# NEWS RELEASE

**FEBRUARY 17, 2021** **SYMBOL: PEY - TSX**

## PEYTO REPORTS YEAR END RESERVES, STRATEGIC ACQUISITIONS AND 48% INCREASE IN CAPITAL BUDGET

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present the results and in-depth analysis of its independent reserve report effective December 31, 2020. The evaluation encompassed 100% of Peyto's reserves and was conducted by InSite Petroleum Consultants ("InSite"). The year 2020 marks the Company's 22nd year of successful reserves development.

### 2020 HIGHLIGHTS

- For the year ended December 31, 2020, Peyto invested $235.7 million of total capital[1] to build approximately 137 mmcf/d of natural gas and 3,700 bbl/d of NGLs (53% pentanes and condensate) at a cost of $8,900/boe/d, which was the lowest cost in Company history.
- Peyto developed 222 BCFe (37 mmboes) of new Proved Developed Producing ("PDP") reserves at a Finding, Development and Acquisition ("FD&A") cost of $1.06/Mcfe ($6.36/boe) while the average field netback[1] was $1.59/Mcfe ($9.56/boe), resulting in a 1.5 times recycle ratio[2]. The PDP FD&A cost was the lowest in 18 years and is reflective of a continuous decrease in drilling time, combined with higher reserve recoveries from longer horizontal laterals and more intensive fracture treatments.
- Peyto replaced 127%, 132% and 167% of annual production with new PDP, Total Proved ("TP"), and Proved plus Probable Additional ("P+P") reserves. FD&A costs, including the change in Future Development Capital ("FDC"), for TP and P+P were $0.20/Mcfe ($1.19/boe) and -$0.01/Mcfe (-$0.08/boe), which reflects a reduction of FDC (combined with increased reserve recoveries) for future drilling locations of $190 million and $239 million for the respective categories. For comparative purposes, FD&A costs before reductions in FDC were $1.02/Mcfe and $0.81/Mcfe, respectively.
- Total Company reserve volumes for PDP, TP and P+P were up 3%, 2%, and 2%, respectively, both in absolute terms and on a per share basis. Liquid reserves increased by 5% in the PDP category, were down 2% in the TP category and unchanged in the P+P category.
- The Reserve Life Index ("RLI") for the PDP, TP and P+P reserves fell slightly to 9.0, 17.6 and 27.4 years, respectively, mostly due to an 8% increase in fourth quarter production used to determine RLI. By comparison, Peyto's PDP reserve life is one of the longest in the North American industry.
- At year end, P+P reserves of 834 mmboes (4.269 TCF of gas, 65 mmbbls of pentanes and condensate, 26 mmbbls butane, and 32 mmbbls propane, and inclusive of 1,230 future locations) had been assigned to just 11% of Peyto's total Deep Basin rights.

[1]*Capital Expenditures, Field Netback (Revenue less Royalties, Operating costs, and Transportation), Net Debt and Production are estimated and remain unaudited at this time.*
[2]*Recycle Ratio is Field Netback divided by FD&A.*

### STRATEGIC ACQUISITIONS

- The Company made two acquisitions effective January 1, 2021, both directly adjacent to and contiguous with Peyto's Greater Sundance core area, and both with infrastructure footprints that can be interconnected with Peyto's gathering system and plant network. Neither acquisition was included in the December 31, 2020 reserve report.
- The combined acquisition cost was $35 million and included 114 gross (106 net) producing wells with stable, ultra-low decline (less than 5%/yr) production of approximately 2,900 boe/d (95% gas). Also included are 54 gross sections of land (81% interest), in which the Company has internally identified over 100 future drilling prospects. The properties contain a combined 11.5 net inactive wells reflecting a low liability content and carrying an attractive Alberta LMR above 3.

- Included in the infrastructure is over 115 km of gathering system and a 30 MMcf/d, 100% working interest, gas plant (compression and refrigeration) with approximately 50% excess capacity.
- The acquisitions were funded from free cashflow and 2021 plans include filling the excess plant capacity with production from development drilling over the course of this year. Additional wells drilled on the new lands beyond 2021 will be processed in existing spare capacity in Peyto's Greater Sundance plant complex via the interconnected gathering system.
- In addition to exploiting the undeveloped potential, Peyto expects to realize significant operational synergies in the form of improved production and reduced operating costs by integrating the acquired properties with existing Peyto wells and operations in the adjacent area.

**2021 CAPTIAL BUDGET**

- The Board of Directors of Peyto has approved a 2021 capital budget, inclusive of acquisitions, of $325-$350 million which, at the high end, is 48% greater than the $236 million invested in 2020.
- The budget is expected to be funded entirely from free cashflow and is projected to add 36,000-38,000 boe/d of new production by year end, based on current onstream metrics of approximately $9,000/boe/d. This volume addition would more than offset the forecast annual 25% base decline on the 2020 exit production of 86,000 boe/d.
- January 2021 production averaged approximately 89,000 boe/d inclusive of the recent acquisitions, up 13% over January 2020.

