

Peyto Exploration & Development Corp.

President's Monthly Report

April 2020

From the desk of Darren Gee, President & CEO

Gosh, where to begin? Since last month the world has been turned upside down. Perhaps then, I should start by reassuring everyone that Peyto and all its staff are, for now, COVID-19 virus free. Our business continuity plan is in place and working well. Most of the 62 head office staff (50 employees/12 consultants) are working from home, as all have the ability to access their workstations remotely, and with conference calls, Teams, facetime, WebEx and other communication tools at their disposal all are just as functional. The Peyto team are all seasoned professionals, used to working on their own without supervision. Of course, we've had to beef up our cybersecurity and IT support, but the downtown Calgary floods of 2013 were a good dry run for this head office remote work plan.

The field is also still running seamlessly. We had stocked up on parts and chemicals heading into breakup anyway, so we're prepared for any supply chain disruptions. Our long-time participation in the Energy Mutual Aid Co-op (EMAC) ensures we have operational coverage and combined with our Working Alone policy, and remote control and automation capabilities, means our field people are prepared for any and all potential impact from this pandemic. Natural gas production, and the heat and electricity it provides, is an Essential Service that must be maintained especially during a crisis such as this. We should all be incredibly thankful to those who work to maintain the critical infrastructure that ensures we can keep taking this energy supply for granted. Considering that winter has yet to release its hold on Western Canada we are still highly dependent on natural gas for our survival.

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)*

	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Oct	Nov	Dec	Q4 19	2019	Jan	Feb
Acq/Disp	4	-4	0	0	2	-2	1	0	0	0	0	0	0	1	0	0
Land & Seismic	17	1	1	5	2	8	3	2	1	1	1	0	2	7	2	2
Drilling	256	14	7	37	57	116	24	11	14	12	10	15	36	86	16	8
Completions	134	17	1	18	36	72	20	14	10	4	9	8	21	65	8	7
Tie ins	53	4	1	6	11	21	10	3	3	3	3	4	9	26	3	2
Facilities	57	4	5	5	4	18	4	5	8	2	2	1	5	21	7	2
Total	521	35	15	70	112	232	62	34	37	22	25	27	73	206	35	21

Production ('000 boe/d)*

	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Q3 19	Oct	Nov	Dec	Q4 19	2019	Jan	Feb	Mar	Q1 19
Sundance	56	50	49	50	51	50	49	47	47	48	49	48	49	49	49	49	49
Ansell	20	18	16	16	18	18	15	14	13	14	16	14	15	15	14	14	14
Brazeau	24	19	16	15	19	15	13	12	11	11	11	11	13	11	11	13	12
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	2	2	3	3	3	2	2	2	3	3	3	2	3	2	1	2
Total	105	92	85	87	92	88	82	77	75	78	81	78	81	79	78	79	79
Deferral		2	0				1	2									
Capacity	105	94	86	87	92	88	83	78	75	78	81	78	81	79	78	79	79
Liquids %	10%	10%	11%	12%	10%	12%	14%	14%	14%	15%	15%	15%	14%	15%	15%	14%	15%

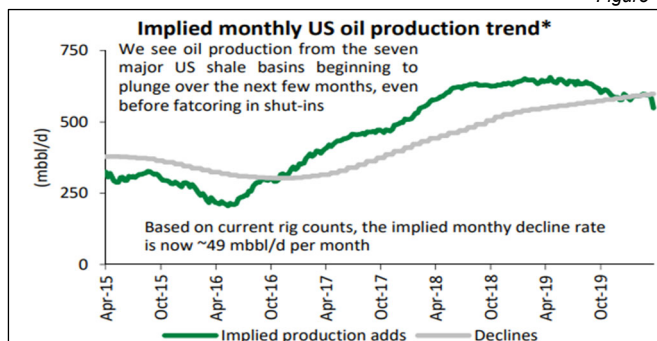
*This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Balancing Supply and Demand

Oil and gas markets around the world are in real turmoil these last few weeks. Normally, they have a hard enough time trying to estimate the impact of supply shocks, like the one the OPEC+ members are threatening to create. Or, conversely, trying to estimate the impact of demand shocks by things like the great economic recession in 2008. But today we have both, which makes it virtually impossible to estimate the ultimate impact on prices (thus the extreme volatility). There are some even suggesting this oil supply shock was perfectly timed and planned to coincide with a demand shock.

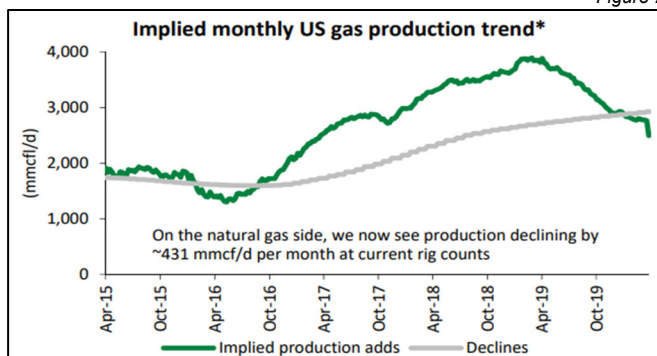
I'd say in the past we've been better at evaluating the impact of supply on prices, than we've been at evaluating the impact of demand. For supply, we forecast what current production is doing, depleting at some predictable rate, and what new production is being built with the equipment being operated (rigs, frac spreads, etc) and capital being invested (\$). And this has given us a pretty good handle on what supply is going to do. Take the following graphs by Desjardin that show what the implied monthly rig activity is expected to deliver for new production versus the decline of the existing production (Figure 1 is oil, Figure 2 is gas).

