Peyto Exploration & Development Corp.
President's Monthly Report

August 2012 — From the desk of Darren Gee, President & CEO

Foreigners invaded The Calgary Stampede in droves this last month, helping set records for attendance at the "Greatest Outdoor Show on Earth" with over 1.4 million passing the turnstiles over the ten days. Apparently, a few decided to invade the Calgary oil patch too, with two large takeovers announced: one by Petronas (taking over Progress at $6.0B) and one by CNOOC (taking over Nexen at $17.9B incl. debt). It kinda makes our announced takeover of Open Range pale in comparison. In some ways, all these deals are similar: a larger, better capitalized entity, taking over a smaller less capitalized entity in order to develop the resources faster for greater realized value for the shareholder. However, both Petronas and CNOOC have very little track record in Canada developing our hydrocarbon resources, whereas, in Peyto's case, we are the one with the most experience.

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

*2011/12 Capital Summary (millions$ CND)**

	Q1	Q2	Q3	Q4	2011	Jan	Feb	Mar	Q1 '12	Apr	May	Jun	Q2 '12
Land & Seismic	6	1	14	7	28	2	0	0	3	1	1	0	1
Drilling	51	32	46	49	178	20	19	13	52	6	0	16	23
Completions	33	18	26	28	104	10	11	11	31	4	0	10	14
Tie ins	7	5	10	10	32	2	4	3	8	2	1	2	5
Facilities	8	16	16	0	40	1	3	1	4	1	1	1	3
Drilling Credit Used	0	-3	0	0	-3	0	0	0	0	0	0	0	0
Total	**104**	**69**	**112**	**95**	**379**	**35**	**36**	**28**	**99**	**14**	**4**	**29**	**46**

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

*2011/2012 Production ('000 boe/d)**

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Apr	May	June	Q2 12	Jul	Aug	Sept	Q3 12
Sundance	28.0	30.2	32.3	35.1	35.4	34.6	34.1	34.2	34.3	35.5			
Kakwa	2.6	3.2	3.0	3.4	3.8	4.4	4.1	4.0	4.2	3.9			
Other	1.1	1.1	1.0	1.3	2.0	2.7	2.7	3.0	2.8	3.4			
Total	**31.7**	**34.4**	**36.4**	**39.8**	**41.2**	**41.7**	**41.0**	**41.2**	**41.3**	**42.8**	**-**	**-**	**-**

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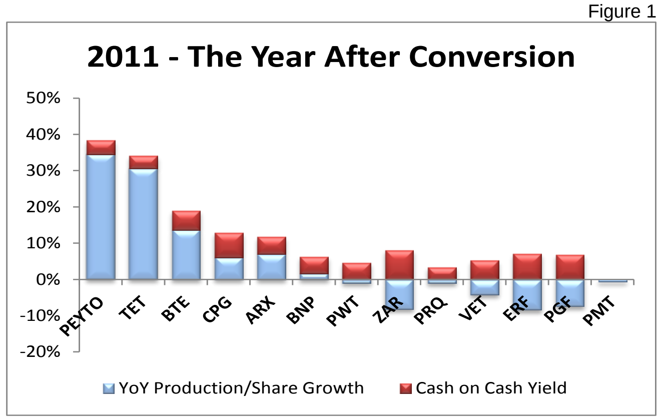
Life after Conversion

The year 2011 was a defining year. It was the first full year that many of the ex-Trusts spent as dividend paying growth corporations. The performance of this group in 2011 was expected to highlight the sustainability and success of this new corporate model with both income and growth combining to give shareholders an attractive total return package. Unfortunately, as exciting as this new model sounded, the results were less than spectacular. Figure 1 shows the 2011 production per share growth (Q4 2011/Q4 2010) plus dividend income (2011 dividend/Dec 31/10 Market Cap). Outside of Peyto and Trilogy, the group returned an average of just 5% total return.

Figure 1

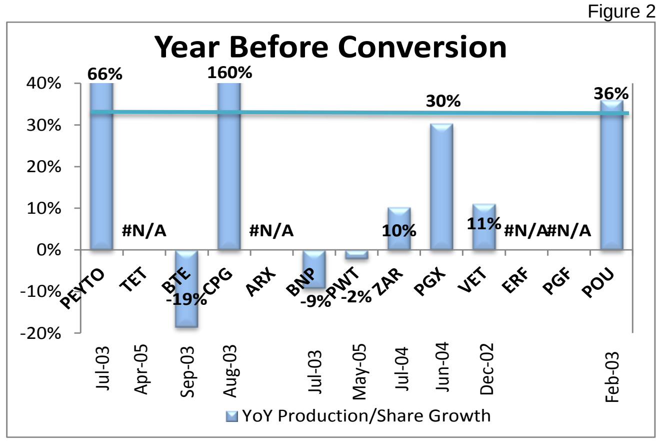


Pile on top of that generally lacklustre 2011 performance, the challenging commodity prices of 2012 and it really brings into question whether this model will survive at all. Is the post Trust structure dying? Will the dividends all dry up with these companies having to revert back to pre-Trust days? If so, it might be interesting to look back to before the Trust conversions happened and compare company performance both before and after "Life as a Trust."

For the sake of interest, If we look at the year directly preceding a company's conversion (conversion dates shown in Fig. 2) and the year after converting back, how did the production growth compare? Is there more growth? Are the companies more efficient? Are they better capital allocators today, after all those years of competition for capital?

Figures 2 thru 5 show a comparison of production/share growth rate, PDP FD&A, PDP Recycle Ratio and Cashflow Margins both before and after conversion.