## 2020 RESERVES REPORT AND ANALYSIS

**SUSTAINABILITY**

- **Long Life, Low Decline Production:** Peyto's base production decline is forecast in the Insite report at 25% for 2021, while its PDP RLI is 9 years, based on Q4 2020 production of 83,500 boe/d, which is one of the longest PDP RLIs in the industry.
- **Low Production/Reserves Replacement Cost:** The Company invested 111% of funds from operations in 2020 to replace over 127% of produced reserves in the year. Capital efficiency for 2020 was the lowest in Company history at $8,900/boe/d while PDP FD&A was lowest in 18 years at $1.06/Mcfe.
- **Low Risk Reserves:** At year end, Peyto had 1,637 gross (1,442 net) producing wells that are forecast to remain on production for decades to come. The lack of mobile water in the low permeability, Deep Basin reservoirs combined with Peyto's low-cost operations and efficient processing facilities results in very long producing lives for the existing proven producing wells which are exempt from the vulnerabilities of high cost midstream processing.
- **Minimal Liabilities:** The forecast cost of Peyto's future abandonment and reclamation liability (all wells, sites, & facilities) is $44 million ($NPV_5$), which represents 1% of the total $3.27 billion of forecast future value of the developed reserves[1] ($NPV_5$), illustrating Peyto's disciplined, organic approach to finding and developing natural gas that has delivered one of the highest ratios of producing to non-producing wells in the industry.
- **Strong ESG Performance:** Methane (particularly flared and vented) emissions were reduced again in 2020, now down 40% since 2016. With approximately half of the emissions intensity (emissions per unit of production) of the rest of the natural gas production and processing industry in Canada, Peyto's reserves are extracted with far less environmental impact*. When paired with high efficiency, low emissions electricity generation like the Cascade Power Plant (expected online in 2023), Peyto will be providing Albertans and Canadians with some of the cleanest, most affordable, and most reliable energy supplies possible for their daily needs.

**Refer to Peyto's 2020 Sustainability Report at http://www.peyto.com/Files/Corporate/2020SustainabilityReport.pdf*

## HISTORICAL PERFORMANCE

- Over the past 22 years, Peyto has explored for and discovered 7.0 TCFe of Alberta Deep Basin natural gas and associated liquids, of which 57% has now been developed[1]. This is enough natural gas to heat all the homes in Canada for over 5 years.

| | |
|---|---|
| Peyto 22-year cumulative production (to Dec. 31/20): | 2.035 TCFe |
| Total Proved + Probable Additional Developed reserves: | 1.979 TCFe |
| Total developed natural gas and liquids: | 4.014 TCFe |
| Total Proved + Probable Additional Undeveloped reserves: | 3.027 TCFe |
| Total explored for and discovered: | 7.041 TCFe |

  Each year the Company invests in the discovery of new reserves and the efficient and profitable development of existing reserves into high netback natural gas and NGL production for the purpose of generating the maximum possible return on capital for its shareholders as well as financial benefits for all Canadians.

- In those 22 years, a total of $6.4 billion was invested in the Canadian economy in the acquisition and development of 4.0 TCFe of total developed natural gas and associated liquids at an average cost of $1.60/Mcfe, while a weighted average field netback[3] of $3.49/Mcfe delivered $6.5 billion in FFO and resulted in a cumulative recycle ratio[2] of 2.2 times. Royalty payments made to Alberta during this time period have totaled over $890 million.
- Based on the December 31, 2020 evaluation, the debt adjusted, Net Present Value of the Company's remaining Proved plus Probable Additional reserves ("P+P NPV", 5% discount, less debt) was $35/share, comprised of $16/share of developed reserves and $19/share of undeveloped reserves. This includes a provision for all abandonment liability for wells, sites and facilities for which Peyto has ownership and responsibility.

