Peyto Exploration & Development Corp.
President's Monthly Report

July 2011 | From the desk of Darren Gee, President & CEO

Wet. That is the singular phrase being uttered across much of North America this year. The flooding that is occurring across the Canadian prairies and into the US is breaking records and wreaking havoc for farmers and industry alike. Eye witness reports by travelers on the Trans-Canada highway are of fields of water for as far as the eye can see, and that's only if the highway itself is above water.

Peyto's operation in West Central Alberta has not been completely immune to a wet spring with rains causing some operational delays and lightning storms knocking out power in some areas, but for the most part we are still steady as she goes. Good thing too because gas prices are definitely not making up the difference in cashflow that lost production and significant operational delays can cause.

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 Investment

*2010/11 Capital Summary (millions$ CND)**

	Q1 '10	Q2 '10	Q3 '10	Q4 '10	Jan	Feb	Mar	Q1 '11	Apr	May
Land & Seismic	0	0	5	13	-1	2	5	6	0	1
Drilling	31	18	34	57	15	16	20	51	13	10
Completions	16	10	13	26	12	11	10	33	8	4
Tie ins	8	4	10	9	2	2	3	7	2	1
Facilities	2	6	5	6	3	3	2	8	4	4
Drilling Credit Used	-3	-2	-4	0	0	0	0	0	-1	0
Sub Total	55	37	63	111	**29**	**34**	**41**	104	**26**	**20**
Rem. Drilling Credit	**-5**	**0**	**2**	**-1**	0	0	0	**0**	0	0
Total	**50**	**37**	**64**	**110**	29	34	40	**104**	26	20

This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Production

*2010/11 Production ('000 boe/d)**

	Q1 10	Q2 10	Q3 10	Q4 10	Jan	Feb	Mar	Q1 11	Apr	May	June	Q2 11
Sundance	16.5	18.5	20.1	24.6	27.1	28.1	28.8	28.0	29.9	29.9	30.6	30.0
Kakwa	2.8	2.7	2.6	2.6	2.5	2.5	2.9	2.6	3.6	3.3	3.4	3.4
Other	1.3	1.1	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Total	**20.6**	**22.3**	**23.8**	**28.2**	**30.7**	**31.7**	**32.8**	**31.7**	**34.6**	**34.2**	**35.0**	**34.5**

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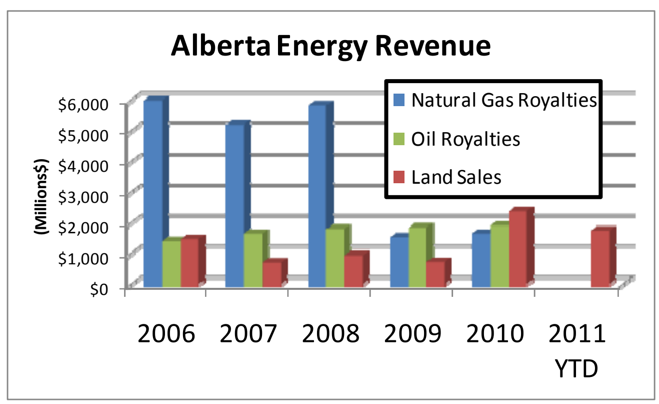
Renaissance Rig March

A recent European marketing tour with several other Canadian E&Ps gave me an opportunity to reminisce with an old boss about days gone by in the oil patch. Both of us were working for Renaissance Energy back in the day when they had fleets of drilling rigs marching their way across Western Canada. Back then, Renaissance had some 10+ million acres of lands that were constantly being evaluated with drilling (over 1,600 wells one year). In addition, they were faced with a massive amount of land that was expiring every year – over 1 million acres. Some of the lands would be continued with drilling but often these leases just expired and were turned back to the provincial governments to be resold.

It got me thinking about the big land sales that have occurred in Western Canada over the last few years and all the money tied up in that land which may or may not bear fruit. Or maybe it doesn't really have to bear fruit in the traditional sense that companies will drill productive oil and gas wells, before the lands expire, that will eventually pay for the land costs. Maybe oil and gas companies are evolving into land brokers or realtors, making money on the buying and selling of land. It has definitely become a primary business for the Provinces.

Take Alberta, for example, where last year they made more money selling leases than collecting either oil or natural gas royalty revenue. Figure 1 shows how the fortunes in Alberta have changed from production to land sales over the last few years.



http://www.energy.alberta.ca/Tenure/877.asp

In the first half of this year the Alberta government has already leased another 6,478 sections for a wopping $1.76B or more than twice as much as the same time in 2010, which was a record year.

