

Peyto Exploration & Development Corp.

President's Monthly Report

July 2022

From the desk of Darren Gee, Chief Executive Officer

"Up to our a\$\$es in it" takes on a whole new meaning this time of year and this particular spring breakup has turned into a muddy one. While the snowpack-melt originally didn't seem to be too bad at the start of spring, the follow-on rains have made things much more difficult and slowed our operations to a crawl. Right now, we have over 15 new wells completed and awaiting tie-in, which is unusual for us. Normally our spud to onstream time leads the industry at around 45 days and we need to get back to that timing to preserve the quick payouts we're enjoying with high commodity prices. Not to mention there is >5,000 boe/d of production there. More of our plans for the year were highlighted at our AGM, a video of which is now live on [YouTube](#).



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)*

| | 2020 | Q1 21 | Q2 21 | Q3 21 | Q4 21 | 2021 | Jan | Feb | Mar | Q1 22 | Apr | May |
|----------------|------------|------------|-----------|-----------|------------|------------|-----------|-----------|-----------|------------|-----------|-----------|
| Acq/Disp | 3 | 36 | 0 | 0 | 1 | 36 | 0 | 22 | 0 | 22 | 0 | 0 |
| Land & Seismic | 8 | 1 | 1 | 2 | 4 | 8 | 0 | 1 | 0 | 1 | 7 | 1 |
| Drilling | 105 | 34 | 28 | 43 | 54 | 159 | 18 | 19 | 16 | 52 | 14 | 13 |
| Completions | 70 | 18 | 15 | 26 | 27 | 87 | 9 | 13 | 11 | 33 | 6 | 8 |
| Tie ins | 23 | 5 | 4 | 7 | 9 | 25 | 3 | 3 | 4 | 10 | 4 | 3 |
| Facilities | 26 | 16 | 8 | 12 | 14 | 50 | 32 | 8 | 7 | 47 | 9 | 6 |
| Total | 236 | 109 | 57 | 90 | 109 | 365 | 62 | 65 | 39 | 166 | 39 | 29 |

Production ('000 boe/d)*

| | Q1 20 | Q2 20 | Q3 20 | Q4 20 | 2020 | Q1 21 | Q2 21 | Q3 21 | Q4 21 | 2021 | Q1 22 | Apr | May | Jun | Q2 22 |
|--------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|------------|------------|
| Sundance | 49 | 47 | 47 | 49 | 48 | 48 | 50 | 49 | 56 | 51 | 57 | 55 | 53 | 55 | 54 |
| Ansell | 14 | 14 | 13 | 16 | 14 | 17 | 15 | 15 | 16 | 16 | 16 | 16 | 16 | 15 | 15 |
| Brazeau | 12 | 14 | 15 | 16 | 14 | 17 | 18 | 18 | 16 | 17 | 18 | 22 | 25 | 24 | 23 |
| Kakwa | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Other | 2 | 2 | 1 | 1 | 2 | 4 | 5 | 5 | 7 | 5 | 9 | 10 | 9 | 8 | 9 |
| Total | 79 | 78 | 78 | 84 | 80 | 88 | 89 | 89 | 97 | 91 | 101 | 104 | 104 | 103 | 104 |
| Liquids % | 15% | 14% | 14% | 13% | 14% | 14% | 14% | 12% | 11% | 13% | 11% | 12% | 13% | 13% | 13% |

*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.

Not-So-Free Energy Markets

There is an age-old adage that "the best cure for high prices is high prices." It is based on a free-market concept that increased demand for a product will drive higher price, which in turn drives increased supply that satisfies demand causing price to fall. It's a simple economic theory. Except that it requires capitalism, in a [free-market society](#), that allows for competition to be alive and well, where the laws of supply and demand provide the sole basis for the economic system...without government intervention.

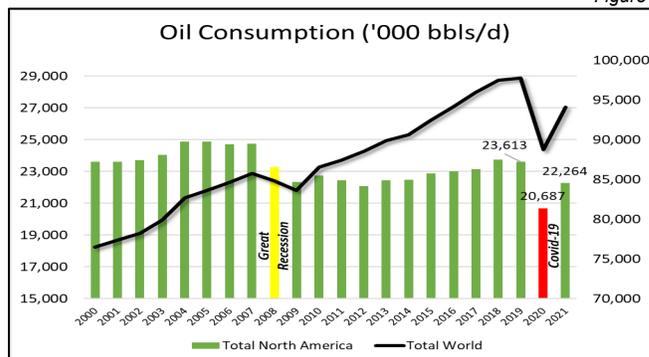
When governments interfere to try to control the supply of a product (e.g., restrict development) and/or take away the freedom of citizens to decide how they want to consume those products (e.g., tax demand), as they are trying to do with energy sources today, you get the type of price inflation we are currently experiencing. It is unnatural and it prevents high prices from curing high prices.

When it comes to energy policy, there is also this notion that higher prices will curb demand and change consumer behavior, resulting in lower consumption and less damaging emissions. Personally, I don't see it. Energy demand is too embedded in our respective lives.

The evidence of that unwavering demand is the consumption behaviour throughout the Covid pandemic. BP just released their 71st edition of the Statistical Review of World Energy and there is some great data inside, particularly with respect to oil and natural gas consumption.

If we assume the span of the pandemic is basically the year 2020 (the virus arrived in January and vaccines began that December), then a comparison of consumer behavior from the three years 2019, 2020 and 2021 should indicate how embedded (or discretionary) oil and natural gas consumption really is.