*[1]Total Proved + Probable Additional Developed Reserves includes Proved Developed Producing+Probable Additional reserves and Proved Developed Non-Producing+Probable Additional reserves.*

The following table summarizes Peyto's reserves and the discounted Net Present Value of future cash flows, before income tax, using variable pricing, at December 31, 2020.

| | | | | | Before Tax Net Present Value ($millions) Discounted at | | | |
|---|---|---|---|---|---|---|---|---|
| **Reserve Category** | **Gas (BCF)** | **Oil & NGL (mstb)** | **BCFe (6:1)** | **mmboe (6:1)** | **0%** | **5%** | **8%** | **10%** |
| Proved Developed Producing | 1,402 | 40,842 | 1,647 | 275 | 4,309 | 2,778 | 2,264 | 2,015 |
| Proved Non-producing | 24 | 693 | 28 | 5 | 51 | 37 | 31 | 27 |
| Proved Undeveloped | 1,297 | 41,093 | 1,544 | 257 | 3,888 | 2,042 | 1,448 | 1,166 |
| Total Proved | 2,723 | 82,627 | 3,219 | 537 | 8,248 | 4,857 | 3,743 | 3,208 |
| Probable Additional | 1,546 | 40,215 | 1,787 | 298 | 4,666 | 2,135 | 1,449 | 1,148 |
| Proved + Probable Additional | 4,269 | 122,843 | 5,006 | 834 | 12,914 | 6,992 | 5,192 | 4,356 |

*Note: Based on the InSite report effective December 31, 2020. Tables may not add due to rounding.*

## ANALYSIS FOR PEYTO SHAREHOLDERS

One of the guiding principles at Peyto is "to tell you the business facts that we would want to know if our positions were reversed". Therefore, each year Peyto provides an extensive analysis of the independent reserve evaluation that goes far beyond industry norms in order to answer the most important questions for shareholders:

1. Base Reserves - How did the "base reserves" that were on production at the time of the last reserve report perform during the year, and how did any change in commodity price forecast affect their value?
2. Value Creation - How much value did the 2020 capital investments create, both in current producing reserves and in undeveloped potential? Has the Peyto team earned the right to continue investing shareholders' capital?
3. Growth and Income - Are the projected cash flows capable of funding the growing number of undeveloped opportunities and a sustainable dividend stream to shareholders, without sacrificing Peyto's financial flexibility?
4. Risk Assessment – What are the risks associated with the assessment of Peyto's reserves and the risk of recovering future cashflows from the forecast production streams?

## 1. Base Reserves

Peyto's existing Proved Producing reserves at the start of 2020 (the base reserves) were evaluated and adjusted for 2020 production as well as any technical or economic revisions resulting from the additional twelve months of production and commodity price data. As part of InSite's independent engineering analysis, all 1,526 producing reserve entities (zones/wells) were evaluated. These base producing wells and zones represent a total gross Estimated Ultimate Recoverable (EUR) volume of 4.0 TCFe (remaining PDP+PA reserves plus all cumulative production to date), which is up 2% from the prior year estimate. As a result, Peyto is pleased to report that its total base reserves continue to meet expectation, which provides confidence in the prediction of future recoveries.

The commodity price forecast used by the independent engineers in this year's evaluation is slightly lower for natural gas and significantly lower for oil and NGLs than last year which has had the effect of reducing the Net Present Value of all reserve categories. For example, the debt adjusted NPV, discounted at 5%, of last year's Proved Developed Producing reserves, decreased $317 million, or -20%, due to the difference in commodity price forecasts and Peyto's realized historical offsets to posted prices. InSite's price forecast used in the variable dollar economics is available on their website at www.insitepc.com. Their forecast indicates falling AECO prices for the next two years, followed thereafter by rising gas prices, while all liquid product prices are forecast to rise into the future. Of note, the Insite price forecast is within 1%, on a discounted basis, of the 3-consultant average (GLJ, McDaniel, Sproule).

For 2021, InSite is forecasting the total base production (all wells on production at Dec. 31, 2020) to decline to approximately 64,500 boe/d (335 MMcf/d of gas and 8,600 bbl/d of NGLs) by December 2021. This decline implies a total base decline rate of approximately 25% from December 2020. The 2021 forecast decline rate is slightly higher than the 2020 actual base decline of 23% due to the larger proportion of new production added in 2020. The historical base decline rates and capital programs are shown in the following table:

| | 2009 | 2010[1] | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | **2021F** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Base Decline (%/yr)* | 20% | 22% | 33% | 35% | 34% | 38% | 40% | 40% | 37% | 35% | 29% | 23% | **25%** |
| Capital Expenditures ($MM) | $73 | $261 | $379 | $618 | $578 | $690 | $594 | $469 | $521 | $232 | $206 | $236 | **$325** |

**The base decline represents the aggregate annual decline of all wells on production at the end of the previous year.*
*1. Horizontal drilling began in late 2009.*

## 2. Value Creation/Reconciliation

During 2020, Peyto invested a total of $236 million in organic activity to evaluate exploration lands, expand its pipeline gathering network, and drill 64 gross (61 net) wells. In keeping with Peyto's strategy of maximizing shareholder returns, an evaluation of the economic outcome of this investment activity is necessary to determine,

on a go-forward basis, the best use of shareholders' capital. Not only does this look back analysis give shareholders a detailed report card on the capital that was invested, it also helps illustrate the potential returns that can be generated from similar future undeveloped opportunities.

