

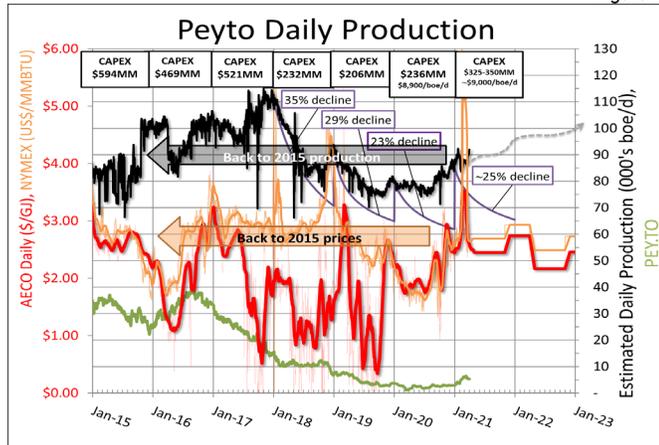
Peyto Exploration & Development Corp. President's Monthly Report

April 2021

From the desk of Darren Gee, President & CEO

Spring break-up is almost upon us and that means rig activity will begin to drop off as the ground thaws and road bans prevent movement of heavy equipment. Already in March we've been slowed by some road bans. Most of the industry will shut everything down, but at Peyto we plan to run at least 2 drilling rigs steady through the spring thaw. The advantage of stacked formations and horizontal wells is you don't have to move much equipment on soft roads, just skid the rig over a few meters and drill another well at the same surface. Completions are another story, however, and those will have to wait. As you can tell from the surges of new production over the last while, more and more of Peyto's new production comes in waves as new multi-well pads are brought on production all at once, as opposed to the old days when it was one well at a time.

Figure 1



Source: Peyto, EIA, GasAlberta, TMX

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	Q3 20	Q4 20	2020	Jan	Feb
Acq/Disp	-2	1	0	0	0	1	0	0	2	1	3	35	0
Land & Seismic	8	3	2	1	2	7	4	1	1	2	8	0	0
Drilling	116	24	11	14	36	86	28	20	28	29	105	9	10
Completions	72	20	14	10	21	65	19	9	20	22	70	3	5
Tie ins	21	10	3	3	9	26	7	3	6	7	23	1	1
Facilities	18	4	5	8	5	21	10	4	5	7	26	8	4
Total	232	62	34	37	73	206	69	37	62	68	236	55	21

Production ('000 boe/d)*

	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Jan	Feb	Mar	Q1 21
Sundance	50	49	47	48	49	49	47	47	49	48	49	48	48	48
Ansell	18	15	14	14	15	14	14	13	16	14	18	17	16	17
Brazeau	15	13	12	11	13	12	14	15	16	14	17	17	18	17
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	2	2	3	2	2	2	1	1	2	4	4	5	4
Total	88	82	77	78	81	79	78	78	84	80	89	87	89	88
Liquids %	12%	14%	14%	15%	14%	15%	14%	14%	13%	14%	14%	14%	14%	14%

*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.

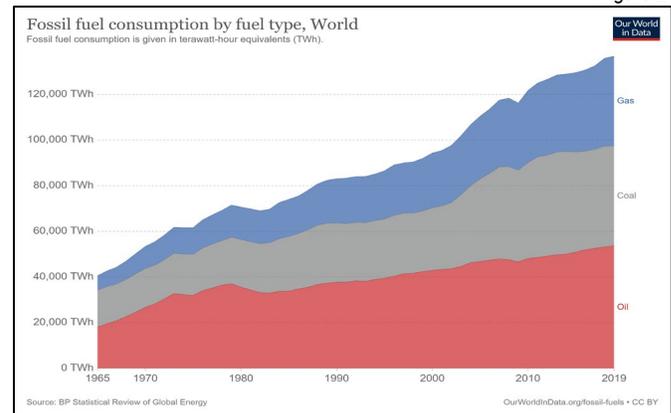
Defunding Fossil Fuels Does Nothing

I recently read an [article by the CBC](#) accusing Canadian banks of funding the fossil fuel industry and thereby being a co-conspirator to climate change. I found the whole idea that it is fossil fuel producers that are the ones responsible for climate change, and that without the banks financing the industry they wouldn't be capable, to be totally absurd. And it's not absurd because I have a large, vested interest in the fossil fuel industry, I fully admit I do. It's absurd because of this inane concept that without fossil fuel companies there wouldn't be fossil fuel consumption. I'm sorry, but that is just not the way it works. The reason there are fossil fuel producers is because there are fossil fuel consumers. *Not the other way around.* There is an ancient saying:

"who'd kill and sell, I pray, if none came there the flesh to buy"
- The Kural (500 AD)

It means "if people do not consume a product or service, then there will not be anybody to supply that product or service." The economic theory is that demand comes first. Consumption is the cause of production, not the other way around. "If you build it, they will come" works fine in a Kevin Costner Hollywood dreamworld, but in the real world, it's the freedom of choice that drives demand. And it's demand that drives supply. The best way to get rid of fossil fuel producers is for consumers to stop buying it. But that is clearly not happening (figure 2) because consumers know that fossil fuels improve their quality of life.

Figure 2



So, to suggest that by stopping the banks from lending to fossil fuel producers, it will stop fossil fuel consumption and end climate change, is, frankly, just preposterous.

For one thing, fossil fuel producers don't need the banks. Sure, just like in any other industry, leverage has been used to enhance returns and accelerate growth. But that doesn't mean the industry wouldn't be capable of existing if it had to fund itself. Case in point is the current strategies of so many of North

Peyto Exploration & Development Corp.

