

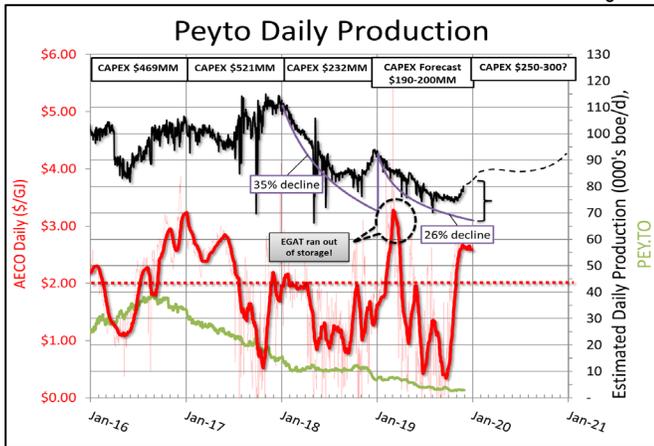
Peyto Exploration & Development Corp. President's Monthly Report

December 2019

From the desk of Darren Gee, President & CEO

We are underway with our winter drilling program to take advantage of higher AECO spot gas prices. This program is expected to lead into a larger cashflow-funded capital program in 2020 (pending board approval) and greater still in 2021 if the AECO price continues to recover. As you can see from Figure 1 our base decline has shallowed significantly from 2018 (35% to 26%) which means less capital is required to offset the decline and more can be directed to increasing production and cashflow. The last couple years of volatile AECO price and significant capital reductions were challenging, but it appears we've reached an inflection point going forward.

Figure 1



Source: Peyto, Enerdata, 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)*

	2017	Q1 18	Q2 18	Q3 18	Oct	Nov	Dec	Q4 18	2018	Q1 19	Q2 19	Jul	Aug	Sep	Q3 19	Oct
Acq/Disp	4	-4	0	0	2	0	2	-2	1	0	0	0	0	0	0	0
Land & Seismic	17	1	1	5	1	1	1	2	8	3	2	0	0	0	1	1
Drilling	256	14	7	37	21	21	15	57	116	24	11	5	3	6	14	12
Completions	134	17	1	18	11	15	11	36	72	20	14	3	3	3	10	4
Tie ins	53	4	1	6	3	3	5	11	21	10	3	1	2	0	3	3
Facilities	57	4	5	5	2	1	1	4	18	4	5	4	2	2	8	2
Total	521	35	15	70	37	43	33	112	232	62	34	14	10	12	37	22

Production ('000 boe/d)*

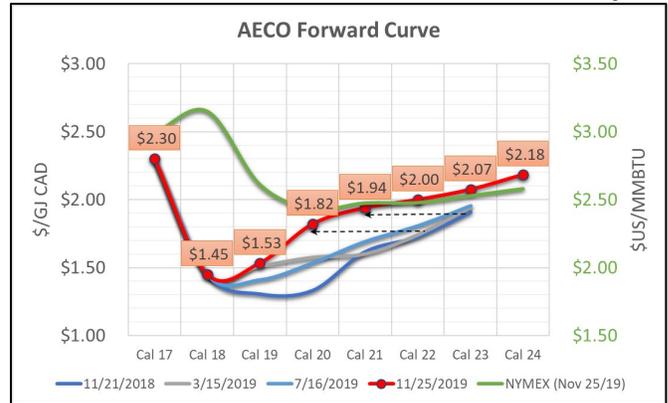
	2017	Q1 18	Q2 18	Q3 18	Q4 18	2018	Q1 19	Q2 19	Jul	Aug	Sept	Q3 19	Oct	Nov
Sundance	57	56	50	49	50	51	50	49	47	47	47	47	47	48
Ansell	21	20	18	16	16	18	18	15	14	14	14	14	13	14
Brazzau	21	24	19	16	15	19	15	13	12	12	12	12	11	11
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	3	2	2	3	3	3	2	2	2	1	2	2	3
Total	103	105	92	85	87	92	88	82	78	76	76	77	75	78
Deferral			2	0			1	1	2	2	2			
Capability	103	105	94	86	87	92	88	83	79	78	78	78	75	78
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%	14.7%

*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.

Temporary Service Protocol in Practice

Compared to various times over the last year, the AECO futures curve has improved significantly (see figure 2). You could even argue the futures curve has "moved up" a couple years from where it was. I think there is two main reasons for this improvement: depleted storage, and the approval of the NGTL Temporary Service Protocol (TSP).

Figure 2

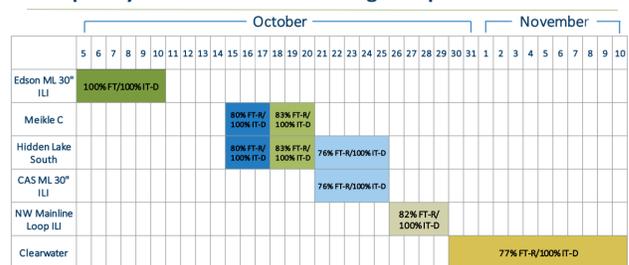


Source: TD

As I mentioned in my [report](#) last month, the effectiveness of the approved NGTL TSP was clearly evidenced for the last few weeks of October, when full access to Eastgate storage allowed for injections. Surprisingly, during that time there was very little required restriction on upstream (USJR) receipts (Figure 3). That was because industry supplies had declined throughout the year reducing capability.