**Exploration and Development Activity**

Of the total capital invested in exploration and development activities in 2020, approximately 5% was spent acquiring lands and seismic, 11% on pipeline and facility projects, and the remaining 84% was spent drilling, completing, and connecting existing and new reserves. Fifty-two of the 64 gross wells drilled, or 81%, were previously identified as undeveloped reserves in last year's reserve report (45 Proved, 7 Probable Additional). The remaining 12 wells were locations developed in the year and were not recognized in last year's report.

The undeveloped reserves at year end 2019 originally booked to the 52 locations referred to above, totaled 172 BCFe (3.3 BCFe/well) of Proved Undeveloped plus Probable Additional reserves for a forecast capital investment of $158 million ($0.92/Mcfe). In actuality, $135 million of capital ($0.82/Mcfe) was spent on these 52 wells during 2020, yielding Proved Developed Producing plus Probable Additional reserves of 165 BCFe (3.2 BCFe/well).

The following table illustrates the Company's historical performance in converting future undeveloped locations into producing wells and demonstrates that Peyto has consistently converted more reserves at lower cost than was forecast.

| Reserve Year | Total Drills | Booked Locations Converted | Booked/ Total | Forecast Outcome | | **Forecast Cost per Unit** | Actual Outcome | | **Actual Cost per Unit** | Actual/ Forecast Cost per Unit |
|---|---|---|---|---|---|---|---|---|---|---|
| | gross wells | gross wells | | BCFe | Capex* $MM | **$/Mcfe** | BCFe | Capex* $MM | **$/Mcfe** | |
| 2010 | 48 | 30 | 63% | 84 | $123 | **$1.46** | 102 | $138 | **$1.35** | -8% |
| 2011 | 70 | 51 | 73% | 152 | $214 | **$1.41** | 151 | $209 | **$1.38** | -2% |
| 2012 | 86 | 60 | 70% | 189 | $295 | **$1.56** | 196 | $278 | **$1.42** | -9% |
| 2013 | 99 | 69 | 70% | 206 | $332 | **$1.61** | 218 | $310 | **$1.42** | -12% |
| 2014 | 123 | 90 | 73% | 278 | $417 | **$1.50** | 288 | $419 | **$1.45** | -3% |
| 2015 | 140 | 103 | 74% | 307 | $456 | **$1.49** | 348 | $385 | **$1.11** | -26% |
| 2016 | 128 | 82 | 64% | 254 | $297 | **$1.17** | 254 | $246 | **$0.97** | -17% |
| 2017 | 142 | 97 | 68% | 298 | $295 | **$0.99** | 321 | $305 | **$0.95** | -4% |
| 2018 | 70 | 37 | 53% | 104 | $115 | **$1.10** | 120 | $118 | **$0.98** | -11% |
| 2019 | 61 | 39 | 64% | 129 | $111 | **$0.86** | 123 | $109 | **$0.88** | +2% |
| **2020** | **64** | **52** | **81%** | **172** | **$158** | **$0.92** | **165** | **$135** | **$0.82** | **-11%** |
| **Total** | **1,031** | **710** | **69%** | **2,173** | **$2,813** | **$1.29** | **2,286** | **$2,652** | **$1.16** | **-10%** |

**Capex represents only well related capital for drilling, completion, equipping and tie-in*

This annual analysis of reserves that are converted from undeveloped to developed helps to validate the accuracy of the remaining future undeveloped reserves and the associated capital requirements. This accuracy, by which Peyto can predict future reserve recoveries and capital requirements, also helps to reduce the risk associated with valuing future undeveloped locations.

**Value Reconciliation**

In order to measure the success of all capital invested in 2020, it is necessary to quantify the total amount of value added during the year and compare that to the total amount of capital invested. At Peyto's request, the independent engineers have run last year's reserve evaluation with this year's price forecast to remove the change in value attributable to commodity prices. This approach isolates the value created by the Peyto team from the value created

(or lost) by those changes outside of their control (ie. commodity prices). Since the capital investments can be funded from a combination of cash flow, debt and equity, it is necessary to know the change in debt and the change in shares outstanding to see if the change in value is truly accretive to shareholders.

At year-end 2020, Peyto's estimated net debt had increased by 2.6% or $30 million to $1.176 billion while the number of shares outstanding remained effectively the same at 164.9 million shares. The change in debt includes all capital expenditures, and the total fixed and performance-based compensation paid out for the year. Although these estimates are believed to be accurate, they remain unaudited at this time and may be subject to change.

