facility Design Has To Change

Facility Design hasn't really changed even though the NGTL system has evolved from Postage Stamp, to Products and Pricing (1999), to Delivery services (2010), and now to the new Rate Design (2020). It has been evident that by building receipt and delivery services whenever requested, regardless of the mainline facility capability, we get into a problem. With the evolution of the system, it is time to modify receipt and delivery requirements to better match downstream facility capacity.

NGTL Operating Philosophy Must Change

In our opinion, NGTL's overarching system operating philosophy *should* be:

> *"To provide the maximum and efficient throughput of volumes on the system, while minimizing market impacts."*

Instead, NGTL's current system/operational philosophy prioritizes firm service over maximizing system throughput. We agree with the Natural Gas Advisory Panel (NGAP) report commissioned by the Alberta Government in 2018 and feel this philosophy is inappropriate as it gives too much market power to a midstreamer who holds no commodity risk. Maximizing system throughput needs to be held as a higher priority than firm services. Furthermore, we believe the current Tariff does not link Delivery and Receipt services to allow Firm Receipt service to take priority over Interuptable Delivery service. The cutting of downstream markets (ITD) to remove upstream supply (FTR) is inefficient and creates volatility. Supply response to price volatility is also unpredictable and portions of shut in supply occur at points downstream of the constraint which further diminishes system capability (that's why it takes such extreme price movement to remove a small volume off the system). The change in July 2017 in how the system is operated (the new Standard Protocol) is flawed and caused the fallout of the last 5 years.

Regulatory Lead Times Must Improve

NGTL had strived for and was successful in getting regulatory lead times down to 18 months or less for new facilities but the new regulatory regime under the CER has unfortunately, increased that lead time to 4 years. So, in the past when facilities were built, NGTL had a reasonable expectation that they could balance the system much quicker when demand caught up to supply (or vice versa). Now this timing miss-match remains a market/system problem for longer. Perhaps it would be more efficient for shippers to build smaller diameter pipe and meter facilities (ie. Tidewater Pioneer Pipeline) under AER regulation and then have NGTL take over the facilities? Or have the NGTL system regulated by the Province and not the Federal Government. That's probably just a pipe dream. Regardless, as the NGAP report again concluded, regulatory inefficiency must improve.

The Natural Gas Advisory Panel report is still a valuable study of what went wrong with the AECO market and ought to be re-examined. As an industry, we have tried to implement a few solutions that have either worked, the Temporary Service Protocol (TSP), or not (Access to Storage). For the good of all Albertans, we need to find a permanent solution. As far as ESG goes, this is one of the biggest "S" or Social issues we have in our industry today. It's time to finally provide the fix.

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 netbacks, 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.