

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

May 2018

From the desk of Darren Gee, President & CEO

Breakup is in full swing now and the snow is finally melting. With rigs racked, there is not much one can do but monitor production declines (Fig. 1). It is not expected that this year's spring thaw will take any longer, however, resumption of activity will be more a function of when the forestry companies get back to hauling as they/we are very sensitive to costly repairs. We're still expecting to get back in the field at the start of June with 3 drilling rigs and eager to get busy drilling more Cardium wells. As discussed last month and updated in our corporate presentation, the first wells are performing as expected, continuing on average to deliver results that are double what we had before.



Figure 1

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 Investment\*

Capital Summary (millions\$ CND)\*

	2016	Q1 17	Q2 17	Q3 17	Oct	Nov	Dec	Q4 17	2017	Jan	Feb	Mar	Q1 18
Acq/Disp	34	4	0	0	0	0	0	0	4	0	-4	0	-4
Land & Seismic	9	9	2	1	0	4	0	4	17	1	0	0	1
Drilling	219	67	48	73	25	29	15	69	256	10	3	1	14
Completions	105	36	21	34	17	14	12	42	134	8	5	5	17
Tie ins	42	13	9	15	6	5	5	16	53	2	1	1	4
Facilities	60	25	17	11	2	1	1	4	57	0	1	3	4
<b>Total</b>	<b>469</b>	<b>154</b>	<b>98</b>	<b>135</b>	<b>50</b>	<b>53</b>	<b>32</b>	<b>134</b>	<b>521</b>	<b>21</b>	<b>5</b>	<b>9</b>	<b>35</b>

## Production\*

Production ('000 boe/d)\*

	2015	2016	Q1 17	Q2 17	Q3 17	Q4 17	2017	Jan	Feb	Mar	Q1 18	Apr
Sundance	59	58	59	56	55	58	57	57	56	55	56	54
Ansell	17	22	21	20	22	21	21	21	21	20	20	19
Brazeau	7	14	18	19	21	25	21	27	24	22	24	21
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	1	1	1	2	3	2	3	2	3	3	2
<b>Total</b>	<b>86</b>	<b>97</b>	<b>101</b>	<b>98</b>	<b>102</b>	<b>110</b>	<b>103</b>	<b>110</b>	<b>105</b>	<b>101</b>	<b>105</b>	<b>97</b>

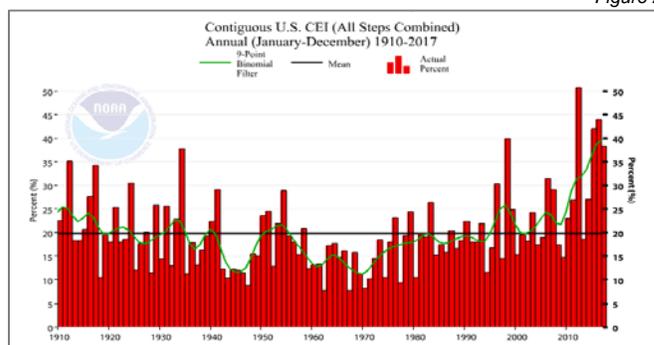
\*This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

## More Storage Required

These days life appears to be busier, more unpredictable, and more unstable. All around us it seems, volatility has increased. Commodity prices, stock markets, weather, just to name a few. Even our society at large, which seems to erupt in violence or anger more often, appears more volatile. It's interesting that when one is focused on more basic needs like health, food, safety and shelter, life seems simpler. Maybe not easier, but definitely simpler.

Trying to predict the future with a volatile past is difficult. But it's something many of us do as part of our everyday job. The latest crop of computer scientists are learning to do it better than ever before with new artificial intelligence (AI), machine learning and big data tools. From teaching a car to drive itself using all the historic traffic navigation data, to predicting the response of energy supply chains to natural climate change.

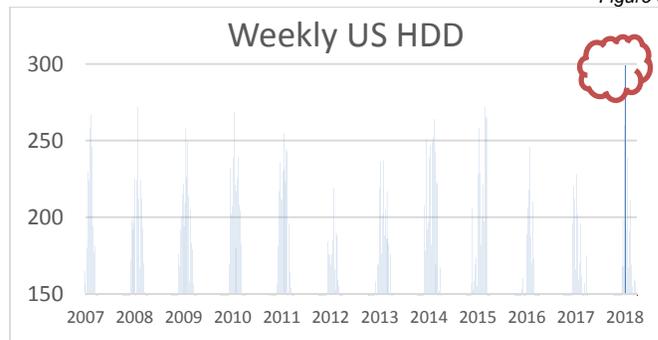
Figure 2



<https://www.ncdc.noaa.gov/extremes/cei/graph/us/cei/01-12>

Take the US Climate Extremes Index (CEI) as an example (Fig. 2). It's increasing too. So does that imply we can extrapolate this increased volatility to mean warmer summers and colder winters? If so, then our energy systems better get prepared for it. As North Americans, we can sweat and shiver a few degrees of variance, but generally, we've become very accustomed to a comfortable, climate controlled environment.

