Peyto Exploration & Development Corp.
President's Monthly Report

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

As an investor, it is hard to like this time of year. Inevitably around this time, it's either our provincial or our federal government that pops their head up to wreak havoc with capital markets and spook both domestic and foreign investors (taking Halloween a bit too far). The latest is the Federal Canadian government's *ruling* on the Petronas/Progress deal. The irony is that the government is concerned about the deal on a test of "net benefit" to Canadians - which is ironic because without the Petronas capital, there won't be a net benefit to Canadians. The resources will stay in the ground, the lands will expire and, likely, they will be bought back by Petronas at future BC Crown sales, putting us right back where we started. I realize it's more complicated than that. There's the politics to consider. And the impact on future deals. But it sounds to me like someone in Ottawa needs to be briefed on just how the Canadian oil patch really works because oil and gas resources that remain in the ground are of no "net benefit" to Canadians.

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).

October production is flat to September even though we have invested significant capital in both September and October drilling wells and building facilities. The reason for the delay in new production additions is two-fold. Firstly, our Deep Cut facility (aka "cheap cut") at Oldman was supposed to start on October 1st but was delayed until mid-November due to the delivery of a major component. Secondly, five of the eight rigs are drilling on multi-well padsites that delay the completions until drilling operations are completed. That means rather than five new wells coming on in October, we'll have ten new wells in November. It's not a bad thing though, considering natural gas prices in November are projected to be 30% higher than October. That much price increase far exceeds the loss in time value.

Capital Investment

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

	2010	Q1	Q2	Q3	Q4	2011	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3
ONR Acq./other acq.													205		205
Land & Seismic	19	6	1	14	7	28	3	1	1	0	1	0	1	1	2
Drilling	141	51	32	46	49	178	52	6	0	16	23	19	17	23	59
Completions	65	33	18	26	28	104	31	4	0	10	14	9	14	12	35
Tie ins	30	7	5	10	10	32	8	2	1	2	5	3	4	4	11
Facilities	19	8	16	16	0	40	4	1	1	1	3	1	2	2	6
Total	**262**	**104**	**69**	**112**	**95**	**379**	**99**	**14**	**4**	**29**	**46**	**33**	**243**	**41**	**317**

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	Q2 12	Jul	Aug	Sept	Q3 12	Oct	Nov	Dec	Q4 12
Sundance	28.0	30.2	32.3	35.1	35.4	34.3	35.5	35.6	36.1	35.7	36.6			
Kakwa	2.6	3.2	3.0	3.4	3.8	4.2	3.9	3.6	3.4	3.6	3.2			
Ansell								2.6	6.1	2.9	5.9			
Other	1.1	1.1	1.0	1.3	2.0	2.8	3.4	4.1	3.4	3.6	3.4			
Total	**31.7**	**34.4**	**36.4**	**39.8**	**41.2**	**41.3**	**42.8**	**45.9**	**49.0**	**45.9**	**49.1**			

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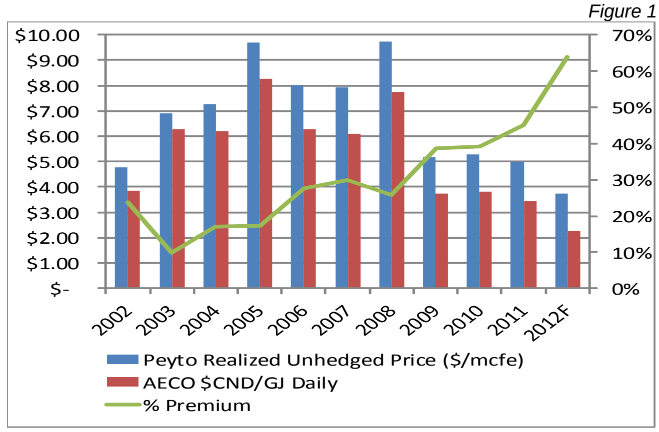
The Top Line

I usually spend a lot of time explaining to investors how Peyto achieves its cost advantages, both the cost to find and develop new reserves and the costs to produce and sell them. But, we also focus some of our attention on how to maximize the revenue line. The "cheap cut" facilities we're installing in our gas plants are a good example of just that. As long as gas trades at a significant discount to the heat equivalent price of liquid hydrocarbons, converting the heavier hydrocarbon chains in our natural gas stream to liquid form will continue to be a big financial benefit.

That benefit has always been there. Looking back at a comparison between natural gas prices in Alberta and the unhedged realized price ($/Mcfe) that Peyto achieved shows us just how much of a benefit we've realized over time from our natural gas liquids. You can see in Figure 1 that on average over the last decade, the realized price is some 30% greater than the lean gas price, with large premiums coming in the last few years (over 60% in 2012).

