

Peyto Exploration & Development Corp.

Monthly Report

June 2024

By Jean-Paul Lachance, President and Chief Executive Officer

Natural Gas - The Destination Fuel

Peyto believes we are in the right business. We produce an essential commodity the world uses for heating, generating electricity, and providing feedstock for agricultural fertilizers, plastics, and pharmaceuticals. Natural gas is a key fuel in the energy mix that has driven economic prosperity, reduced global emissions and provided a healthier alternative to coal and biomass as a source for heating and cooking. We believe natural gas should be viewed as the Destination Fuel, not a transition fuel, that will continue to drive global CO₂ emission reductions, meet the world's growing energy needs as a reliable energy source, and improve the health and prosperity of billions of people around the globe.

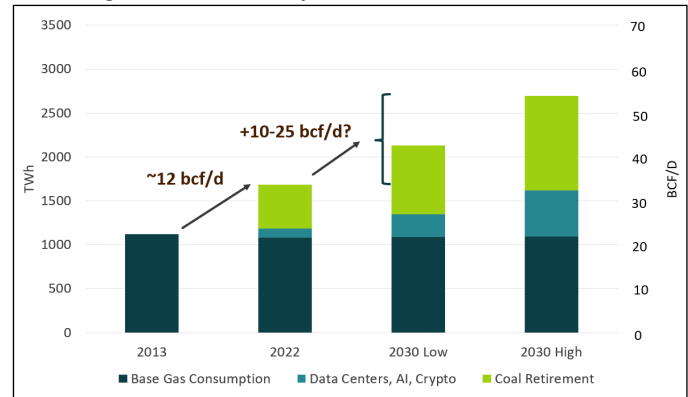
Coal to gas switching for power generation has been a major contributor to the 30% reduction in per-capita CO₂ emissions in the US between 2001 and 2021, improving the health and quality of life of North Americans. In 2000, coal accounted for 50% of power generation in the US and natural gas was only 15% of the mix. Today, coal has fallen below 20% and natural gas now accounts for over 40% of power generation ([Our World in Data](#)). Coal to gas switching will continue in the US as 46 GW of coal fired capacity is scheduled for retirement by 2030 and is a tailwind for natural gas demand in North America ([EIA](#)).

China generates more electricity from renewables than the US and Europe combined, however in 2021, 63% of China's power generation came from coal. In the same way that North American natural gas provides a flexible fuel for power generation, coal provides China with a buffer to manage peak loading. In times of drought when hydro power generation is low (their second largest energy source at 16%), or when the wind is not blowing, coal is available as the flexible, reliable, and abundant energy source. As a result, China makes up for over 30% of global CO₂ emissions ([IEA](#)). Whereas North American per-capita emissions have been falling precipitously this century, in China they have grown by over 200%. Coal fired electrical capacity is only growing in China where an average of 2 new coal-fired facilities were permitted every week last year ([Global Energy Monitor](#)).

If we want to make a material impact on global CO₂ emissions, then the answer lies with natural gas. Canada could supply emerging markets with LNG, to help displace coal fired plants and follow the same path the US has been on for the last 20 years. In fact, North America is building out LNG export infrastructure on the West Coast of Canada and in the Gulf of Mexico. By the end of this decade, LNG exports from North America are expected to double from 12.5 Bcf/d today to over 25 Bcf/d through projects that are permitted and in various stages of completion ([EIA](#)).

Artificial intelligence, cryptocurrency, electric vehicles, and data centers present additional drivers to increasing consumption of electricity both in North America and globally. While the range of expectations is wide, there is general agreement that this will be a boon for natural gas demand. Data centers in the US consumed 2.5% of US electricity generation in 2022. That number could triple to 7.5% by 2030 ([S&P](#)). Depending on how the energy requirements are met, data centers could add 5 – 10 Bcf/d of North American natural gas demand over the next five years. Figure 1 summarizes the impacts on natural gas demand growth in the US for electrical generation.

Figure 1: US Electricity Generation from Natural Gas



Source: [Our World in Data](#), [EIA](#), [IEA](#), and internal analysis
Assumes 7 mmbtu/MWh

Alberta, with its abundant, secure, and reliable natural gas supply, is well-positioned to become a major hub for data centers, too. With our cooler climate, we could power those data centers with improved energy efficiency since 40% of the power demand from data centers is used for cooling equipment ([GoC](#)).

We expect that global demand for all sources of energy will continue to increase and natural gas should play a significant role in that growth right here at home and globally which gives us confidence that we are in the right business!

Operational Highlights

In May, Peyto completed the first phase of the Edson Gas Plant turnaround which resulted in a net production deferral of 1,000 boe/d. We continue to drill through break up with four rigs on multi-well pads but, as a result, only tied in 3 new wells. We are set up for a busy summer of completions and currently have 10.5 net wells that have been drilled and are awaiting completion and/or tie-in. We will manage this inventory and grow into stronger pricing in Q4.

Capital Investment (\$C millions)¹

	2022	Q1 23	Q2 23	Q3 23	Q4 23	2023	Jan 24	Feb 24	Mar 24	Q1 24	Apr 24
D,C,E&T ²	371	89	72	81	91	333	29	32	33	94	28
Facilities	100	32	9	11	12	64	6	4	8	18	5
Other ³	10	1	1	1	12	16			2	2	
Acquisitions ⁴	48										
Total	529	122	82	94	115	413	35	36	42	114	33
ARO Activities ⁵	5			1	2	3	2	1	1	4	

Production (mboe/d)¹

	2022	Q1 23	Q2 23	Q3 23	Q4 23	2023	Jan 24	Feb 24	Mar 24	Q1 24	Apr 24	May 24
Sundance	76	71	67	66	87	73	89	95	95	93	91	91
Brazeau	23	27	28	28	29	28	28	27	27	27	27	26
Other	5	5	4	4	4	4	5	5	5	5	6	5
Total	104	103	99	98	120	105	122	127	127	125	124	122
Liquids %	12%	12%	11%	11%	13%	12%	13%	13%	14%	13%	12%	12%

- This estimate is based on field data, not a forecast, but actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.
- Well related costs including Drilling, Completions, Equip and Tie-in.
- Other costs include Land, Seismic, and Miscellaneous.
- Acquisitions costs include asset and corporate deals but does not include the acquisition of the Repsol partnership.
- Asset Retirement Obligations (ARO) spending is decommissioning expenditures incurred in the period.

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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, current fixed revenue projections for 2024, production decline rates and forecast netbacks, contains forward-looking statements. Reserves disclosures are also forward-looking information, including the volumes and the life of Peyto's reserves, production estimates, project economics including NPV, IRR, netback and recycle ratio. 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.

NON-GAAP AND OTHER FINANCIAL MEASURES

Peyto employs certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as long-term debt, net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance.