

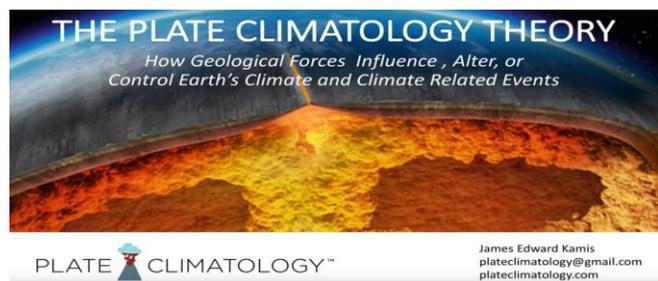
# Peyto Exploration & Development Corp.

## President's Monthly Report

November 2019

From the desk of Darren Gee, President & CEO

The business of energy production involves a lot of earth science. That's because the stored solar energy we produce (what fossil fuels really are) is locked away in the earth's crust. We employ geologists and geophysicists to help us understand how and where that energy, in the form of hydrocarbons, is trapped and how it got there. Earth science is not only important to our industry for subsurface understanding, its also important to our understanding of the surface climate. In particular, our understanding of the geologic forces that cause dramatic changes that we experience here on the surface of the earth - things like earthquakes and volcanoes. So, it was interesting when I came across a very informative video that discusses a plate climatology theory presented by a seasoned USGA geologist. I would encourage you to watch it. [https://youtu.be/GX1e\\_uU5u3A](https://youtu.be/GX1e_uU5u3A)



A recent failure, and Force Majeure, at the Keyera Ft. Sask fractionation facility has caused us to have to warm up our gas plants and shut off our deep cut. Fortunately, what we've lost in LPG production this past month we've made up for in higher heat content natural gas that's selling at very strong prices.

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	Jul	Aug	Sep	Q3 19
Acq/Disp	4	-4	0	0	2	-2	1	0	0	0	0	0
Land & Seismic	17	1	1	5	2	8	3	2	0	0	0	1
Drilling	256	14	7	37	57	116	24	11	5	3	6	14
Completions	134	17	1	18	36	72	20	14	3	3	3	10
Tie ins	53	4	1	6	11	21	10	3	1	2	0	3
Facilities	57	4	5	5	4	18	4	5	4	2	2	8
<b>Total</b>	<b>521</b>	<b>35</b>	<b>15</b>	<b>70</b>	<b>112</b>	<b>232</b>	<b>62</b>	<b>34</b>	<b>14</b>	<b>10</b>	<b>12</b>	<b>37</b>

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

	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Jul	Aug	Sept	Q3 19	Oct
Sundance	57	56	50	49	50	51	50	49	47	47	47	47	47
Ansell	21	20	18	16	16	18	18	15	14	14	14	14	13
Brazeau	21	24	19	16	15	19	15	13	12	12	12	12	11
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	3	2	2	3	3	3	2	2	2	1	2	2
<b>Total</b>	<b>103</b>	<b>105</b>	<b>92</b>	<b>85</b>	<b>87</b>	<b>92</b>	<b>88</b>	<b>82</b>	<b>78</b>	<b>76</b>	<b>76</b>	<b>77</b>	<b>75</b>
Deferral			2	0			1		1	2	2	2	
Capability	<b>103</b>	<b>105</b>	<b>94</b>	<b>86</b>	<b>87</b>	<b>92</b>	<b>88</b>	<b>83</b>	<b>79</b>	<b>78</b>	<b>78</b>	<b>78</b>	<b>75</b>
Liquids %		9.5%	10.1%	10.6%	11.5%	10.4%	12.0%	13.5%	13.3%	14.0%	14.5%	13.9%	13.9%

\*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.

