

# Peyto Exploration & Development Corp.

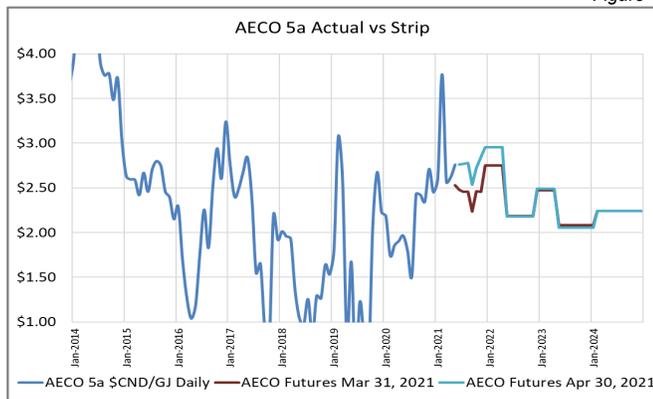
## President's Monthly Report

May 2021

From the desk of Darren Gee, President & CEO

A month ago, I said spring break-up was imminent. Well, here we are a month later and I am repeating myself. April was still cold enough to keep the frost in the ground which allowed us to continue to run 3 rigs steady. We also managed to conduct 8 frac treatments, which will lead to more new wells coming onstream in May and June, than we originally thought. This extra work should potentially allow us to get more done this year than we originally budgeted *if* we have a normal breakup season in May. If it is abnormally wet in May, then we've used this time to get ahead. Time will tell. Certainly, the outlook for natural gas prices has improved month over month, at least in the short term. See the AECO forward curve comparison below. I personally think the dip in August will be far more pronounced than what the strip currently reflects.

Figure 1



Source: Peyto, TD

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	Mar	Q1 21
Acq/Disp	-2	1	0	0	0	1	0	0	2	1	3	35	0	1	36
Land & Seismic	8	3	2	1	2	7	4	1	1	2	8	0	0	1	1
Drilling	116	24	11	14	36	86	28	20	28	29	105	9	10	14	34
Completions	72	20	14	10	21	65	19	9	20	22	70	3	5	11	18
Tie ins	21	10	3	3	9	26	7	3	6	7	23	1	1	3	5
Facilities	18	4	5	8	5	21	10	4	5	7	26	8	4	4	16
<b>Total</b>	<b>232</b>	<b>62</b>	<b>34</b>	<b>37</b>	<b>73</b>	<b>206</b>	<b>69</b>	<b>37</b>	<b>62</b>	<b>68</b>	<b>236</b>	<b>55</b>	<b>21</b>	<b>33</b>	<b>109</b>

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

	Q1 19	Q2 19	Q3 19	Q4 19	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Apr
Sundance	50	49	47	48	49	49	47	47	49	48	48	51
Ansell	18	15	14	14	15	14	14	13	16	14	17	16
Brazeau	15	13	12	11	13	12	14	15	16	14	17	18
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2
Other	3	2	2	3	2	2	2	1	1	2	4	5
<b>Total</b>	<b>88</b>	<b>82</b>	<b>77</b>	<b>78</b>	<b>81</b>	<b>79</b>	<b>78</b>	<b>78</b>	<b>84</b>	<b>80</b>	<b>88</b>	<b>91</b>
Liquids %	12%	14%	14%	15%	14%	15%	14%	14%	13%	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.

### Aggressive Emissions Reduction Targets

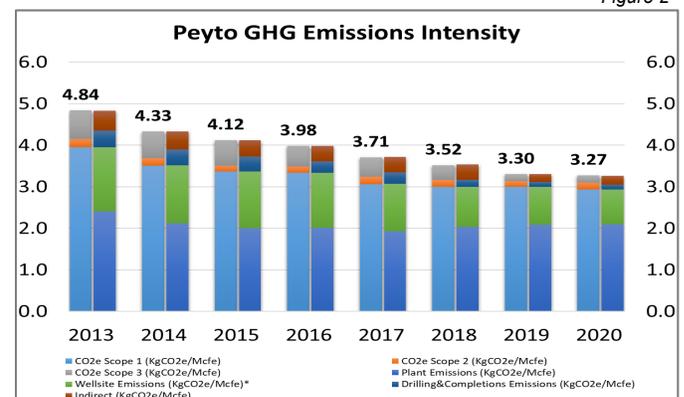
The non-Covid media narrative this past month has been all about climate change, with Earth Day summits and global leaders espousing their post-Covid "build back better" strategies and setting aggressive new emissions targets. At the same time, financial markets are fixated on ESG initiatives which leave industries scrambling to try to figure out how it can all be possibly accomplished. Interestingly, the consumer/voter has yet to weigh in on all of this, as the true cost will ultimately fall to them, but that part of the story will only unfold when it hits their pocketbooks. The WSJ alluded to this upcoming battle in a [recent article](#).

The Canadian Liberal government has predictably played its role, committing to an even greater 40-45% emissions reduction target (relative to 2005 levels) by 2030. The implied expectation for the Canadian energy industry, of course, as one of the largest industries in Canada is to either clean up or shut down. And quite frankly, I don't think the Canadian government really cares which one the industry chooses.

