Peyto Exploration & Development Corp.
President's Monthly Report

September 2011 — From the desk of Darren Gee, President & CEO

2011 is a big year for plant expansions at Peyto. So far this year we've increased capacity at our Oldman, Wildhay and Nosehill gas plants from a combined 170 mmcf/d to 270 mmcf/d. The photo above shows the additional refrigeration and compressors that started up at Nosehill last week, taking Nosehill from 70 mmcf/d to 110 mmcf/d. It meant some downtime to tie in the new facilities and that hurt production for the month but it was necessary to stay out in front of our growing production with available facility capacity.

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

*2011 Capital Summary (millions$ CND)**

	2010	Jan	Feb	Mar	Q1 '11	Apr	May	Jun	Q2 '11	July
Land & Seismic	18.5	-1	2	5	6	0	1	1	1	1
Drilling	140.5	15	16	20	51	13	10	9	32	17
Completions	65.3	12	11	10	33	8	4	5	18	8
Tie ins	30.3	2	2	3	7	2	1	1	5	4
Facilities	19	3	3	2	8	4	4	8	16	4
Drilling Credit Used	-7.6	0	0	0	0	-1	0	-2	-3	0
Sub Total	**266**	**29**	**34**	**41**	**104**	**26**	**20**	**22**	**69**	**33**
Rem. Drilling Credit	-4.1	0	0	0	**0**	0	0	0	**0**	0
Total	**262**	**29**	**34**	**40**	**104**	**26**	**20**	**22**	**69**	**33**

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	Q1 11	Apr	May	June	Q2 11	Jul	Aug	Sept
Sundance	16.5	18.5	20.1	24.6	28.0	29.9	29.9	31.0	30.2	31.2	32.0	
Kakwa	2.8	2.7	2.6	2.6	2.6	3.6	3.3	2.9	3.2	2.9	3.1	
Other	1.3	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.1	1.0	1.1	
Total	**20.6**	**22.3**	**23.8**	**28.2**	**31.7**	**34.6**	**34.2**	**34.9**	**34.4**	**35.1**	**36.2**	

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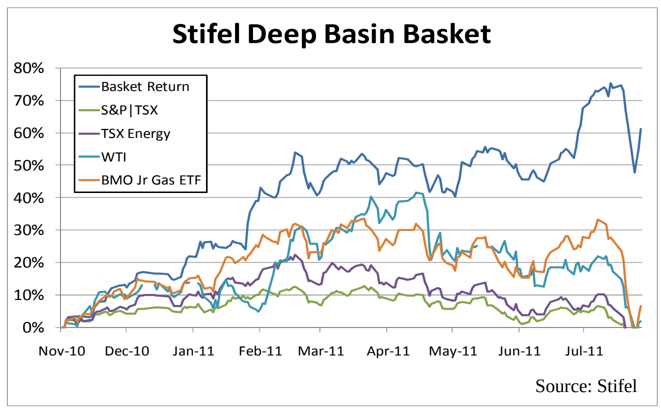
Differentiating a Deep Basin Basket

Several of the brokerage firms in town have been touting the performance of E&P companies operating in the Alberta Deep Basin. A group of focused producers including Peyto, Paramount, Trilogy, Tourmaline, Celtic, Cequence, and Delphi, for instance, make up Stifel, Nicolas & Co.'s "Deep Basin Basket" and have significantly outperformed the Commodities, an index of E&P equities, and the S&P/TSX index over the last nine months. Perhaps that's for good reason, considering the liquids rich, natural gas resource plays of the Deep Basin can offer some attractive returns in the current gas and liquids price environment. Especially when you are able to bring the advantage of horizontal mutli-stage frac well technology to bear on the many tight sandstone reservoirs, as Peyto has done. Figure 1 shows how this basket of stocks has performed since last fall relative to those indexes (Nov 2010).

Figure 1



Stock performance specifically within this group (figure 2) has been varied, so I guess the logical question is "why?" What is it that differentiates these Deep Basin producers? Are the drivers of stock prices aligned with the traditional

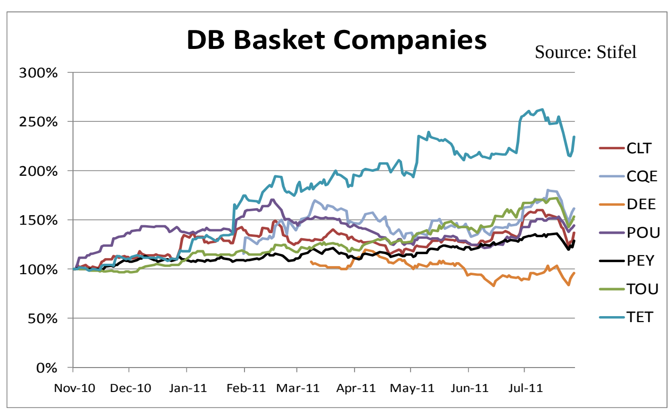


Figure 2

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drivers of value creation like growth in production, cashflow and reserves on a per share basis?