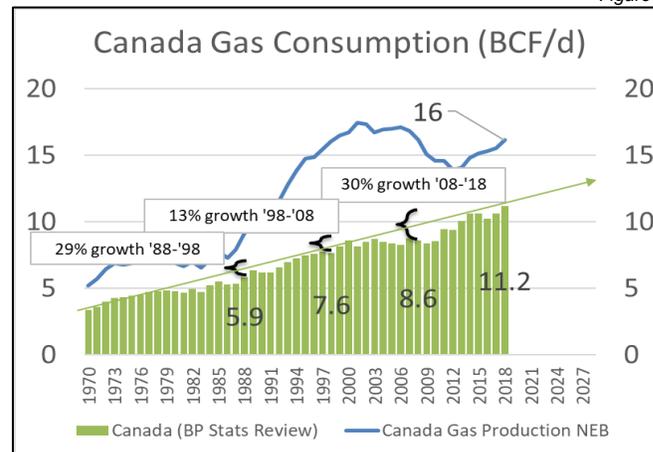
## Natural Gas Demand: Here, There, Everywhere

Peyto is in the business of finding, developing, producing and selling natural gas and natural gas liquids. So, we tend to focus a lot of our attention on the supply side of the industry in order to understand our competition, our opportunities, where we can invest capital and how we can generate a return on that investment for shareholders. Inherent in that business focus is the assumption that there is a demand for the products we produce and sell.

Lately, we hear and read a lot of words suggesting there won't be demand for our products in the future. We hear that the world will be getting off fossil fuels. Obviously, I am biased, but I do not believe these predictions because I don't see any changes in human behavior to support this claim (nor do I believe we should, considering natural gas is the cleanest, most affordable, scalable, transportable energy source we have and energy improves quality of life). Actual consumption data suggests the exact opposite. That growth in natural gas consumption continues - here, there and everywhere.

Take here in Canada. Over the last decade, Canadians have increased their consumption of natural gas by 30%. And while we're one of the few places that has excess supply, our consumption behaviour is rapidly closing that gap. Part of that demand growth is driven by population increases. Over the last 30 years the population of Canada has grown by 38%, while natural gas production is up 90%. And nobody is suggesting our population will be shrinking any time soon. If anything, it will continue to grow. So, it is very likely our consumption will increase by 30% over the next decade too.

Figure 1



Source: BP, NEB

What about there? Across the broader North American continent? Here again, we see very similar behaviour. Natural gas consumption has increased by over 30% in the last decade

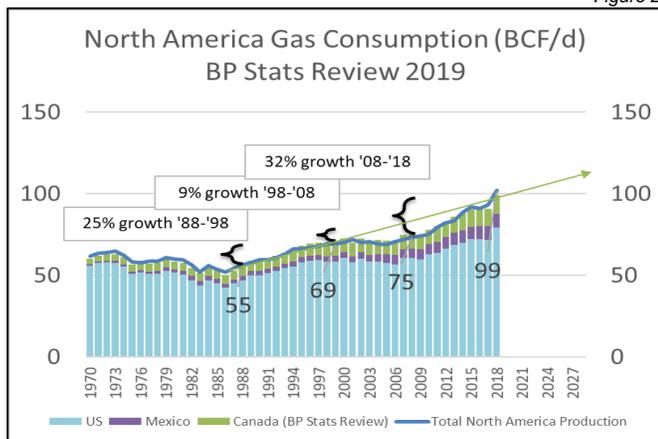
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and by 80% over the last 30 years while population over the last 30 years is up by 35%. In fact, last year alone, gas consumption was up 7.5%! A suggestion that this growth in consumption will suddenly reverse would be a very abrupt change to a rather well-established, accelerating trend.