Our industry is not one to shy from a challenge. We do, after all, continue to compete on the world stage, with our inferior reservoir quality, against some of the lowest cost hydrocarbon supplies on the planet (Middle East). That lowest cost supply, by the way, does not suffer the regulatory or environmental burdens/costs that we do. So, we the Canadian Energy Industry, continue to innovate and find ways to produce with less CO<sub>2</sub> impact (despite the reality that impact is immaterial on a global scale anyway). And Peyto is doing its part.

Since 2013 (not 2005), Peyto has lowered its emissions 32% from 4.83 kgs of CO<sub>2</sub>e/q to 3.27 kgs (2020) for every Mcfe it produces. Most of that reduction has been at the wellsite, with total well related emissions now far less than processing emissions. The drilling, completion and pipeline work, or development of the production, actually represents a minor proportion of the total.

Figure 2



Source: Peyto

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Of course, this doesn't include the emissions generated upon combustion/consumption of the natural gas and natural gas liquids by the end user that are used in heating homes, electrifying hospitals or refrigerating food in grocery stores. There is approximately 57 kgs CO<sub>2</sub>eq per Mcfe emitted when the gas and NGLs we produce are consumed (more than 10 times our emissions to get it to the consumer).

Nor are we done making improvements. We will continue to replace higher emitting controls with zero emissions controls at the wellsites and we will look to find ways to reduce emissions at our processing plants through exhaust and waste heat capture. And, although it makes a smaller impact, we will also find ways to reduce our emissions generated in the finding and developing of our production but using more natural gas as fuel for drilling, completions, etc. By the end of this decade, I have no doubt that our emissions for every Mcfe will be less than half of the 5 kgs we had in 2013, far exceeding the federal government's own targets.

The challenge instead will be on the consumption side. How does the consumer - whether they be an electricity generator, or whether you are burning the gas in your home furnace, gas stove, BBQ, fireplace, or dryer - reduce the 57 kgs of emissions? Or do you just pay through the nose with Carbon Taxes (which does nothing to actually reduce CO<sub>2</sub> emissions)? Large electricity generation sites can consider carbon capture and underground storage but it's pretty hard for your average Alberta household to do that or even a larger commercial building (Supermarkets, Hospital, etc).

If you asked the average person on the street "who will be paying for these lofty new emissions goals that governments are promising", they would likely say "the government, or industry". And even though "the government" is really just their tax dollars, the reality is, it will definitely be the [average person on the street who pays the bill](#). Whether that bill is their direct fuel cost or is imbedded in the higher cost of every consumable good or service. When those costs hit, there may indeed be some resistance by the masses. Remember the [yellow vest protests](#) in France? All this effort is supposed to "save a million lives annually from lowering air pollution and circumventing higher water levels that would swamp coastal cities." Although from Lady Liberty's perspective, shouldn't she have already seen the effect of rising sea levels if we are all expected to pay more to combat it?

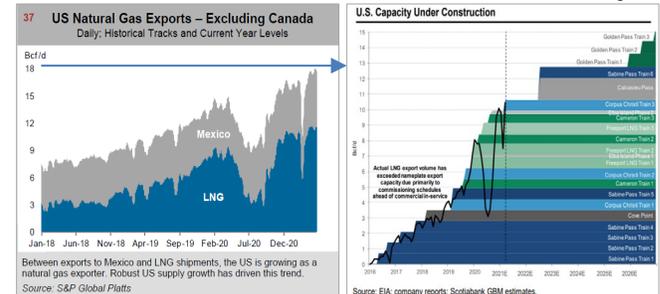


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## Activity Levels and Commodity Prices

Since Peyto's realized gas sales are far more influenced by NYMEX prices than AECO prices over the next few years, it is important for us to understand the supply/demand dynamic going on down south. And right now, the US export market is growing dramatically, while domestic production is not.

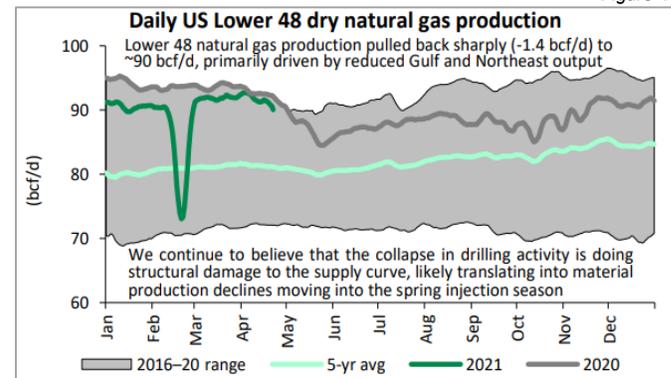
Figure 3



Source: ARC Financial, Scotiabank

Total exports via both LNG and pipelines to Mexico are up 300% (since 2018) to over 18 BCF/d. And they are projected to keep growing by mid-2022 to 21 BCF/d! All this while domestic production is running flat at just over 90 BCF/d.

Figure 4



Source: Desjardins

That means almost 25% of US supply is being exported because other places in the world want it more desperately. But having that much of your domestic supply dedicated to export markets means you have less to satisfy your own needs when you need it (remember last winter).

The US is now very similar to Canada, who exports around 5 BCF/d (31%) of its 16 BCF/d of total supply. Of course, our exports all go to the US, while theirs goes to other countries. So really, in effect, Canada just contributes about 25-30% of the US export volumes - they export our volumes for us, minus a big fee of course. LNG exports directly from Canada will change that dynamic and I, for one, am excited for that day to finally arrive.

TSX Symbol: PEY

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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.