

Peyto Exploration & Development Corp.

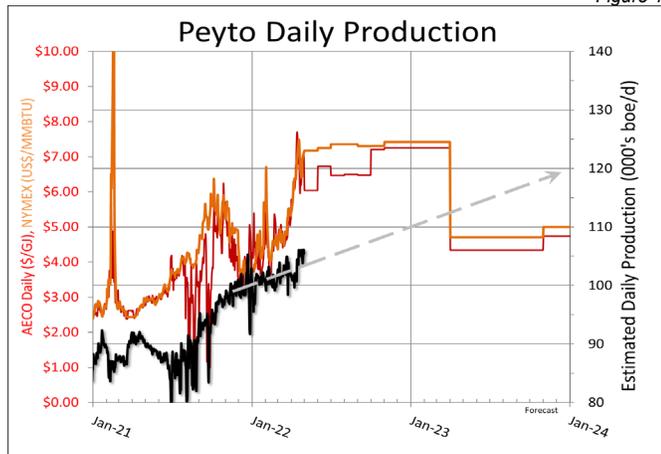
President's Monthly Report

May 2022

From the desk of Darren Gee, Chief Executive Officer

Spot gas prices spiked to \$7.50/GJ this past month as winter refused to let go and storage was drawn dangerously low. So too did our production spike as we brought on our Chambers plant and production climbed as high as 106,000 boe/d (holding there now). It makes me start to think about the last time our production was this high. Our peak production previously was in November 2017 at 111,500 boe/d and it will be interesting to see if we can hit that number again before the year is out. I expect we'll be waving as we blow by it, since we have much more processing capacity this time around and our base decline is much lower.

Figure 1



Source: Peyto, NGX, EIA

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	Oct	Nov	Dec	Q4 20	2021	Jan	Feb	Mar	Q1 21
Acq/Disp	3	36	0	0	0	0	0	1	36	0	22	0	22
Land & Seismic	8	1	1	2	0	0	3	4	8	0	1	0	1
Drilling	105	34	28	43	16	20	19	54	159	18	19	16	52
Completions	70	18	15	26	8	7	12	27	87	9	13	11	33
Tie ins	23	5	4	7	2	3	4	9	25	3	3	4	10
Facilities	26	16	8	12	3	6	5	14	50	32	8	7	47
Total	236	109	57	90	29	36	43	109	365	62	65	39	166

Production ('000 boe/d)*

	2019	Q1 20	Q2 20	Q3 20	Q4 20	2020	Q1 21	Q2 21	Q3 21	Q4 21	Jan	Feb	Mar	Q1 22	Apr
Sundance	49	49	47	47	49	48	48	50	49	56	58	58	55	57	55
Ansell	15	14	14	13	16	14	17	15	15	16	16	16	15	16	16
Brazeau	13	12	14	15	16	14	17	18	18	16	17	17	20	18	22
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	2	1	1	2	4	5	5	7	8	8	11	9	10
Total	81	79	78	78	84	80	88	89	89	97	101	101	102	101	104
Liquids %	14%	15%	14%	14%	13%	14%	14%	14%	12%	11%	11%	11%	12%	11%	12%

*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.

Ready, Set, Go!

After much anticipation we finally have our new Chambers plant up and running. This is the first new greenfield gas plant (new from scratch) that Peyto has constructed since our Brazeau plant back in 2015. The major equipment we used for it (inlet, six compressors, refrigeration package, etc.), was all in our capital inventory and was originally purchased for a new plant we had envisioned in the Whitehorse area (still in the works) and an expansion at Brazeau. That plan was put on hold back in 2017 when AECO gas prices collapsed. So, this equipment has been sitting around for a while and required some TLC to get it back to "ready to run" condition.



The photos above show a row of compression [1] (big cooling fans on the ends) on one side of the pipe rack, with flare knockout drum [2], inlet building and condensate stabilization [3]. And on the other side is the refrigeration process [4], propane recovery and cooling units, MCC (master control center) [5], and finally the sales meter and heat medium skid [6]. The row of new Christmas trees along the road is for natural CO₂ sequestration! (just kidding, it's for dust control from the road). The three advanced waste heat recovery units which will make this plant our most environmentally efficient to date are still on order and will be installed beside the compressors. They should be arriving and installed in June after breakup.

Despite the extra time to condition the gear, Peyto constructed this new plant in record time. When compared to many of the other gas plants we've built, the "First Piles Pounded to First Gas Sold" timeline was the shortest at 112 days. Previous new plants like Swanson (an expansion), and Oldman North (greenfield) took an equivalent of 115 and 143 days, respectively.

Once all this equipment was set and bolted down, and the pipelines were all installed to connect it all together, there were a series of steps to bring it all online. At the peak, there were 80 workers on site, accomplishing all this work in a very safe and careful manner. I'm happy to report no major safety

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incidents occurred (although there was one minor hammer/finger issue). And of course, it goes without saying that all workers on site were certified and complied with all Alberta and Canadian labor laws/regulations - no child labor here! (it seems so silly to me that we actually have to point this out to the ESG crowd).