Figure 2



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Unfortunately, for Trilogy, ARC, Enerplus and Pengrowth, there was no life before Trusts to compare to, but generally speaking almost all the businesses were more efficient back then than they are today and delivered more growth per share to shareholders.

Figure 3

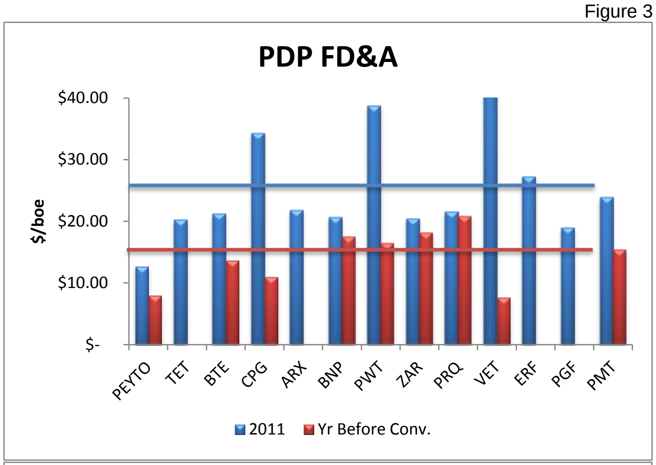


Figure 4

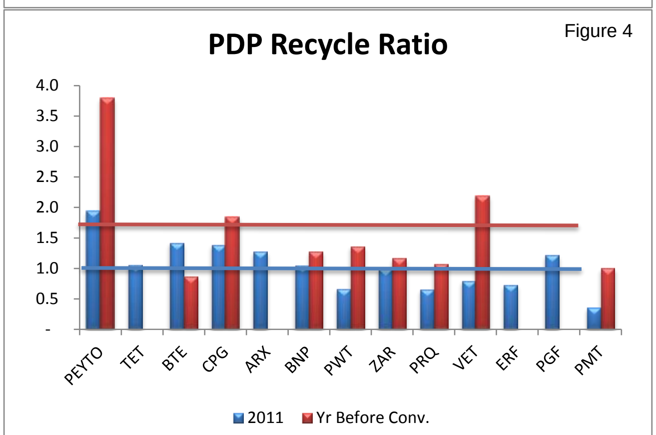
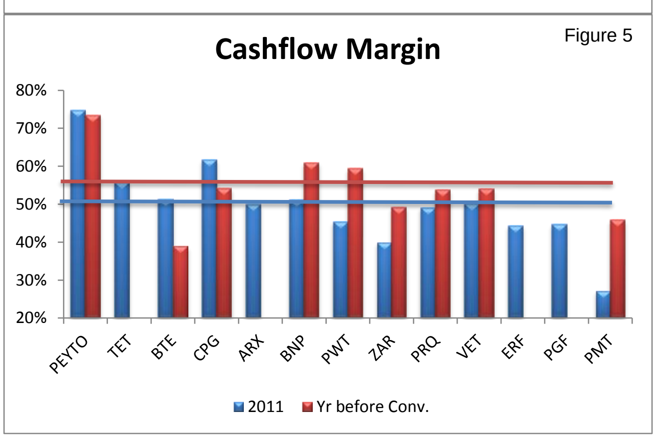


Figure 5

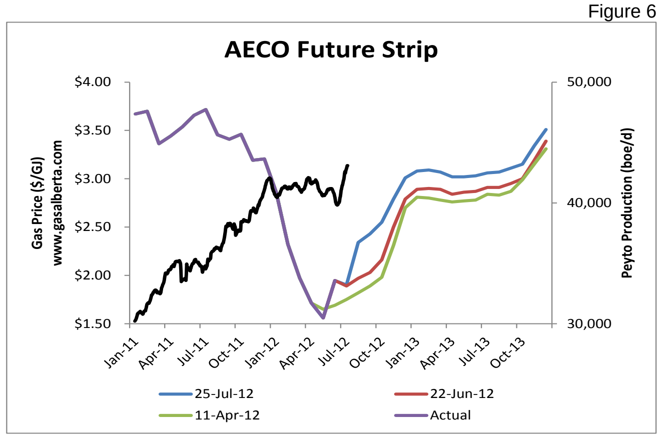


Arguably, many Trusts used their last years as trusts to position themselves in resource plays for growth and attempted to become more efficient with the drill bit. But it doesn't appear to have worked. So what does that say about the sustainability of this new dividend paying growth corp. model? Without growth or sustainable income, I'd say that there may not be much life left for some of them.

Activity Update and Commodity Prices

The future natural gas prices continue to improve each month with the latest forward strip showing AECO prices above $3/GJ for all of 2013. At Peyto we continue to hedge each month, locking in that price for next year while at the same time growing our production into that recovery.

Figure 6



That same $3/GJ gas price, when combined with an Edm. Oil price of $85/bbl, typical NGL offsets, and our cost structure, yields something in the order of 25-30% profit margin. That's the ratio of earnings to revenue. Yes, I said it, ***earnings***. Which is also right in Peyto's "wheelhouse", allowing us to profitably and agressively grow our business even though the rest of the industry is struggling to make these prices work.

Figure 7

Peyto's Profitable Business
Controlling Costs

	PEY 2013F
PDP FD&A $/mcfe	($2.10)
Cash Costs $/mcfe	($1.20)
Sales Price $/mcfe	$4.50
27% Profit	$1.20

Gas	Liquid	Total
$3/GJ AECO	$85/bbl Edm	
x 1.16 HC	x 85% QA	
x 88%	x 12%	
$3.06/mcfe	$1.45/mcfe	$4.50/mcfe