Figure 3



<https://www.aga.org/research/data/heating-degree-day-data/>

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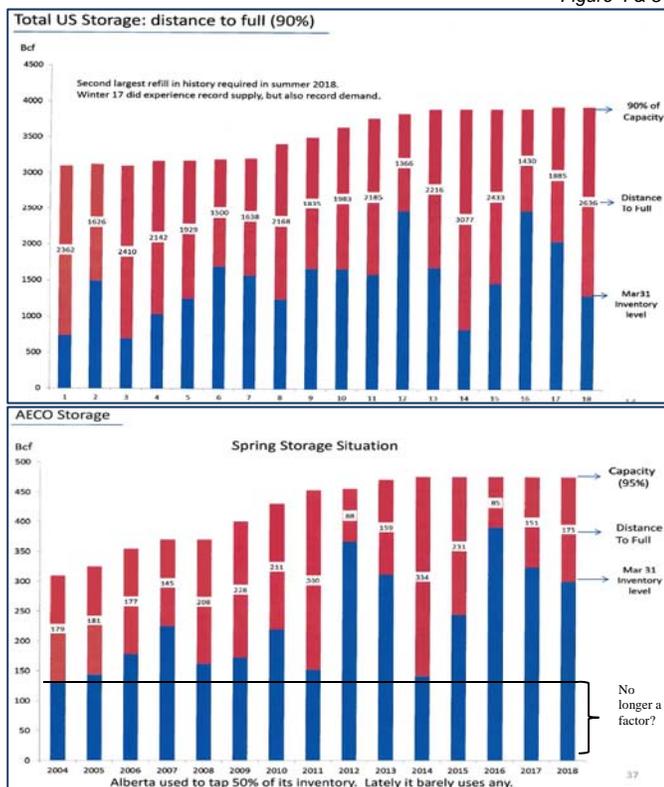
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A record weekly average number of heating degree days for this past winter seems to agree with that conclusion (Fig. 3). The cold days were colder and more gas was needed on those days to keep everyone warm.

Maybe this doesn't necessarily translate into more natural gas demand on average, but it definitely means we need the ability to deliver more at any given time. And to me that means more storage capacity. Unfortunately, our North American storage capacity hasn't really grown. US storage (Fig. 4) is around 4 TCF and has been for 6-7 yrs, while Canadian storage (Fig. 5) is just under 0.5 TCF and has arguably shrunk, as about 25% has become inaccessible due to pipeline constraints.

Figure 4 & 5

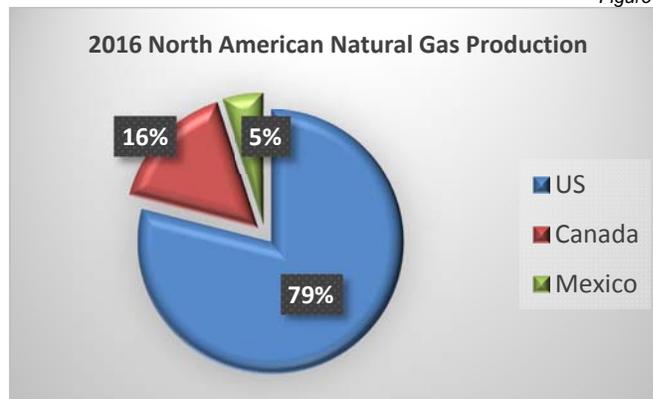


Source: TD

Considering this summer will be the second largest refill in US history, you'd think that would normally be positive for natural gas prices, but record supply is keeping markets in check. As for Western Canada, it's less about our imbalance in storage and more about an ability to contribute to the North American market. Canada only represents around 15% of the total North American natural gas supply (Fig. 6) and normally our market is dominated by what's happening in the US. If the US is short on supply, the draw on Canada causes AECO prices to rise.

That should still be the case even with pipeline constraints as the pull at the Alberta border should outweigh the demands by our own storage refill. On the surface you'd think there was no issue if we're sitting at 65% full already. But if 25% of that storage is no longer useable in winter, due to its location on the system, then really, we're less than 50% full which could be a problem, especially if there is no ability to refill it.

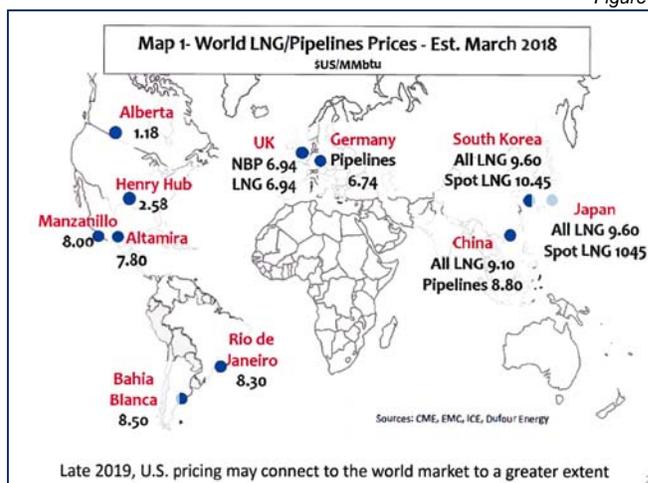
Figure 6



Source: <https://www.bp.com/en/global/corporate/energy-economics/statistical-review-of-world-energy/natural-gas/natural-gas-production.html>

Ultimately, North American gas producers would be far better off if we were connected to the rest of the world (Fig. 7). And that can't happen fast enough. Nowhere is that arbitrage greater than in Western Canada. If US exports to Mexico and their LNG exports to the rest of the world grow faster than their domestic supply (which some are forecasting), Western Canada will also benefit. But we really shouldn't rely on them to connect us to the rest of the world. Canadian natural gas is the most responsibly developed in the world and it would do a world of good to get it out there. Canadians, of all people, should get that.

Figure 7



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.