



# Peyto Exploration & Development Corp. President's Monthly Report

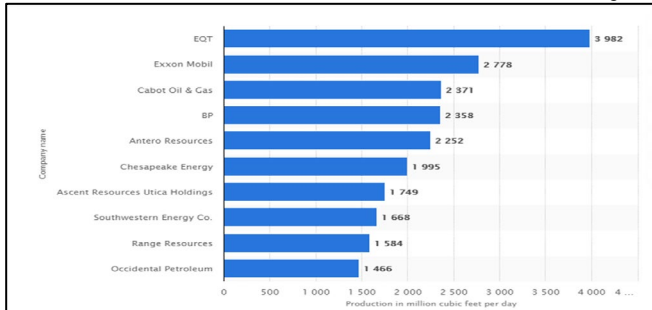
November 2020

From the desk of Darren Gee, President & CEO

In fact, the top ten natural gas producers already control almost 50% of the entire 15 BCF/d of Western Canadian supply. If those producers all decided to reduce supply by 20%, it would take 1.5 BCF/d of supply off the market and definitely result in the price going up - a lot. But if it took 30 or 40 smaller companies to impact that much supply, it would be much harder to do.

In the US, that's exactly the case. They, of course, are dealing with a much larger industry with much greater supply. US dry natural gas production in 2019 was around 90 BCF/d, so 6 times that of Canada. But the 10 largest US gas producers only make up around 25% of the total supply (Fig. 3). In Canada, combining TOU, ARC, and Peyto together would accomplish the same as merging EQT, Cabot, Antero, Chesapeake, Southwestern and Range!

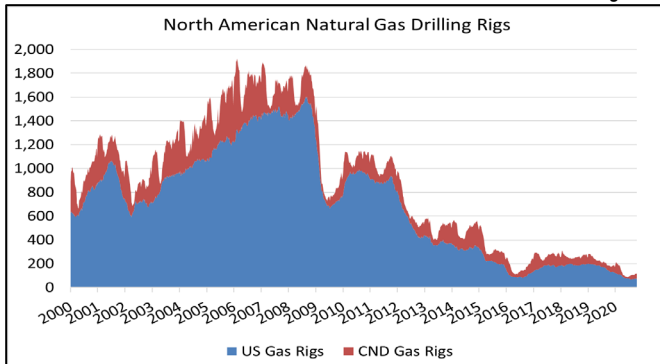
Figure 3



Source: Statista

So if the call continues to be for consolidation in the natural gas industry, you'd expect it to happen in the US much more than in Canada. Obviously, the entire North American industry's current pace of investment, illustrated by the current active rig count, suggests we're looking for a better price (Fig. 4). And if the easiest way to get a better price is to restrict supply, then I guess its time to start merging companies together, starting with US producers. Because what consolidation ultimately gets you is an ability to manage supply. And as OPEC has clearly shown, that's how you control the price.

Figure 4

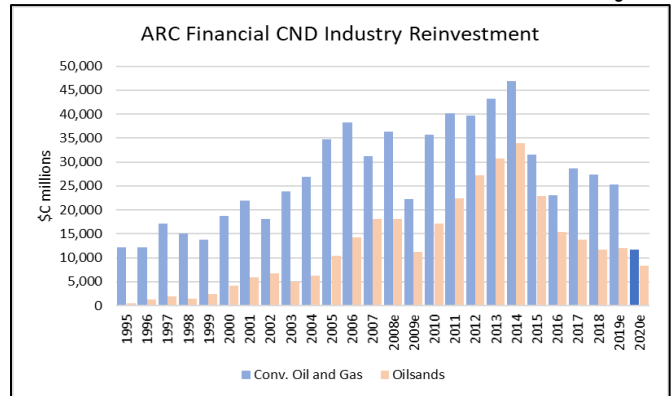


Source: Baker Hughes

## Activity Levels and Commodity Prices

[ARC Financial](#) recently updated their forecast for capital investment in the Canadian Energy Industry (Fig. 5). And based on their forecast for production, commodity prices and after tax cashflows, 2020 will be the lowest level of conventional reinvestment (non-oilsands) our industry has seen in over 25 years. Since we don't have a lot of conventional oil in Western Canada, this is really a reflection of the natural gas investment climate.

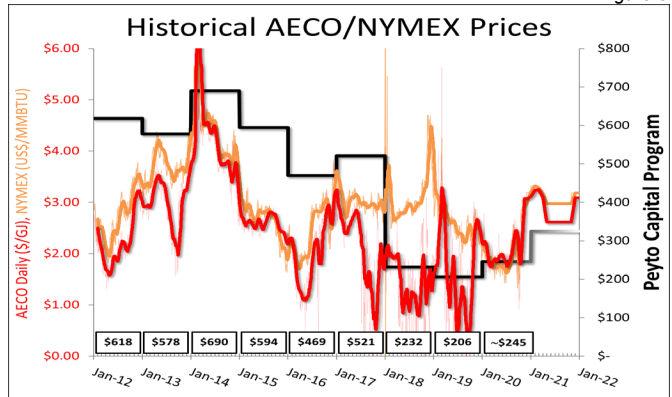
Figure 5



Source: ARC Financial

It should really come as no surprise. The severe disconnection in the AECO market over the period from 2017 to 2019 was the primary culprit (Fig. 6). Just look at the change in Peyto's capital investments over that same timeframe, dropping by over 60% from \$500-600 million, down to \$200 million. Hedging the future can defer some of that market impact but ultimately it comes home to roost. Hopefully, we can ensure this never happens again. The provinces of BC and Alberta can't afford to have that much capital investment removed from the economy, especially when you consider the five-fold multiplier effects of \$10 or \$20 billion dollars of direct capital investment.

Figure 6



Source: NGX, EIA, 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.