Figure 3

Temporary Service Protocol – Outages impacted in 2019



TC Energy

For informational purposes only

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Source: TC Energy

Recall that, as outlined in the application to the Canadian Energy Regulatory (CER), the purpose of the TSP was to allow NGTL "during periods of interruptions and curtailment during the periods of September 3, 2019 to October 31, 2019 and April 1, 2020 to October 31, 2020, the Company (NGTL) may reduce any and all Service at Receipt Points pursuant to paragraph 11.4.1 prior to reducing any or all Service at Delivery Points

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pursuant to paragraph 11.4.2 or paragraph 11.4.3 where the **Planned Interruptions** impact Delivery Points in the Eastern Gate segment of the NGTL System.”

Figure 4



Source: TD

What is interesting in the futures curve, however, is that summer 2020 AECO prices still don't fully reflect this ability to access Eastern Gate storage in the summer months. The graph above shows the seasonal forward curve between AECO and NYMEX and the only disconnection is next summer. I think part of the reason for this continued disconnection in the forward curve is the misunderstanding of what constitutes a *planned interruption*. Within the application approved by the CER, planned interruptions were described as follows:

Planned Interruptions

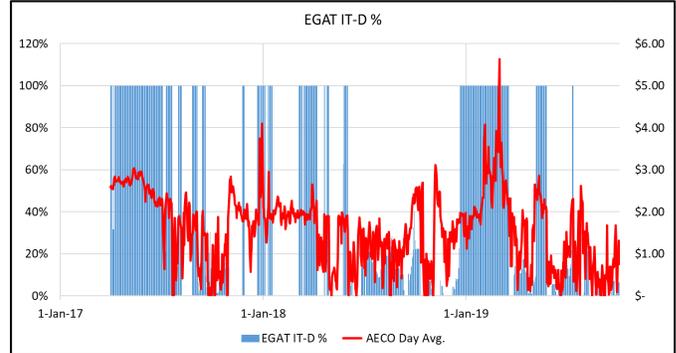
Provided that Company shall have given Customer at least forty-eight (48) hours Notice, Company may interrupt, curtail or reduce Service for such periods of time as it may reasonably require for the purpose of effecting any repairs, maintenance, replacement or upgrading or other work related to the Facilities.

So, what then constitutes a “planned interruption” in summer 2020 (214 days) that allows the TSP to kick in and access to storage enabled? Is it just the 51 days of [forecast major maintenance](#) on the USJR part of the system involving compressor installations and pipeline looping? Or does it also include the 9 days of major maintenance in the ABC portion and the 40 days in the Eastgate area? Or does it also include every time there is a pig run, a compressor oil change, or any minor day-to-day operational maintenance, that are all pre-scheduled in the ongoing [Daily Operating Plans](#)?

If we look at last couple summers and the number of days where Eastgate interruptible service was less than 100% and delivery points in the Eastern Gate were affected, it was a lot more than NGTL's annual forecast of major maintenance. For instance, in 2018 NGTL had forecast 89 days of known outage (in the fall of 2017), but in actuality, there were 191 days (out of 214) where Eastgate IT-D was affected. That's basically 90% of the time. And in 2019, they had forecast 134 days of

known outage (to Oct 5, 2019), but the actual affected days were 164 (out of 187), or 88% of the time.

Figure 5



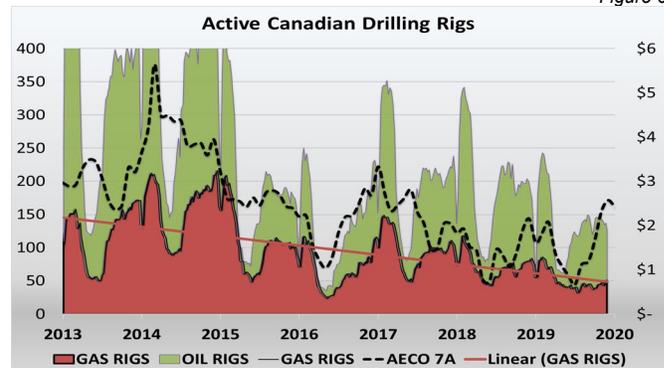
Source: Peyto, TC Energy, Enerdata

I would argue/speculate that if a fully connected summer AECO price should be close to \$2.00/GJ (based on Figure 4 and a \$2.36/MMBTU NYMEX price), and if 90% of the time that's what it should be, then the forward curve for next summer should reflect closer to a \$1.80/GJ or 90% of the \$2.00/GJ. Then add that to the current winter strips and you get a Calendar 2020 AECO average of around \$1.95/GJ, which is even better than the current \$1.82/GJ in Figure 2. I believe, all of this should point to an even more constructive Canadian natural gas price. Geez, who knew \$2 gas would be something we'd be hoping to achieve!

Activity Levels and Commodity Prices

The natural gas rig count in Canada continues to fall year over year (down 40%), despite the recent recovery of AECO gas prices. Perhaps this is due to lackluster oil prices driving both rig counts or perhaps its more due to the lack of [financial liquidity](#) in the industry today. Either way, it doesn't look like the industry is rushing out to ramp up drilling in response to the price rise. That discipline is a good thing and will only help to return some of the economic rent to the producers that was lost to the pipes and midstream sectors.

Figure 6



Source: BakerHughes, Enerdata

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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.