In Peyto's case, there has been significant growth in production and cashflow per share over the past year. Looking at the period from Q2 2010 to Q2 2011, production/share is up 42% while cashflow/share is up 35%. Digging further one can measure capital efficiencies that are also very strong. For instance, over that same period reported production grew from 22,202 boe/d to 34,443 boe/d against a based decline of 34%/yr. So for the $350 million of capital spent over that same period, capital efficiencies of $17,680/boe/d were realized.

You can even calculate a "payout" of sorts by dividing that capital efficiency by the cashflow netback. In other words, the $17,680/boe/d (what it costs you to build a barrel of oil equivalent) divided by Q2 2011 CF netback of $24.60/boe (what you're selling that boe for) gives us a payout of 2 years. Comparing that to the PDP reserve life of 11 years, leaves a lot left over.

So how does the rest of the "Deep Basin Basket" look on those same measures of growth and efficiency? Table 1 below shows those different categories by company (corporate declines were sourced from Peter's & Co).

Table 1

	Peyto	TOU	TET	POU	CQE	CLT
Growth						
Production/share	42%	34%	21%	19%	-17%	-22%
ranking	1	2	3	4	5	6
Cashflow/share	35%	50%	58%	-8%	23%	21%
Efficiency						
Operating Margin	76%	70%	49%	36%	44%	65%
Capital Efficiency ($/boed)	$17,681	$42,606	$20,289	$41,167	$39,116	$40,627
Q2 '11 CF Netback ($/boe)	$ 24.60	$ 23.46	$ 19.75	$ 14.02	$ 14.50	$ 25.18
Payout (yrs)	2	5	3	8	7	4
PDP Reserve Life (yrs)	11	5	6	4	5	4
Average ranking (7 categories)	1.4	3.4	2.6	5.4	4.3	4.0
Share Performance	29%	52%	135%	44%	40%	38%

It doesn't appear that either growth or efficiency correlates very well to share performance. If you ranked the various parameters (7 of them) in relative order and averaged the ranking, even combining growth and efficiency doesn't really correlate (I've even credited those operators with their respective shut in volumes over Q2 when calculating capital efficiency).

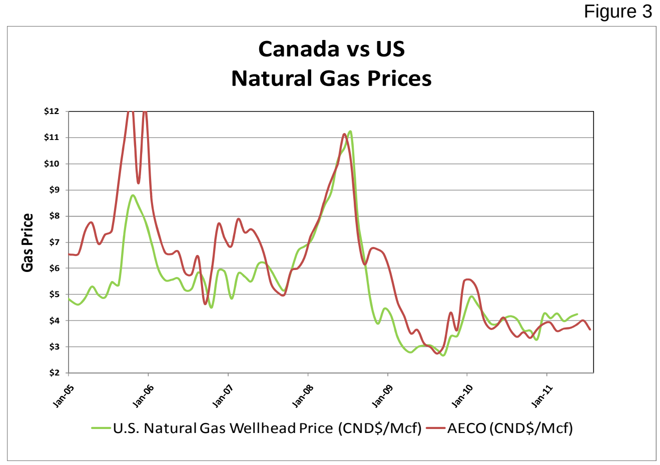
They say that the market is a forward looking mechanism, so there must be some future story that is missing when looking backward at company performance. Unfortunately, there is often a big gap between the future story and the reality when it actually happens. In our case, we can honestly say our reality has often eclipsed the "stories" that analysts and others tell of our future.

Thankfully, history has shown that when there is profitable growth resulting from efficient capital deployment, that growth is usually reflected in share prices. Eventually, the value creation drivers rule the day. So perhaps we as investors would be wise to leave the stories where they belong and focus on the reality of results.

Activity Update and Commodity Prices

Canadian gas producers and more specifically those here in Alberta, are dealing with natural gas prices that are almost the same as their US counterparts. When you adjust the average US wellhead price to a CND$ and compare that to AECO (Figure 3), there is only a difference of around a quarter. That means that if our costs are all about the same, then we're all enjoying (or not) about the same profitability right now.

Figure 3



I believe the difference between our shrinking supplies and their growing volumes is not driven by price but because of capital discipline. Either you make it a requirement that new production must be built and produced for a profit, or you don't. I think we do and they don't. Sadly, it will ultimately be the shareholders of those companies that pay for that decision.