Peyto Exploration & Development Corp.
President's Monthly Report

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

The cabin at the lake is all packed up and the kids are back to school; so much for summer holidays. Overall, it's been a nice warm summer over much of the continent and that has put a reasonable dent in the natural gas volumes in storage, with air conditioners consuming power and power plants consuming cheap natural gas. The reduced storage numbers have caused natural gas prices to rally, not enough to keep NYMEX over $3 and AECO over $2.50, but enough to get them climbing in the right direction. Hopefully that trend continues and we'll see AECO spot over $3 by year end. The drop in US gas directed rig count, which is indicative of real supply costs, will eventually have its effect too, rest assured.

At Peyto, we're busy drilling like mad, building new production. As of September 1, 2012, we now have 8 drilling rigs active in our core Deep Basin areas and we're producing close to 50,000 boe/d. By Sept. 15, two of those rigs will already be moving to ONR lands. That's a record level of production and the most rigs we've run in a long time, and now that they're all horizontal wells, they cost three times as much, so it's a record capex pace too.

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	Q1/12	Apr	May	Jun	Q2/12	Jul	Aug	Sep	Q3/12
Land & Seismic	6	1	14	7	28	3	1	1	0	1	0			
Drilling	51	32	46	49	178	52	6	0	16	23	19			
Completions	33	18	26	28	104	31	4	0	10	14	9			
Tie ins	7	5	10	10	32	8	2	1	2	5	3			
Facilities	8	16	16	0	40	4	1	1	1	3	1			
Total	**104**	**69**	**112**	**95**	**379**	**99**	**14**	**4**	**29**	**46**	**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

*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	35.6		
Kakwa	2.6	3.2	3.0	3.4	3.8	4.4	4.1	4.0	4.2	3.9	3.6		
ONR											2.6		
Other	1.1	1.1	1.0	1.3	2.0	2.7	2.7	3.0	2.8	3.4	4.1		
Total	**31.7**	**34.4**	**36.4**	**39.8**	**41.2**	**41.7**	**41.0**	**41.2**	**41.3**	**42.8**	**45.9**	**-**	**-**

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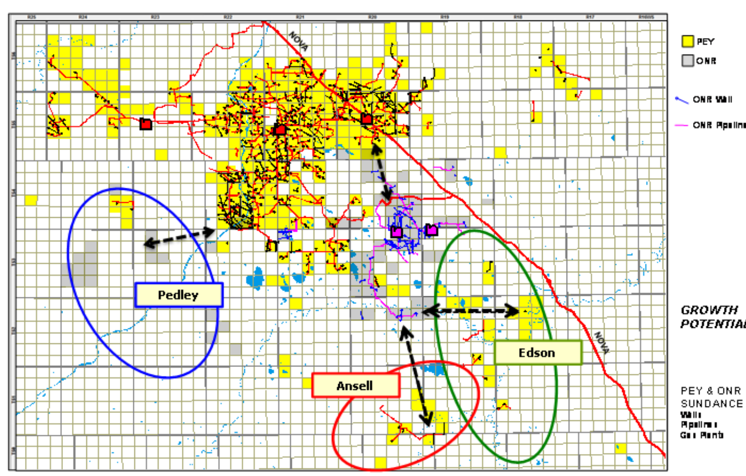
The Perfect Fit

August was an eventful month at Peyto. We did something we haven't done since our beginning – bought another company, Open Range Energy (ONR:TSE). Twelve years ago (Feb. 2000) we took over a little junior of 50 boe/d called Largo Resources. At the time, it was more material than Open Range is now, because at the same time, we weren't all that material ourselves (300 boe/d), but it still wasn't very big. Open Range, however, is much more significant and is a new thing for us. Up to this point, we had pretty much built everything we owned – all 43,000 boe/d in a concentrated, low cost, Deep Basin package – while at the same time delivering a very handsome return to shareholders on the $2.4 Billion of capital we used. Now, we've gone and bought 5,000 boe/d or so (5,200 boe/d the first week we owned it).

I suspect a corporate acquisition probably takes some investors by surprise. They've probably heard me say in the past that acquisitions are not Peyto's strategy. Not the way to go. That it's hard to make a return on acquisitions. That building it yourself is better.

I still believe those statements to be true today. The poor performance of so many companies that are cronic acquirers can't be repudiated. Sometimes though, there comes along an opportunity that challenges those generalizations, and this was just such an opportunitiy for us. After looking at it for the last couple of years, the price finally made sense too.

Of course, the operational synergies are obvious and overwhelming. And pretty unique to our current asset base, at it's current stage of development. A quick map of the lands, wells and facilities in Sundance is evidence of that.



We'll be able to interconnect the ONR gas plants and gathering systems to our own, to ensure the collective facilities remain fully utilized, and that will help reduce operating costs on all owned production in the area. Our operating practices are that much more efficient as well, so it won't be long before we'll be achieving industry leading operating costs on former ONR production too.

