

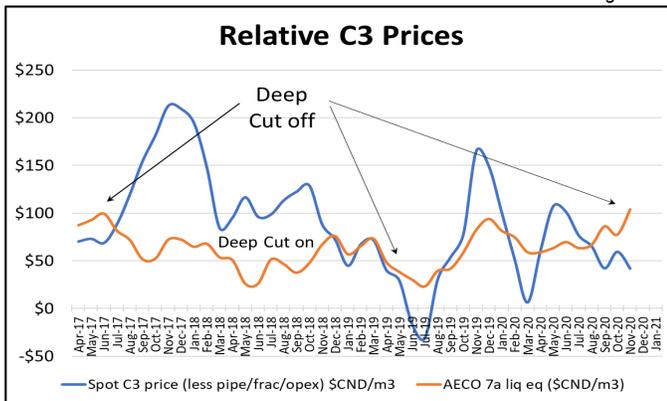
Peyto Exploration & Development Corp. President's Monthly Report

December 2020

From the desk of Darren Gee, President & CEO

While natural gas prices had strengthened going into this winter (despite their most recent pullback), propane prices have continued to weaken. As a result, we shut in our Deep Cut facility at Oldman in November to leave the propane in the gas stream. This results in higher heat content for our gas (which we get paid for) but less total production (about 750 boe/d). So even though November volumes are lower, our revenues are higher than they would be if we extracted and sold the propane in liquid form. We've now perfected our ability to quickly respond to changes in the relative gas to propane price relationship, so we can flip the deep cut on and off as price dictates (Figure 1).

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	Q1 20	Q2 20	Jul	Aug	Sep	Q3 20	Oct
Acq/Disp	-2	1	0	0	0	1	0	0	2	0	0	2	1
Land & Seismic	8	3	2	1	2	7	4	1	0	0	0	1	0
Drilling	116	24	11	14	36	86	28	20	11	8	9	28	13
Completions	72	20	14	10	21	65	19	9	6	9	5	20	7
Tie ins	21	10	3	3	9	26	7	3	1	2	3	6	2
Facilities	18	4	5	8	5	21	10	4	3	1	1	5	1
Total	232	62	34	37	73	206	69	37	23	20	18	62	23

Production ('000 boe/d)*

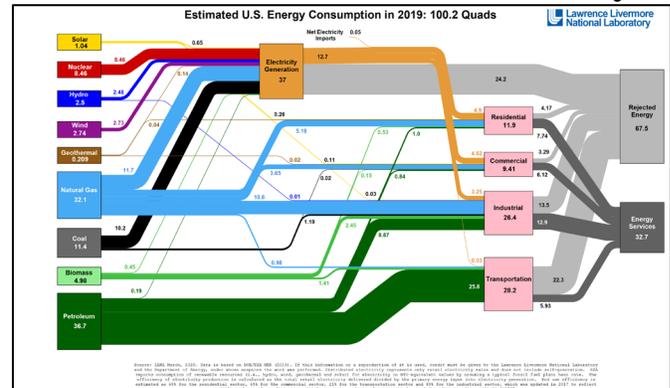
	2018	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Jul	Aug	Sept	Q3 20	Oct	Nov
Sundance	51	50	49	47	48	49	49	47	45	45	49	47	49	49
Ansell	18	18	15	14	14	15	14	14	13	13	13	13	15	15
Brazeau	19	15	13	12	11	13	12	14	14	16	16	15	16	16
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	3	2	2	3	2	2	2	1	2	1	1	1	1
Total	92	88	82	77	78	81	79	78	76	78	81	78	83	83
Liquids %	10%	12%	14%	14%	15%	14%	15%	14%	15%	15%	14%	14%	14%	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.

The Electrification of our Energy Complex

A recent graphic in the NBF morning note caught my eye. It was a depiction of the various related sources of US energy, how much of each is being consumed and, surprisingly, how much is being wasted, either in the production, delivery or consumption of that energy (Figure 2).

Figure 2



<https://flowcharts.llnl.gov/>

It's a fascinating slide and should be part of every child's curriculum in my opinion, both in the US and Canada. Not only does it give you a healthy respect for the variety of sources of our energy complex, but it also stresses the concept of energy efficiency, particularly when it comes to different types of energy.

Take electricity, for example. The US generates electricity from many different sources; natural gas, coal, nuclear, wind, hydro, solar, biomass, oil, and geothermal (listed in relative order). And out of all that, only 34% actually gets used. A full 66% of it is wasted in the manufacture, delivery and consumption of all that electricity to end users. That's not very efficient nor environmentally friendly, particularly since 28% of that electricity is generated by coal. Even if it is generated by renewable sources like hydro or wind, just think, we have to build 3 times as many dams or windmills just to get the 1 unit of electrical energy. And that's before considering the energy that's consumed in the manufacture of those dams and wind turbines.

You can also see why oil is so important to society. It really is **the** transportation fuel. And if we want to replace all that oil with a different form of energy, like electricity, it is going to be a massive job. A virtual doubling of the existing electrical production and distribution system.