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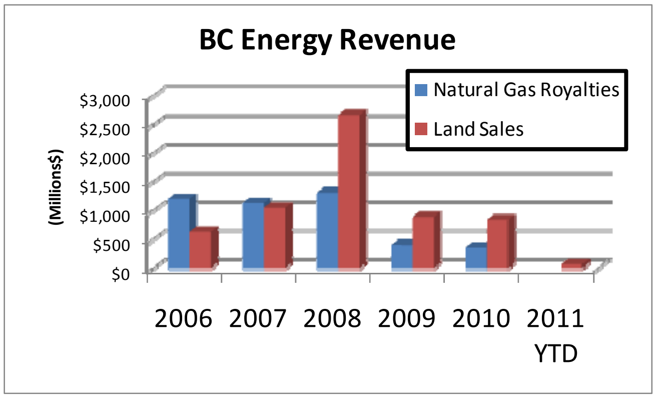
The BC government isn't much different. They've been making more off land sales than natural gas royalties for several years as well. Only this year, their fortunes have turned. Land sale activity in BC in 2011 has virtually "watered out" with year to date sales of only $66 million versus the $610 million to this point last year.



http://www.empr.gov.bc.ca/TITLES/OGTITLES/SALERESULTS/Pages/default.aspx

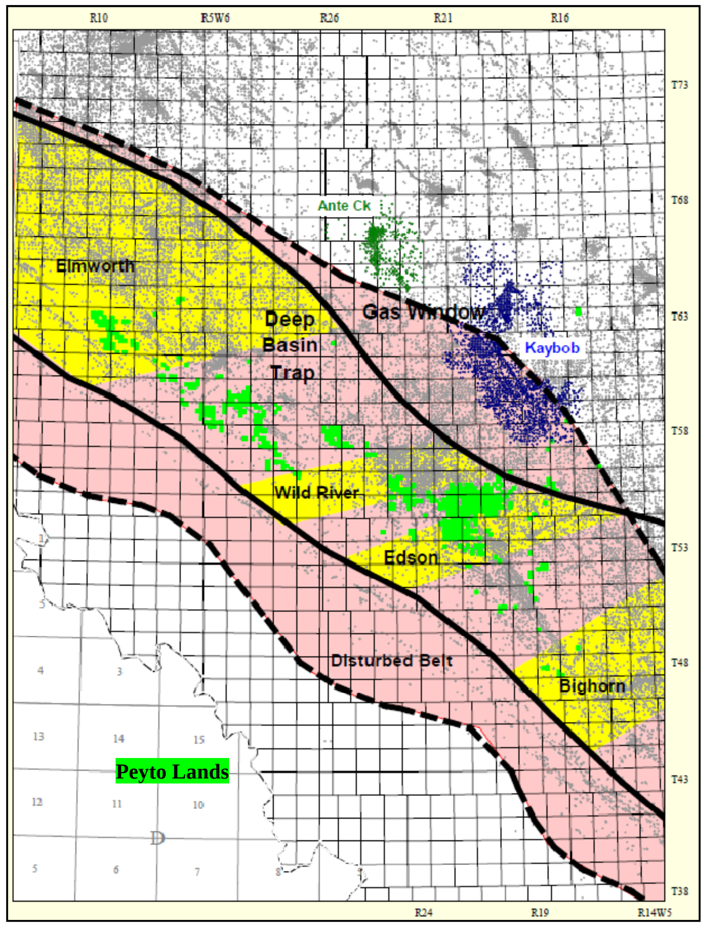
One has to wonder if the risk doesn't emerge that the provinces are going to recognize that land sales are their largest revenue generator and start to try and lease their minerals more often? Alberta has already talked about a shallow rights reversion process that would have shallow rights turning over more quickly. What if BC decides to do the same? Or perhaps even to arbitrarily shorten the tenure to get the lands back faster, taking a "drill it or lose it" approach. When land sales have become the biggest part of your business, it only makes sense to optimize it.

If traditional exploration and production companies have also entered this game of buying and selling lands, which many have, whether it be to foreign national companies or Asian joint ventures, then it would behoove them to get their cash up front. In the NE BC Montney play, the Progress and Encana deals are good examples. One got cash up front in exchange for land, the other a joint venture farm in (which has now fallen apart). At least with cash up front you don't run the risk of the Province forcing validation drilling sooner than you thought.

I does serve as a good reminder, however, that the amount of drilling required to validate any "upside land" case needs to be considered, and those companies with the big land positions better be prepared to do the Renaissance Rig March, or much of this newly purchased land will soon be back up for sale. Exactly what those in charge of the provincial coffers are looking for.

Activity Levels and Commodity Prices

Lands under water and land sale lands aren't the only lands being talked about these days. The Deep Basin of Alberta is getting a lot of attention as well for it's liquids rich gas reservoirs and resource play attributes that are superior to many of the shale gas basins. Interestingly though, industry's reference to the Deep Basin is a pretty broad one. Although a lot of drilling has transpired over the last 30 years to help further define it, the Deep Basin was originally and most thoroughly defined by John Masters of Canadian Hunter in his 1984 thesis. His general outline of the Deep Basin is shown in the map below as a fairway within the gas window.



It may surprise some that fields like Kaybob and Ante Creek which are often refered to as "in the Deep Basin," actually aren't. Instead, they are merely conventionally trapped gas fields with the same water risk as the rest of the WCSB. A caution to investors; be wary of "Swiss" watches that are really made in China.