But it's more than just integrating the two operations (which corporately eliminates all the G&A and overhead, by the way), it's also the synergies with respect to the geology and development of future reserves. For one, we already know this part of the basin - intimately. Having worked it intensely for the last 14 years and having milked more return than any other company from these types of Deep Basin formations. So we already know how to develop it most efficiently, using the latest technology, while levering off the size and pace of our activity to deliver additional economies of scale.

For another, the drilling programs won't be "one off's", they will be large multi-well programs. In addition, the same types of serious operational problems that plague many juniors (and plagued ONR in the past) shouldn't be as much of an issue for us because we've already worked out the bugs and are drilling more efficiently and cost effectively every day. That means every upside location will be cheaper and yield more profit in Peyto's hands.

Thirdly, we've already mapped and evaluated all the plays, tallying up over 100 upside locations. Most of them in the Spirit River package, including the Notikewin and Falher channels and Wilrich shorelines. Just like Peyto's existing upside locations, these on average are internally forecast to cost $4.9 million per well (all-in) and yield an after payout BT NPV5 of $5.1 million at current prices. Each one of these new locations will create substantial value and likely spawn additional opportunities.

With Peyto's cost advantages and the size and efficiency of our operation, its only logical that we should be the ones to develop the resources here. Which is really why this makes so much sense.

So, if this acquisition is so great, the question on most investor's minds is, which company are we going to buy next? Right now I would say no one. This particular opportunity was very unique, offering so many operational synergies at such a bargain price with a tonne of "meat left on the bone." Because that's what it takes, to generate enough return for our shareholders, in order for an acquisition to compete with the returns our organic programs can deliver.

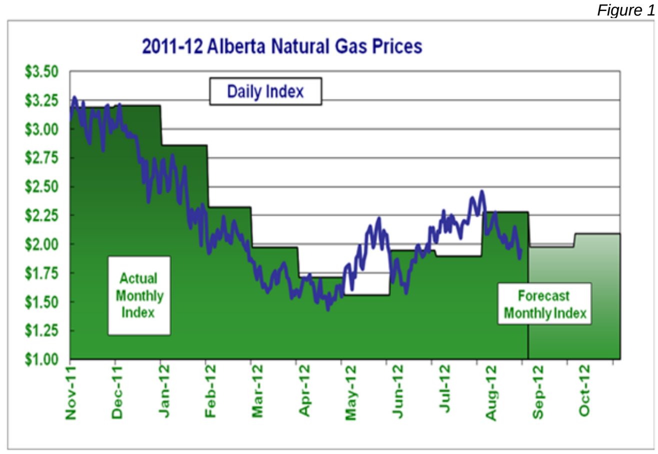
So will we ever find another one like this? Maybe. We're always looking while we're busy buying crown lands and developing our own opportunities. But it took 13 years to find this corporate acquisition, so I wouldn't hold your breath for the next one.

Activity Update and Commodity Prices

A week ago it looked like the summer weather had passed and we were going to enter the fall shoulder season, so natural gas prices started to retreat but then hurricane Isaac reared it's head and reminded us that Mother Nature is who really controls the price, not the industry.

Needless to say, I suspect it will be a bumpy ride on the way up with gas prices, much like it was on the way down. See Figure 1 for Alberta natural gas prices over the last year.

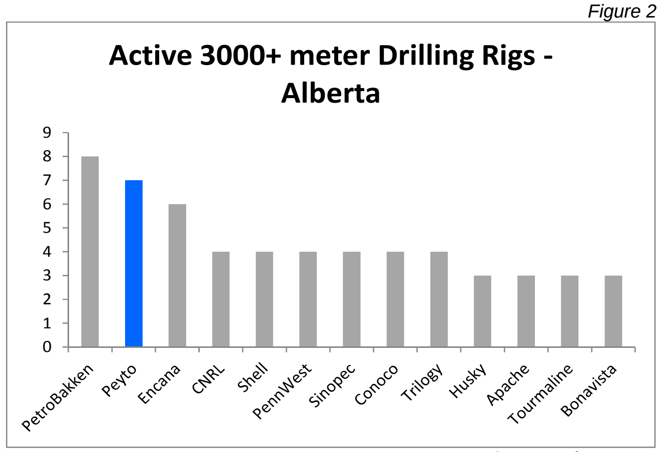
Figure 1



Source: www.gasalberta.com

At least we don't have to worry about Alberta natural gas storage getting too full. Nobody seems to be drilling gas wells these days. Figure 2 shows the active rigs in Alberta as of August 28, 2012. With 8 rigs running, Peyto continues to lead the province as the most active deep gas driller. And since that's where the liquids rich gas is, that's the only kind of gas driller out there these days.

Figure 2



Source: Rig Locator