Figure 1



Source: BP Statistical Review of World Energy – 2022

In the case of oil (see Figure 1), there certainly appears to be a discretionary element. Both as a result of covid lockdowns

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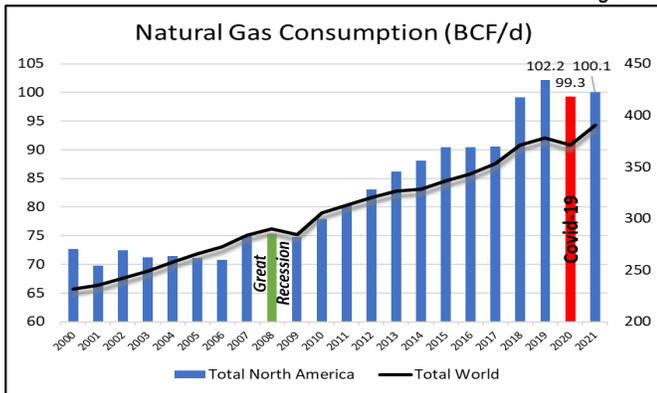
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and travel restrictions in 2020, and also as a result of an economic downturn, like that of the great recession of 2008. Not choosing to travel and/or consume oil-based products clearly influences overall consumption. In 2020, oil consumption was down 12.4% in North America and similarly down across the globe (-9.2%).

But that was not the case for natural gas (Figure 2). Despite the global pandemic, natural gas consumption was only down 1.8% globally and 2.8% in North America.

Figure 2

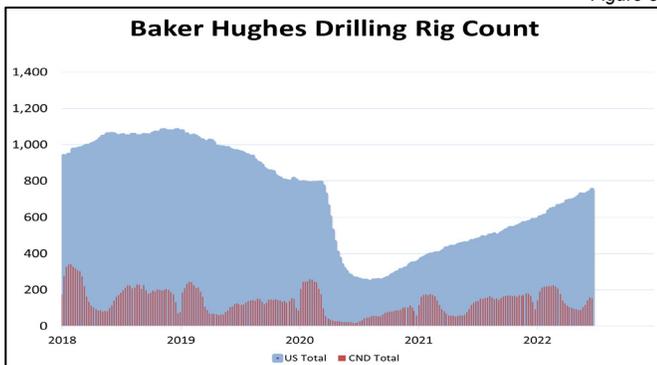


Source: BP Statistical Review of World Energy – 2022

Evidently, economic conditions and pandemics have far less impact on natural gas demand than oil demand. So, as we look forward to a possible economic downturn and fear of a deep and lasting recession, a forecast of lower natural gas consumption and demand is unwarranted.

Then there's the issue of supply. Drilling activity looks to have recovered from the slowdown during the pandemic and there is the expectation that, at least in North America, there should be growing supply. Except that North America is now being asked to help supply a Europe that wants off Russian oil and gas. Elsewhere (OPEC+) supplies are not increasing much. And beyond the current rig recovery, the CEOs of most US oil and gas companies are [saying they won't/can't](#) do more.

Figure 3



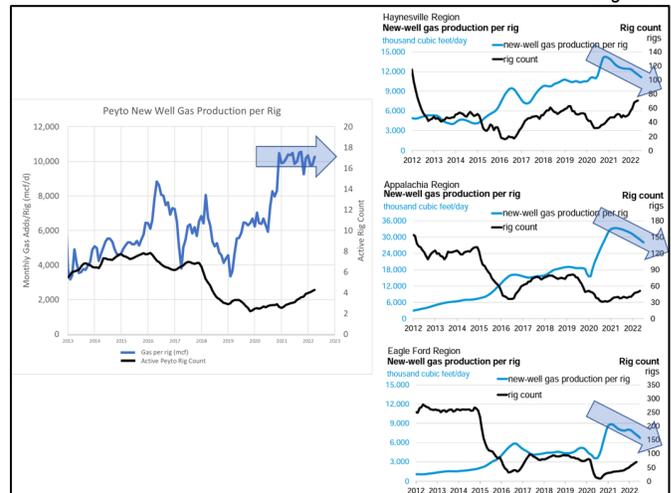
So, it does not appear that high prices are going to solve high prices this time around. Even government caused inflation is unlikely to temper demand, at least for natural gas. It really boils down to when or if incremental supply shows up.

At Peyto we want to invest more, drill more, produce more, sell more, and maximize the return on invested capital. As a publicly traded private enterprise owned by its shareholders, that's what we are designed to do. But like those similar to us, if we do that, without also having companies free to invest in infrastructure to get our products to market (because of government regulation, intervention and restriction) then our growth will not be profitable for our owners. And so, we wait. For even higher prices it seems.

Activity Levels and Commodity Prices

It's interesting to look at gas rig productivity across the many US shale plays, particularly as rig counts recover in many of the natural gas basins. In almost all plays, the rig productivities have been falling for more than a year (Figure 4). This could be due to falling well productivity, as Tier1 drilling inventory is depleted, or it could be due to falling rig efficiency as less efficient rigs/people are brought back into service, or it could be a bit of both. Regardless, increasing rig counts aren't necessarily adding the same amount of new production as the previous rigs.

Figure 4



Source: Peyto, EIA Drilling Productivity Report

In Peyto's case our rig productivities appear to be holding at the elevated levels we achieved back in early 2021. This is likely due to improved efficiency from extended reach horizontals and the fact that we have simply increased the utilization of the existing rigs we were already running. Recall, when we slowed down we kept all our rigs under contract and only ran them half of the time. Something we hope our service providers remember us for.

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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 netbacks, 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.