Based on this reconciliation of changes in BT NPV, the Peyto team was able to create $829 million of Proved Developed Producing, $1.623 billion of Total Proven, and $1.532 billion of Proved plus Probable Additional undiscounted reserve value, with $236 million of capital investment, cost reductions, and marketing arrangements. The ratio of capital expenditures to value creation is what Peyto refers to as the NPV recycle ratio, which is simply the undiscounted value addition, resulting from the capital program, divided by the capital investment. For 2020, the Proved Developed Producing NPV recycle ratio is 3.5 which means for each dollar invested, the Peyto team was able to create 3.5 new dollars of Proved Developed Producing reserve value.

The historic NPV recycle ratios are presented in the following table.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | **2020** | **10 yr Wt. Avg.** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Capital Investment ($MM)** | $379 | $618 | $578 | $690 | $594 | $469 | $521 | $232 | $206 | $236 | |
| **$NPV_0$ Recycle Ratio** | | | | | | | | | | | |
| Proved Developed Producing | 2.4 | 1.6 | 1.5 | 1.5 | 2.3 | 2.9 | 2.3 | 4.6 | 1.8 | **3.5** | **2.2** |
| Total Proved | 4.7 | 2.2 | 2.0 | 1.7 | 3.3 | 4.2 | 3.2 | 11.7 | 5.5 | **6.9** | **3.7** |
| Proved + Probable Additional | 6.6 | 3.2 | 4.0 | 2.6 | 5.0 | 7.3 | 4.0 | 15.1 | 9.2 | **6.5** | **5.3** |

**$NPV_0$ (net present value) recycle ratio is calculated by dividing the undiscounted NPV of reserves added in the year by the total capital cost for the period (eg. 2020 Proved Developed Producing ($829/$236) = 3.5).*

## 3. Growth and Income

As a dividend paying, growth-oriented corporation, Peyto's objective is to profitably grow the resources which generate sustainable income (dividends) for shareholders. For income to be sustainable and grow, Peyto must profitably find and develop more reserves. Simply increasing production from the existing reserves will not make that income more sustainable. Reserve Life Index (RLI), or a reserve to production ratio, provides a measure of this long-term sustainability.

During 2020, the Company again deployed a conservative capital program but was successful in effectively replacing 127% of annual production with new PDP reserves using 111% of funds from operations. Fourth quarter production increased 8%, from 77,457 boe/d (397 MMcf/d gas, 11,220 bbl/d NGLs) to 83,461 boe/d (433 MMcf/d gas, 11,256 bbl/d NGLs). The change in both PDP reserves and fourth quarter production resulted in a slight reduction of the Proved Developed Producing reserve life index from 9.4 years to 9.0 years

For comparative purposes, the Total Proved and P+P RLI index was 18 and 27 years, respectively. Management believes that the most meaningful method to evaluate the current reserve life is by dividing the Proved Developed Producing reserves by the actual fourth quarter annualized production. This way production is being compared to producing reserves as opposed to producing plus non-producing reserves.

The following table highlights the Company's historical RLI Index.

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | **2020** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Proved Developed** | 12 | 13 | 14 | 14 | 11 | 9 | 9 | 7 | 7 | 7 | 7 | 7 | 9 | 9 | **9** |
| **Total Proved** | 14 | 16 | 17 | 21 | 17 | 16 | 15 | 12 | 11 | 11 | 11 | 11 | 16 | 19 | **18** |
| **Proved + Probable** | 20 | 21 | 23 | 29 | 25 | 22 | 22 | 19 | 18 | 17 | 18 | 18 | 25 | 29 | **27** |

**Future Undeveloped Opportunities**

As of December 31, 2020, Peyto had 885 net sections of Alberta Deep Basin lands. In many of these sections, mineral rights are held in a number of stacked prospective horizons expanding this land base by almost four-fold to a total of 3,232 net sections of rights over Duvernay, Montney and seven Cretaceous horizons. During Peyto's 22-year history, the Company has found and developed 4.0 TCFe of total natural gas and associated liquids which resides in 354 of these net sections. Effectively, Peyto has invested $6.4 billion to fully develop 11% of its existing land base which has also resulted in the generation of $6.5 billion of cumulative funds from operations and $2.6 billion in cumulative earnings to date.