So once the construction crews are finished bolting/welding/piping/wiring it all together, they hand it over to our operations crews and their start up steps are as follows:

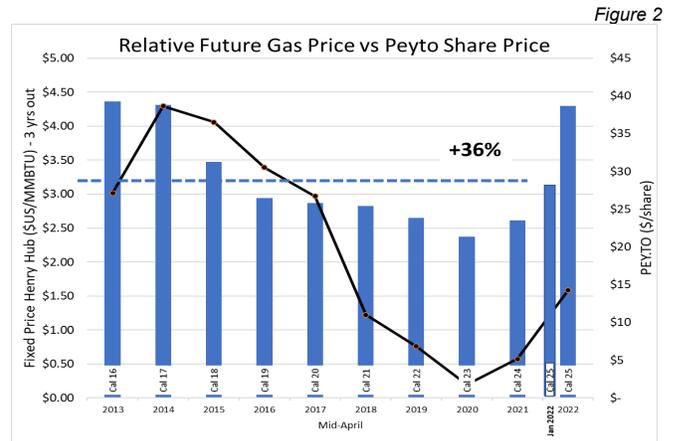
1. Confirm that all flanges on pipe racks/inside all buildings have been torqued to spec and all Pressure Safety Valves (PSV) installed, including infrared methane leak tracing.
2. Review all control philosophy documents for each major piece of equipment and purge procedures for piping and equipment.
3. Energize plant with generator power or line power.
4. Finish final programming of all plant control systems including communication with Motor Control Center (MCC), Programmable Logic Controllers (PLC) and Human-Machine Interface (HMI).
5. Fill all plant fluids (engine and compressor oils, utility heat oil, glycol and propane refrigerant) and test pumps. No leaks!
6. Function test all emergency shutdowns (ESD) and fail safe logic controls from the "shut down key" including entire plant blowdown in the event of fire/gas leak detection.
7. Purge entire plant with inert nitrogen (air or oxygen is explosive). No leaks!
8. Purge entire plant with natural gas and pressurize all systems. Again, use FLIR camera (infrared), gas monitor tests, etc. for leak detection.
9. Start utility heat medium pumps and introduce heat to plant.
10. Run individual compressors to confirm operation.
11. Start selling gas and slowly ramp up flow rate.

And there you have it! The plant is running.

We tend to take for granted our ability to drop in a new gas plant and get it running to accommodate new production we've built. But maybe we shouldn't. Not everybody can do it. That's why there is a midstream industry in Canada, to service those that can't. However, we decided a long time ago to gain the expertise to build (and establish long term relationships with mechanical/electrical construction crews) and operate our own gas plants, and that decision has proven a wise one indeed. As a result, in addition to the decades of valuable natural gas reserves we've developed, we have an amazing collection of natural gas plants that represent an enormous midstream asset worth close to \$2 billion today ([slide 33](#)). Not everybody has that either.

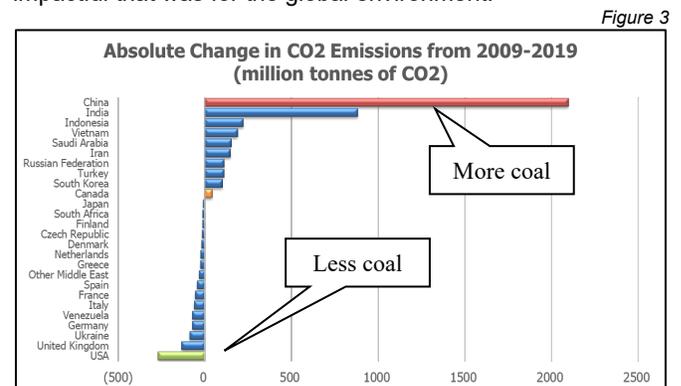
Activity Levels and Commodity Prices

Something interesting has occurred in the natural gas futures strip. For a long time, I've tracked what the futures price for Henry Hub is 3 years out, as I feel it represents a perceived fundamental supply cost. If you think about it, 3 years is far enough to be beyond any weather impact, storage issues, supply/demand imbalance, geopolitical events, or other such influence.



Source: TD Energy Daily

Over the last two months that 3-year out price has jumped 36% above the average of the previous decade. That's a lot! It puts that expected supply cost back up at the level it was from 2010 to 2014 which was closer to the start of the shale gas revolution. Recall that was when increased natural gas production was considered a good thing because it allowed the US to get off coal. See Figure 4 which shows just how impactful that was for the global environment.



Source: BP Statistical Review of World Energy July 2021

Perhaps with the Russia/Ukraine war reminding everyone about energy security and Europe finally recognizing that natural gas can be good for the environment, the value of natural gas has permanently risen. Same goes for the value of Peyto's reserves.

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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.