

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

August 2020

From the desk of Darren Gee, President & CEO

Our summer drilling program continues to tick along with some good success in our Brazeau area, despite the rains that impacted June completions/July production. Brazeau was a core area that did not receive much attention over the last couple of years due to the low gas and high liquids prices since it was traditionally more of a drier gas area. But recently, drilling results have proved otherwise. Not only has production grown by almost 50% this year, liquid yields have almost doubled as well, from 17 bbl/mmcf to over 30 bbl/mmcf (Figure 1). We still have a deep inventory of drilling ideas in this area and have been adding to our land base lately as well.

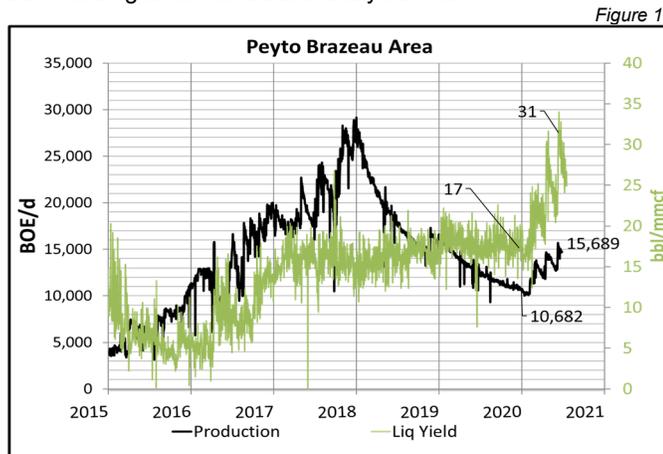


Figure 1

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 Summary (millions\$ CND)\*

	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Jan	Feb	Mar	Q1 20	Apr	May	Jun	Q2 20
Acq/Disp	-2	1	0	0	0	1	0	0	0	0	0	0	0	0
Land & Seismic	8	3	2	1	2	7	2	2	0	4	0	0	0	1
Drilling	116	24	11	14	36	86	16	8	5	28	7	6	8	20
Completions	72	20	14	10	21	65	8	7	4	19	2	4	3	9
Tie ins	21	10	3	3	9	26	3	2	2	7	1	1	1	3
Facilities	18	4	5	8	5	21	7	2	2	10	2	1	1	4
<b>Total</b>	<b>232</b>	<b>62</b>	<b>34</b>	<b>37</b>	<b>73</b>	<b>206</b>	<b>35</b>	<b>21</b>	<b>12</b>	<b>69</b>	<b>13</b>	<b>12</b>	<b>12</b>	<b>37</b>

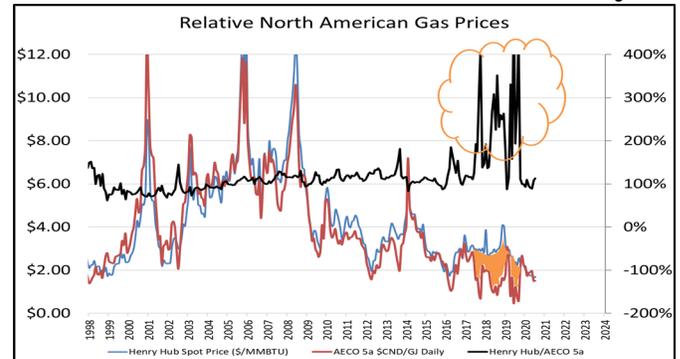
### Production ('000 boe/d)\*

	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Jan	Feb	Mar	Q1 20	Apr	May	Jun	Q2 20	Jul
Sundance	51	50	49	47	48	49	49	49	49	49	49	48	46	47	45
Ansell	18	18	15	14	14	15	15	14	14	14	13	14	14	14	13
Brazeau	19	15	13	12	11	13	11	11	13	12	13	14	15	14	14
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	3	2	2	3	2	3	2	1	2	2	1	1	2	1
<b>Total</b>	<b>92</b>	<b>88</b>	<b>82</b>	<b>77</b>	<b>78</b>	<b>81</b>	<b>79</b>	<b>78</b>	<b>79</b>	<b>79</b>	<b>79</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>76</b>
Deferral			1	2											
Capability	92	88	83	78	78	81	79	78	79	79	79	78	78	78	76
Liquids %	10%	12%	14%	14%	15%	14%	15%	15%	14%	15%	14%	14%	14%	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.