Peyto's remaining undeveloped land base still holds significant future potential. The independent reserve evaluators have modelled a limited amount of development activity over the next six years as shown in the following table of future development capital.

| | Future Development Capital | |
|---|---|---|
| Year | Proved Reserves Undisc., ($Millions) | Proved+ Probable Additional Reserves Undisc., ($Millions) |
| 2021 | 282.5 | 294.9 |
| 2022 | 336.4 | 530.1 |
| 2023 | 376.6 | 600.1 |
| 2024 | 409.5 | 599.9 |
| 2025 | 377.2 | 600.2 |
| 2026 | 126.3 | 600.1 |
| Thereafter | 8.3 | 82.6 |
| Total | 1,916.8 | 3,307.9 |

Every year Peyto finds and develops new drilling inventory that the independent evaluators review to create a forecast of future development activity. Their forecast is by no means a complete assessment of Peyto's current opportunities, nor is Peyto content to just sit back and harvest these current opportunities. Each year, the results from the drilling activity spawn additional offsetting locations both on currently owned lands and lands Peyto does not yet own but attempts to acquire. In addition to the growth in inventory, Peyto has been evolving its horizontal well design to employ longer horizontal laterals and increased stimulation intensity. This design allows more reservoir to be developed in each wellbore which has the effect of reducing the total number of wells required to develop a given resource. The result is lower cost per unit of reserves and less environmental footprint.

As of December 31, 2020, the future drilling locations recognized in the reserve report totaled 1,230 gross (983 net). This is down from the previous year of 1,280 (1,035 net) but due to the change in well design, results in more reserves developed (497 mmboes vs 484 mmboes). Of these future locations, 773 (63 %) are categorized as Proven Undeveloped by the independent reserve evaluators, while 457 (37 %) are Probable Undeveloped locations. Due to the change in relative prices between natural gas and propane, no deep cut facility installations are forecast at this time. The net reserves associated with the undeveloped locations (not including existing uphole zones) totals 3.0 TCFe (3.0 BCFe/well) consisting of 2.6 TCF of natural gas and 76 mmbbls of NGLs, while the capital required to develop them is estimated at $3.3 billion, or $1.10/Mcfe. This development is forecast to create Net Present

Value of $3.77 billion (at 5% discount rate, inclusive of profit after capital recovery and future abandonment liability) or $19 per share (debt adjusted) of incremental value at the Insite commodity price forecast.

The undiscounted, forecast for Net Operating Income for the TP and P+P reserves over the 6 year future development capital schedule, as contained in the evaluator's report, totals $3.8 billion and $5.2 billion, respectively, more than sufficient to fund the future development capital shown in the table above, ensuring those reserve additions are accretive to shareholders.

The total estimated Future Development Capital for both Total Proved and P+P reserves decreased from the previous year by $190 million and $239 million, respectively, which reflects an ongoing improvement in drilling and completion cost combined with the change in drilling design.

## 4. Risk Assessment

Effectively 100% of Peyto's natural gas and natural gas liquid reserves exist in low permeability (tight), sandstone reservoirs in the Alberta Deep Basin. In almost all cases, the volumetric capacity of these sandstone reservoirs can be determined using traditional geological and reservoir engineering methods, which, when complimented by production performance data, increases the certainty of the reserve estimates. In the majority of Peyto's core areas, continuous drilling activity has further refined the geologic and geometric definition of these reservoirs to a higher level of certainty.

In addition, these Deep Basin sandstone reservoirs do not contain mobile water nor are they supported by active aquifers. Mobile water traditionally increases the risk associated with reservoir recovery by impeding the flow of hydrocarbons through the reservoir and up the wellbore. Water production, separation and disposal processes also increase operating costs which shortens the economic life of producing wells, further contributing to reduced recovery. As many of these traditional reserves determination and recovery risks are not present in Peyto's Deep Basin reservoirs, Management has a higher level of confidence in its reserves and their ultimate recovery.

Peyto's high operating margins have meant that forecasts of net operating income are less affected by commodity price volatility than in most traditional reserve evaluations. As a result, the predicted economic life of Peyto's producing wells is less sensitive to changes in commodity prices. These high operating margins are achieved through the Company's high level of ownership and control of all levels of production operations, through a concentrated geographic asset base, and by striving to be the lowest cost producer in the industry.

Peyto attempts to further reduce the risk of predicted operating incomes with an active market diversification and hedging program that is designed, over time, to expose 40% of its natural gas sales to AECO based pricing, link 40% to US pricing and sell 20% directly to intra-Alberta industrial markets. As always, Peyto will continue to hedge future prices to smooth out the volatility in both Alberta and US natural gas markets through a series of frequent transactions which is like "dollar cost averaging" the future gas price.

Finally, Peyto is the operator of over 99% of its producing wells and has one of the highest ratios of producing to non-producing wells in the industry. Approximately 98% of Peyto's asset base has been organically developed by Peyto and contains very few abandonment liabilities. As of December 31, 2020, Peyto owned 1,594.5 net wells of which over 90% are on production today and most are expected to produce for decades to come. Of the non-producing wellbores, 29 net wells are considered medium risk, inactive wells that require downhole suspension over the next several years. The undiscounted capital requirement for this work is estimated at $2.1 million. For perspective, the current existing developed reserves have a forecast value of $3.27 billion ($NPV_5$ of the PDP + PA and PDNP + PA), while the cost to abandon and reclaim all wells, sites and facilities is estimated at $44 million using the same 5% discount rate for future costs.