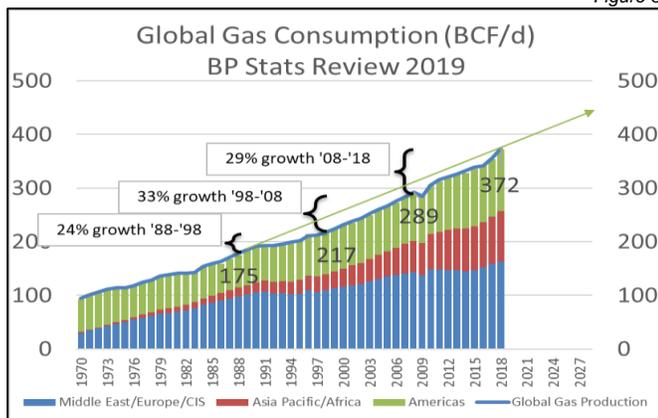
Figure 2



Source: BP

What about everywhere else? Looking at global consumption of natural gas tells the exact same story. Around the world, gas consumption is up 29% over the last decade, up 113% over the last 30 years while population over those 30 years is up 50%. There also appears to be no sign of global consumption growth slowing.

Figure 3



Source: BP

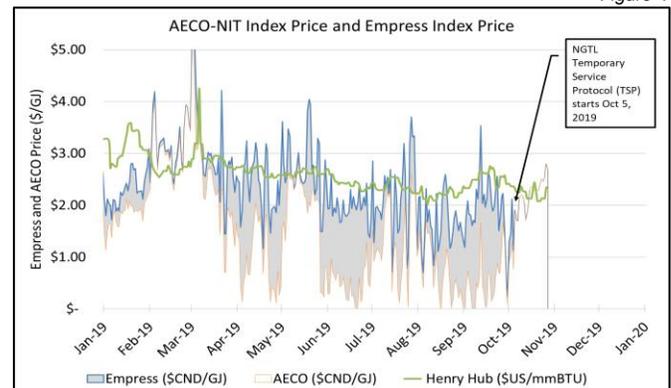
So, what does all this consumption data mean? It means that demand for natural gas is increasing...everywhere. Much of it is driven by population growth, but much of it also driven by increased consumption per person as natural gas distribution systems increase the ability for more people to access this cleaner burning, more reliable form of energy for heating and cooling their homes, generating their electricity, and even

[cooking their food](#). It also means that the reason for Peyto to be in the natural gas business is as strong as its ever been.

At Peyto, we have almost 10 years of producing reserves. I would hazard a guess by the time that's done, demand will be up another 30%. Good thing we have another 15 years of discovered reserves beyond that waiting to be developed. And of course, we're not stopping there.

## Activity Levels and Commodity Prices

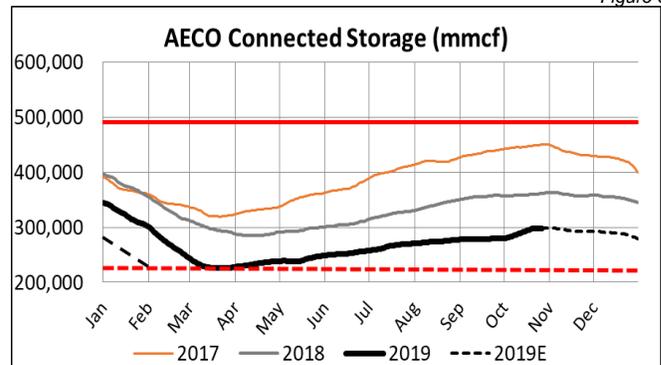
Figure 4



Source: Enerdata, EIA, Peyto

The new NGTL Temporary Service Protocol (TSP) started on October 5, 2019 and ever since AECO prices have traded even better than those at Empress (AB/SK border), illustrating the effectiveness of the program to re-connect Alberta natural gas prices with the rest of the market (Figure 4). This has allowed a few more BCF of gas to be injected into Eastgate storage reservoirs so that we look to exit this year's injection season with around 300 BCF of AECO connected storage or around 75 BCF of true "useable" storage (that doesn't require USJR IT-R). Personally, I give us until the end of January before things get very interesting in the Alberta gas market. For the first time in a long time, it's kinda fun to be a natural gas producer.

Figure 5



Source: NGTL, 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.