## The Cost of a Broken AECO Market

Figure 2

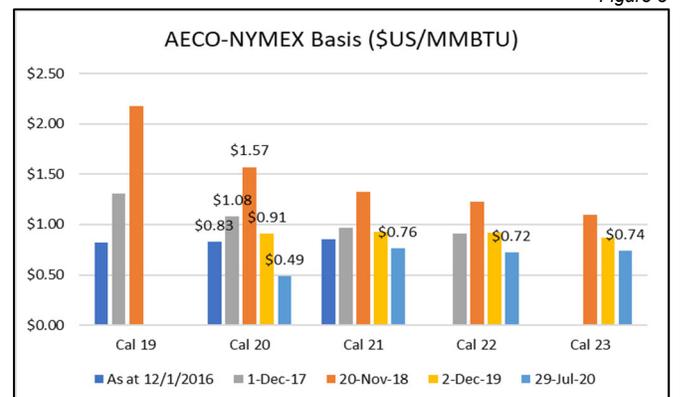


Source: EIA, Enerdata

Looking back at North American natural gas markets over Peyto's 21 year history, the period from mid 2017 to fall of 2019 was definitely the worst (Figure 2). Never before had the AECO market traded at such a disconnect from Henry Hub. This prolonged disconnection did significant damage to the Canadian natural gas industry as producers scrambled to get away from the broken AECO market and extremely low gas prices (sometimes negative). Fast forward to today and we are now witnessing the affect of that damage on our industry with stressed balance sheets, anemic drilling activity, and a shrinking basin.

For Peyto we have one more year of expensive market diversification costs to stomach before we can get back to "normal" gas price realizations, which will hopefully coincide with a recovery in the overall gas price. It takes another year because back in 2017-2018 the market had expected it to take until the fall of 2021 before AECO would be reconnected again and priced the market differences accordingly. For instance, if you compare the AECO-NYMEX Basis at various points from 2016 until now, you can see what the market was pricing for differences between those two hubs.

Figure 3



Source: TD, Peyto

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

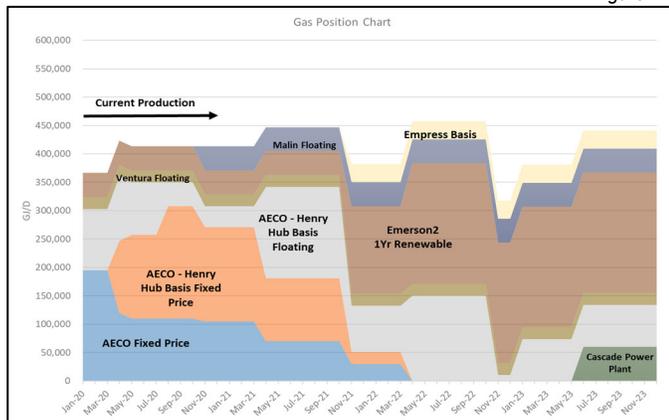
August 2020

From the desk of Darren Gee, President & CEO

Figure 3 illustrates that a Calendar 2020 Basis (the implied cost to get between the two hubs) was trading at \$US0.83/MMBTU in December 2016, but by November 2018 had blown out to \$1.57. If you had decided back in 2018 to get out of AECO and sold your 2020 gas at the Henry Hub instead, it cost you \$US1.57/MMBTU to get there. Today, that Basis to sell your gas at Henry Hub for the rest of 2020 is a mere \$US0.49/MMBTU, illustrating the extreme volatility and how dramatically the market has changed.