These cumulative factors listed above, which reduce the traditional risk of realizing future cashflows from Peyto's reserves, is why, in Management's opinion, Peyto's reserves can be valued at lower discount rates than other, more conventional asset bases.

## PERFORMANCE RATIOS

The following table highlights annual performance ratios after the implementation of horizontal wells in late 2009. These can be used for comparative purposes, but it is cautioned that on their own they do not measure investment success.

| | **2020** | 2019 | **2018** | 2017 | **2016** | **2015** | **2014** | **2013** | **2012** | **2011** |
|---|---|---|---|---|---|---|---|---|---|---|
| **Proved Developed Producing** | | | | | | | | | | |
| **FD&A ($/Mcfe)** | **$1.06** | $1.55 | $1.18 | $1.36 | $1.44 | $1.64 | $2.25 | $2.35 | $2.22 | $2.12 |
| **RLI (yrs)** | **9** | 9 | 9 | 7 | 7 | 7 | 7 | 7 | 9 | 9 |
| **Recycle Ratio** | **1.5** | 1.4 | 2.3 | 2.1 | 1.8 | 2.0 | 1.9 | 1.6 | 1.6 | 2.1 |
| **Reserve Replacement** | **127%** | 75% | 98% | 171% | 153% | 193% | 183% | 190% | 284% | 230% |
| **Total Proved** | | | | | | | | | | |
| **FD&A ($/Mcfe)** | **$0.20** | $1.41 | $1.21 | $1.39 | $1.01 | $0.72 | $2.37 | $2.23 | $2.04 | $2.13 |
| **RLI (yrs)** | **18** | 19 | 16 | 11 | 11 | 11 | 11 | 12 | 15 | 16 |
| **Recycle Ratio** | **8.0** | 1.7 | 2.2 | 2.0 | 2.6 | 4.5 | 1.8 | 1.6 | 1.7 | 2.1 |
| **Reserve Replacement** | **132%** | 137% | 294% | 225% | 183% | 188% | 254% | 230% | 414% | 452% |
| **Future Development Capital ($ millions)** | **$1,917** | $2,107 | $1,971 | $1,488 | $1,305 | $1,381 | $1,721 | $1,406 | $1,318 | $1,111 |
| **Proved + Probable Additional** | | | | | | | | | | |
| **FD&A ($/Mcfe)** | **($0.01)** | $1.25 | 1.02 | $1.49 | $0.62 | $0.54 | $2.01 | $1.86 | $1.68 | $1.90 |
| **RLI (yrs)** | **27** | 29 | 25 | 18 | 18 | 17 | 18 | 19 | 22 | 22 |
| **Recycle Ratio** | **N/A** | 1.7 | 2.6 | 1.9 | 4.2 | 6.1 | 2.1 | 2.0 | 2.1 | 2.4 |
| **Reserve Replacement** | **167%** | 140% | 342% | 279% | 283% | 287% | 328% | 450% | 527% | 585% |
| **Future Development Capital ($millions)** | **$3,308** | $3,547 | $3,445 | $2,978 | $2,563 | $2,657 | $2,963 | $2,550 | $2,041 | $1,794 |

- FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the capital costs for the period, including the change in undiscounted FDC, by the change in the reserves, incorporating revisions and production, for the same period (eg. 2020 Total Proved ($235.7-$190)/(536.5-527.3+29.1) = $1.19/boe or $0.20/Mcfe).

- The RLI is calculated by dividing the reserves (in boes) in each category by the annualized Q4 average production rate in boe/year (eg. 2020 Proved Developed Producing 274.6/(83.461x366) = 9.0). Peyto believes that the most accurate way to evaluate the current reserve life is by dividing the proved developed producing reserves by the annualized actual fourth quarter average production. In Peyto's opinion, for comparative purposes, the proved developed producing reserve life provides the best measure of sustainability.

- The Recycle Ratio is calculated by dividing the field netback per boe, by the FD&A costs for the period (eg. 2020 Proved Developed Producing (($9.56)/$6.36=1.5). The recycle ratio is comparing the netback from existing reserves to the cost of finding new reserves and may not accurately indicate investment success unless the replacement reserves are of equivalent quality as the produced reserves.

- The reserve replacement ratio is determined by dividing the yearly change in reserves before production by the actual annual production for the year (eg. 2020 Total Proved ((536.5-527.3+29.1)/29.1) = 132%).