Figure 1



When the new supply (green) exceeds the decline (grey), total production is growing. When it doesn't, like what's happening right now, total production is shrinking.

Figure 2



Source: Desjardin

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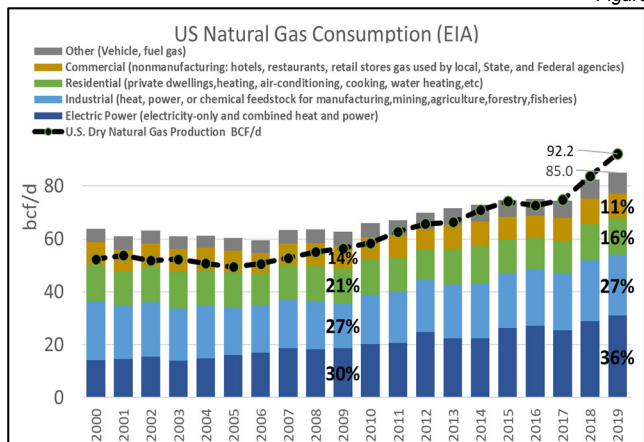
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Forecasting supply is one thing but forecasting demand is trickier. It's based on global consumption and the decisions of billions of people on the planet. And the impact of something like the COVID-19 pandemic, its resultant freezing of world economic activity, massive government economic stimulus, and the ensuing global recession, all have massive impact on global consumption patterns.

Take US natural gas consumption as an example. It's interesting to look back and see how demand changed from the last big demand shock in 2008 when the great recession hit. Arguably, at that time, we saw similar massive economic stimulus to today, we also saw a global recession, so we might expect to see similar impact to natural gas demand. But what we saw from that time was actually a large demand increase across all sectors. You might have expected demand to fall (industrial slowdown, etc.), but most sectors of demand actually grew, a lot, and across the board (power generation grew even faster than commercial demand which grew slightly slower).

Figure 3



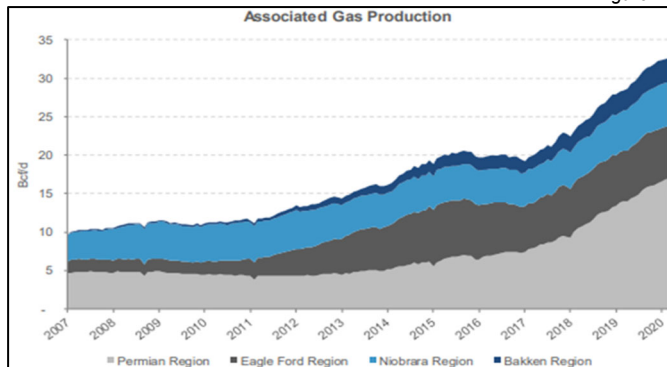
Source: EIA

So will the same thing happen again? Will this economic "shock" actually cause demand for natural gas to grow, and rapidly again rather than cause demand to shrink? Perhaps.

Recovery from a large economic recession caused by a global pandemic will require access to cheap energy for everything from heating your home to powering industries, just like last time. And North American natural gas is relatively cheap and abundant. So the argument could be made demand will continue to grow. Alternatively, cheaper coal or cheap oil might be able to take demand away from natural gas. Or in the short term, you could see lack of demand from industrial usage. Or even more morbidly, the pandemic could reduce the population which would permanently reduce per capita demand. Like I said, it's hard to forecast demand. As Buffett would say, "In business, the rearview mirror is clearer than the windshield."

Right now, the case being made for natural gas is not one of demand but supply. The thesis being postulated is that reduced oil demand from reduced travel, both road and air, is driving down the price of oil and ultimately the supply of oil, and with it the supply of associated gas. Considering associated gas (Fig 4) makes up a full 1/3 of total US supply, even a small reduction in associated gas supply, especially into possible growing demand would drive natural as prices up.

Figure 4



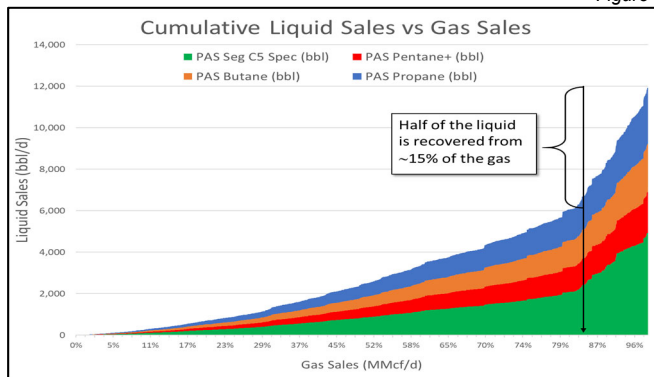
Source: Scotiabank

So for now, we watch storage fills to see if demand starts to shrink, and we watch associated gas production for declining supply. Hopefully its just the latter as a higher natural gas price would at least be a small win in an otherwise dreadful time for our industry.

Activity Levels and Commodity Prices

With the dramatic fall in oil demand backing up CND heavy oil supply, there is a risk that condensate demand evaporates and everyone producing liquids-rich gas will have to shut in. Thankfully we have the ability to reject much of our liquids back into the gas stream and keep flowing, while the remainder can be stored in tank farms at our gas plants. Figure 5 shows, at worst, we can curtail >50% of our liquids production by deferring just 15% of our gas.

Figure 5



Source: Peyto

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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.