Looking back, what this whole experience has taught me is that I can't trust the AECO market and it is important to diversify our gas sales outside of AECO. One of the reasons for that mistrust is there is only one pipeline company that supplies gas to this market, TC Energy's Nova Gas Transmission System (NGTL). This lack of competition means NGTL operational decisions can result in extreme price volatility and producers selling into that market can get caught on the wrong side of that volatility, as many were back in 2017. That's why we have, and will continue to, diversify our gas sales away from the AECO market in the future because nothing has really changed. While the province and regulator have taken more interest in how NGTL runs its assets (re: Temporary Service Protocol), without permanent clarity around operational decisions and restriction rules, the AECO market is still just as susceptible to manipulation as it was back then.

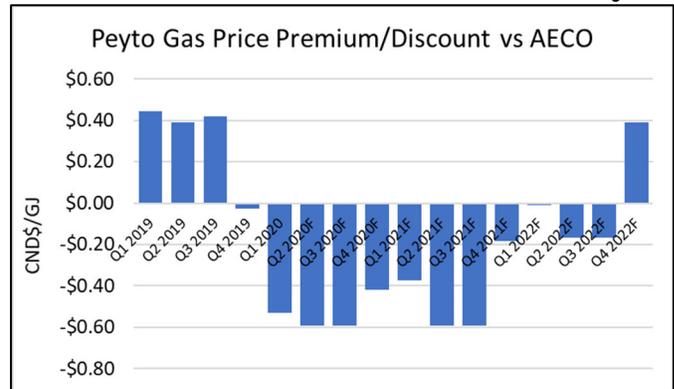
Figure 4



Source: Peyto

Figure 4 illustrates the volumes we have directed to other markets in North America. For 2020 and 2021, we have less than 20% of our gas sales exposed to the vagaries of the AECO market. As I mentioned, as we move past the effects of the AECO disconnection, our future realized natural gas price will improve. Under current strip pricing and our schedule of contracts, our cost to "get away from AECO" drop away in the fall of 2021 (Figure 5). Our diversification efforts will, however, continue to be a focus for our gas marketers in the future. Our goal will be to ensure our gas sales are only exposed to fair, transparent, well regulated and liquid markets.

Figure 5



Source: Peyto

## Activity Levels and Commodity Prices

An interesting report from the [Manhattan Institute](#) investigated the "real" cost of green energy systems. When compared to natural gas fired power, the material requirements, and the hidden cost of those materials in dollars and environmental impact, far out strip the cleanest of the hydrocarbon fuels.

*"The materials extracted from the earth to fabricate wind turbines, solar panels and batteries (to store grid electricity or power electric vehicles) are out of sight, located at remote quarries, mine sites and mineral-processing facilities around the world....All forms of green energy require roughly comparable quantities of materials in order to build machines that capture nature's flows: sun, wind, and water. Wind farms come close to matching hydro dams in material consumption, and solar farms outstrip both. In all three cases, the largest share of the tonnage is found in conventional materials like concrete, steel, and glass. Compared with a natural gas power plant, all three require at least 10 times as many total tons mined, moved and converted into machines to deliver the same quantity of energy (Figure 1)."*

Just another reason natural gas is a very competitive fuel for the future.

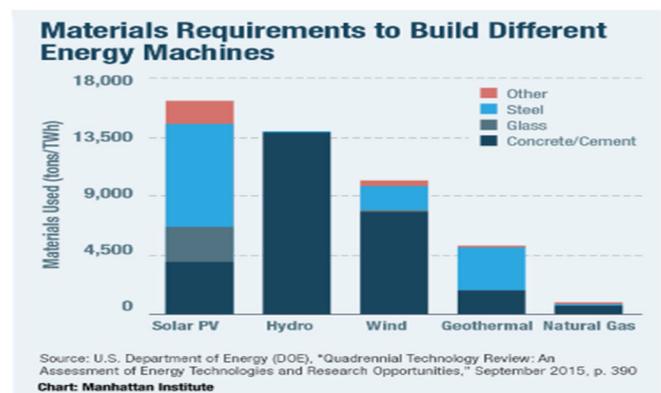


Figure 1

# Peyto Exploration & Development Corp.

## President's Monthly Report

August 2020

From the desk of Darren Gee, President & CEO

### 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.