## RESERVES COMMITTEE

Peyto has a reserves committee, comprised of independent board members, that reviews the qualifications and appointment of the independent reserve evaluators. The committee also reviews the procedures for providing information to the evaluators. All booked reserves are based upon annual evaluations by the independent qualified reserve evaluators conducted in accordance with the COGE (Canadian Oil and Gas Evaluation) Handbook and National Instrument 51-101. The evaluations are conducted using all available geological and engineering data. The reserves committee has reviewed the reserves information and approved the reserve report.

## MANAGEMENT CHANGES

Peyto is pleased to announce the promotion of Derick Czember to Vice President of Land. Derick joined Peyto in 2015 and has spent the last six years as the manager of Peyto's mineral land group. Derick has worked in various land roles since entering the industry in 2002 and is a member of the Canadian Association of Petroleum Landmen.

## OUTLOOK

Peyto's commitment to the people of Alberta and to Alberta's energy industry is evidenced by the significantly larger capital program planned for 2021. This investment will have a trickle-down effect through Alberta's economy creating much needed, high quality employment opportunities that extend right across Canada. By working to provide Albertans with some of the cleanest, most affordable, most reliable, and most responsibly developed energy possible, while at the same time delivering the maximum return to its shareholders, Peyto is committed to exceeding the high standard demanded of it in today's society. Always striving to exceed this standard will ensure Peyto's success for decades to come.

The outlook for commodity prices in 2021 has significantly improved over the last six months which drives higher forecast cashflows, beyond the required funding for Peyto's capital program. In addition, there have been extreme natural gas prices being realized at certain trading hubs over the last week due to record cold temperatures across much of the United States. As an example, Peyto was fortunate to have 20,000 MMBTU/d of unhedged gas sales exposed to the Ventura hub that averaged over $160/MMBTU for the last 5 days. As these superior commodity prices are realized, Peyto will look to use the free cashflow to reduce indebtedness and strengthen its balance sheet, while evaluating the ability to increase dividends to shareholders. Based on strip pricing, Peyto currently projects it will exit debt covenant relief during the second quarter of this year. While the 2021 drilling program is budgeted to be greater than 2020, Peyto currently has the team and resources to do much more and eagerly looks forward to 2022 and beyond.

## GENERAL

A complete filing of the Statement of Reserves (form 51-101F1), Report on Reserves (form 51-101F2), and Report of Management and Directors on Oil and Gas Disclosure (form 51-101F3) will be available in the Annual Information Form to be filed by the end of March 2021. Shareholders are encouraged to actively visit Peyto's website located at www.peyto.com. For further information, please contact Darren Gee, President and Chief Executive Officer of Peyto at (403) 261-6081.

*This news release contains certain forward–looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this news release contains forward-looking information and statements pertaining to the following: management's assessment of Peyto's future plans and operations, including the 2021 program, capital expenditures, the volumes and estimated value of Peyto's reserves, the life of Peyto's reserves, production estimates, project economics including NPV, netback and recycle ratio, the ability to enhance value of reserves for shareholders and ensure the reserves generate the maximum possible return. Forward-looking statements or information are based on a number of material factors, expectations or assumptions of Peyto which have been used to develop such statements and information, but which may prove to be incorrect. Although Peyto believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking information and statements because Peyto can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, the impact of increasing competition, the timely receipt of any required regulatory approvals, the ability of Peyto to obtain qualified staff, equipment and services in a timely and cost efficient manner, drilling results, field production rates and decline rates, the ability to replace and expand reserves through development and exploration, future commodity prices, currency, exchange and interest rates, regulatory framework regarding royalties, taxes and environmental matters and the ability of Peyto to successfully market its oil and natural gas products. By their nature, forward-looking information and statements are subject to numerous risks and uncertainties, some of which are beyond these parties' 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. 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 information and statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive therefrom. The forward-looking information and statements contained in this news release speak only as of the date of this news release, and Peyto does not assume any obligation to publicly update or revise any of the included forward-looking statements or information, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

*This news release contains information, including in respect of Peyto's 2021 capital program, which may constitute future oriented financial information or a financial outlook. Such information was approved by the Board of Directors of Peyto on February 17, 2021, and such information is included herein to provide readers with an understanding of the Company's anticipated capital expenditures for 2021. Readers are cautioned that the information may not be appropriate for other purposes.*

*Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the*

*current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.*

*Finding, development and acquisition costs, reserves replacement and netbacks do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included by Peyto to give readers additional measures to evaluate the Peyto's performance; however, such measures are not reliable indicators of the future performance of Peyto and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon.*

*Some values set forth in the tables above may not add due to rounding. It should not be assumed that the estimates of future net revenues presented in the tables above represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained, and variances could be material. The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year.*

*The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.*