President's Monthly Report

April 2021

From the desk of Darren Gee, President & CEO

America's oil and gas producers. Much of the industry today is "living within its means" and replacing its declining production with its own cashflow. Peyto is a good example. We are even growing our production this year using less than our cashflow. Which means we are paying down debt, not looking for additional funding. And at current commodity prices, we could continue to do that for several years, thereby eliminating our debt and eliminating our need for funding from the banks altogether.

Let us run through that math. If we assume a \$US55/bbl WTI oil price and \$2.20/GJ AECO price, we can achieve a \$2.23/Mcfe (\$13.40/boe) cash netback using current cash costs of around \$1.00/Mcfe. That means that ~100,000 boe/d (2022 onwards) could generate around \$490 million per year in funds from operations.

Figure 3

	PEY 2018	PEY 2019	PEY 2020	Future Goals
Revenue \$/mcf	\$3.27	\$2.78	\$2.23	\$3.23
Cash Costs \$/mcf	(\$0.92)	(\$0.95)	(\$1.01)	(\$1.00)
Capital Costs (PDP FOS&A) \$/mcf	(\$1.18)	(\$1.55)	(\$1.06)	(\$1.00)
Total Supply Cost \$/mcf	\$2.10	\$2.50	\$2.07	\$2.00
Full Cycle Netback \$/mcf	\$1.17	\$0.28	\$0.16	\$1.23
Dividend \$/mcf	\$0.59	\$0.22	\$0.08	

86% Gas @\$2.20/GJ*1.15 heat content
14% NGLs@\$45/bbl=(65%of \$70 CND WTI)
\$3.23/Mcfe

FFO Netback
\$2.23 / Mcfe
\$13.40 / boe

Peyto can generate a 38% profit from \$2.20 AECO gas and ~\$55 USWTI oil, all because of low supply cost

36% 10% 7% 38%

\$1.32/yr \$0.72/yr \$0.09/yr

Net Factor = + mcf = 1 ton of oil equivalent

Source: Peyto

If we assume a constant cost to replace the declining production of around \$9,000-\$10,000/boe/d (last year was \$8,900/boe/d), it would take the following schedule of capital to hold at 100,000 boe/d, yielding free cashflow as indicated in Figure 5. Our ~\$1.0 billion of debt could be completely gone in less than 5 years.

Figure 5

	2022	2023	2024	2025	2026
Production boe/d	101,000	101,000	101,000	101,000	100,000
Base Decline %	27%	26%	25%	23%	22%
Replacement boe/d	29,444	26,000	25,000	23,000	21,000
Cost of replacement \$/boe/d	\$ 9,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Capital Investment \$	\$ 265,000,000	\$ 260,000,000	\$ 250,000,000	\$ 230,000,000	\$ 210,000,000
Cash Netback \$	\$ 13.40	\$ 13.40	\$ 13.40	\$ 13.40	\$ 13.40
FFO \$	\$ 494,000,000	\$ 494,000,000	\$ 494,000,000	\$ 494,000,000	\$ 489,100,000
Free Cashflow \$	\$ 229,000,000	\$ 234,000,000	\$ 244,000,000	\$ 264,000,000	\$ 279,100,000
Debt reduction \$	\$ 229,000,000	\$ 463,000,000	\$ 707,000,000	\$ 971,000,000	\$ 1,250,100,000

Source: Peyto

So, what would this really accomplish other than eliminate our ability to generate "leveraged returns"? It might be bye-bye bankers, but it is not goodbye fossil fuels because I am still

choosing to drive my car and heat my home and charge my iPhone, just like everyone else. All we have achieved is to deprive the bankers of making some interest by lending us some capital.

And last I checked, that is what bankers do, lend money, according to a couple golden rules of banking:

1. Get return **of** your Capital.
2. Get return **on** your Capital.

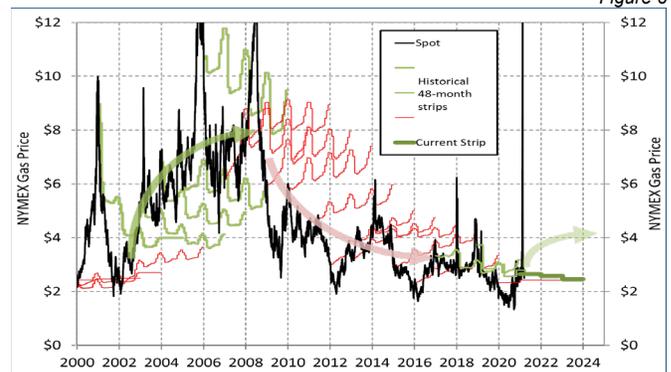
(And never let the pursuit of rule #2, make you forget rule #1).

In a free society, there is no rule #3 where a vocal minority gets to decide who bankers lend their money to. Nor should there be.

Activity Levels and Commodity Prices

I have shown this graph in the past (courtesy of RBC, btw) and I always find it interesting. It illustrates over the past 20 years the spot NYMEX natural gas price, and at the start of every year, the 4-year future strip. When the futures price is rising (red lines), it is deemed to be in Contango, and when falling (green lines), Backwardation. But what is interesting to me is the cause and effect. A forward curve in Contango drives a falling spot price (and a curve in Backwardation drives a rising spot price). Which makes sense. Who wants to forward hedge and grow production into a falling price? Nobody. So, producers stop drilling, the market is undersupplied, and the spot price rises. Same goes the other way. You grow production into a rising price and as a result supply exceeds demand and spot price falls. Right now, we have Backwardation in the forward curve, so I would predict a rising spot price.

Figure 6



Source: RBC

If the forward curve moves into Contango, I expect to see producers begin to hedge that better futures price and also begin to increase production. We, and others, look forward to that time.

Peyto Exploration & Development Corp.

President's Monthly Report

April 2021

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.