Today, electric transportation is almost insignificant (0.03/28.2) and depending on the fuel source of that electricity, may not be better for the environment than oil. It really comes down to how your local electricity is generated. Take Alberta for example. If we looked at the sources for electricity in Alberta, we'd find that

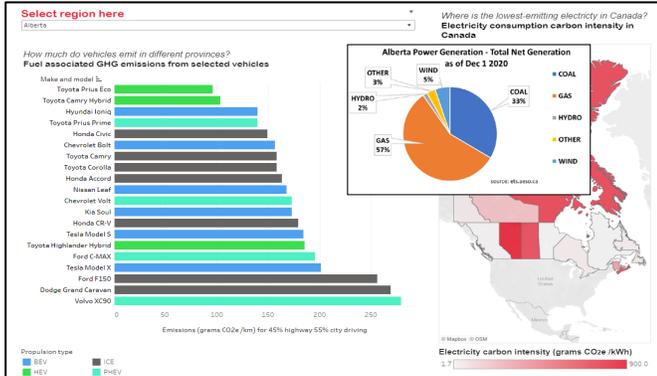
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a significant portion is still derived from coal. So when you compare the emissions from an electric vehicle where a portion of the electricity is generated from coal versus the emissions from a vehicle burning gasoline derived from oil, there actually isn't much difference. The Government of Canada provides an interesting [webpage](#) that does that comparison by province (Figure 3).

Figure 3

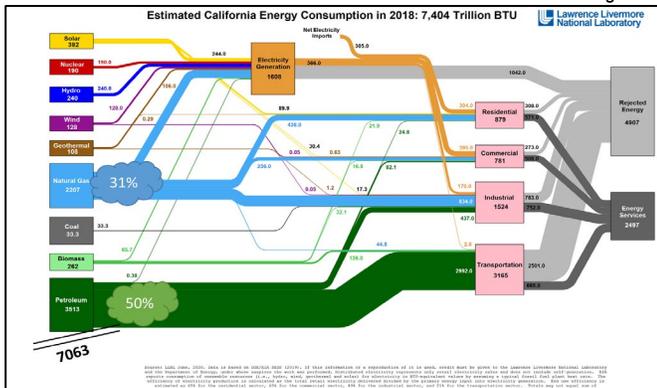


Source: Canadian Energy Regulator

For instance in Alberta, a Honda CR-V using an internal combustion engine (ICE) powered by gasoline emits 180 grams of GHGs per kilometer driven which is virtually the same as a Kia Soul using a battery electric vehicle (BEV) engine which emits 173 grams of GHGs per km. Meanwhile, a gas powered Ford F150 pickup (Canada's most popular vehicle by a long way) emits 256 gm CO2e/km while a Tesla Model X emits 201 gm CO2e/km. Not much savings for an all electric vehicle that costs twice as much to manufacture.

Going back to the [energy flow charts](#) and looking at the individual US states is an interesting exercise too. While the data is a bit dated (2018 is most recent year for state by state comparisons), a state like California is particularly interesting. Especially when you read about their aggressive move to ban natural gas use and gasoline powered vehicle sales.

Figure 4



Source: Lawrence Livermore National Laboratory

In 2018, California got roughly 80% of their total energy from those two sources; oil and natural gas. So to somehow rapidly replace those two energy sources with other forms, whether they be solar, wind or whatever, seems like a unrealistic and very expensive endeavor. The added strain on an already overloaded electricity grid just adds to the difficulty.

I would suggest that if California is serious about improving their energy efficiency and environmental impact, as everyone is, perhaps just setting higher fuel efficiency standards for ICE vehicles would be a better place to start (smaller, lightweight vehicles, for instance). Or maybe more Compressed Natural Gas (CNG) vehicles would also help (shameless Peyto plug)? Either way solutions that involve improved efficiency sound a lot easier than wholesale energy supply changes.

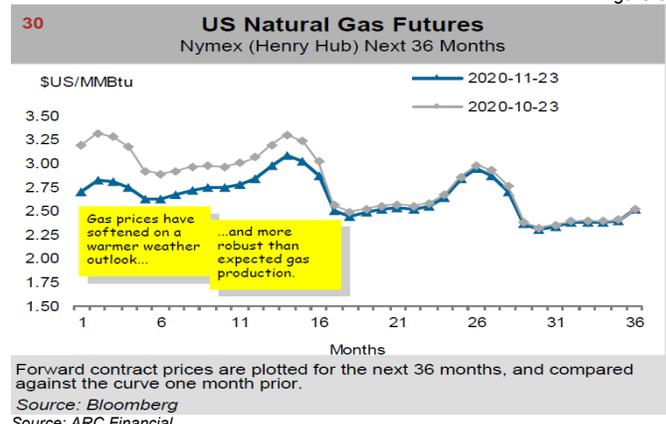
Activity Levels and Commodity Prices

Yo Winter, where are you? That is the cry from the gas bulls across this continent right now. The La Nina winter prediction, so far, has yet to start and gas traders are getting twitchy (which they always do around the US Thanksgiving holiday). Looking back at the last several La Nina winters (La Nina being the cold opposite to El Nino's warm winter) it is usually December and January that gives us the extra heating degree days (HDD). So, I suppose we'll just have to be patient.

AVG HDD's	39.6	49.1	50.1	48.0	39.6
La Nina	Nov	Dec	Jan	Feb	Mar
88-89			45.8	58.0	48.4
95-96	45.1	56.5	65.8	47.9	45.3
98-99	41.2	51.9	53.3	42.2	39.0
07-08	39.0	53.1	54.1	48.2	36.2
10-11	43.7	54.5	53.5	54.1	48.3
13-14 P.V.	43.8	55.1	43.0	59.5	47.2

The futures strip has already begun to predict the cold winter may not happen, which combined with a COVID vaccine, rising oil demand/price and additional associated gas production, has wiped out \$US0.50/MMBTU of the near term enthusiasm in gas prices (figure 6).

Figure 6



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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.