Figure 1



That large premium has obviously been driven by the increase in liquids prices, relative to natural gas prices as shown in the red line in Figure 2 and has far outweighted any reduction in liquid yield that we've experienced by developing deeper, leaner formations. For instance, Peyto's ratio of liquids to gas production has dropped from 45 bbl/mmcf to

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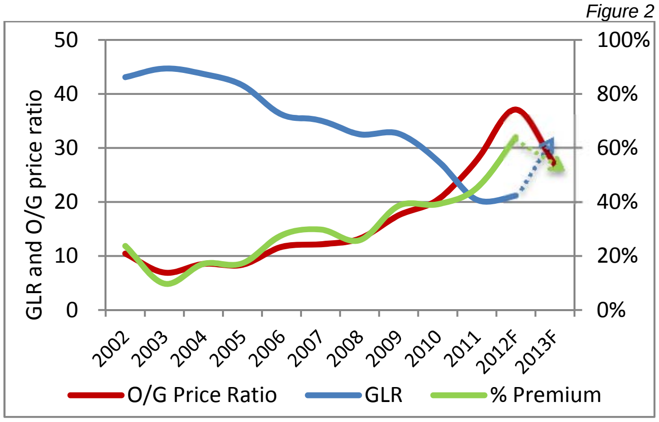
20 bbl/mmcf, but the price premium has actually increased to over 60% due to climbing price ratio. In the past, you only needed to double the oil to gas price ratio to get our premium to gas prices. For instance, if oil/gas was trading at 20:1, then Peyto's realized gas price ($/mcfe) would be 140% of the base gas price ($/GJ). Lately, however, that simple correlation isn't as good, as the leaner, deeper formations are a larger part of Peyto's production base.

Figure 2



So the question is, how is the increasing Gas to Liquid Ratio (GLR) from the installation of these deep cut ("cheap cut") facilities expected to change the liquid yields and realized price going forward? Can we still rely on that doubling of the price ratio to approximate our realized price? Especially considering that the oil to gas price ratio is forecast to soften a bit?

Let's assume for example, that we had cheap cut facilities already installed at our major gas processing plants such that we could recover a corporate average 33 bbls/mmcf *(If they were at all facilities, we'd be closer to 35 bbl/mmcf I think, but practically speaking it probably doesn't make economic sense at the smaller facilities. So let's say we're 22 bbl/mmcf at 15% of the facilities and 35 bbl/mmcf at the remaining for a corporate average of 33 bbl/mmcf)*.

Using the future 2013 prices of $3.40/GJ for AECO natural gas and $90/bbl for Edm light oil (26:1), along with the historical offsets for condensate/pentanes (105% of oil price), butane (70% of oil), and propane (40% of oil), you might forecast from the above graph that our realized price should be 40% higher than the $3.40/GJ (red line mirroring green but still offset). However, with the increase in GLR to 33 bbl/mmcf, we model that the realized price premium rises to 50% higher which reconnects the correlation between price ratio and % premium. So the cheap cut facilities get us back to where we used to be which allows us to realize almost $5/mcfe from $3/GJ gas prices when oil is $90/bbl.

So now we're back to the simple profitability math for Peyto that I've shown in the past. Take $3/GJ natural gas price and realize $5/Mcfe. Subtract from that $2/Mcfe to build new producing reserves (FD&A), and $1/Mcfe to produce it out (all cash costs) and we're left with $2/Mcfe of BT profit. That percentage of profit to realized price of 35%, matches our historic ratio of earnings to revenue (37%) and our target dividend "payout ratio" of 30 odd percent (dividends to funds from operations). Isn't it surprising how the math isn't overly complicated and seems to work from all perspectives? Just a simple proof of sustainability and profitability, and why the Peyto model continues to work so well.

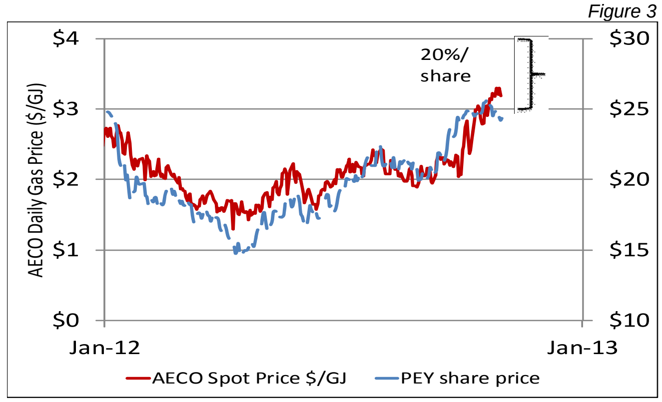
For many action oriented investors, having a sustainable, profitable model, or Plan A as I like to call it, isn't nearly as exciting for them as a company getting taken out (Plan B). But isn't it nice to have a real plan to fall back on, especially when we can't always rely on our governments to do the logical thing?

Activity Update and Commodity Prices

Well, guess who's finally clean shaven again? That's right, AECO daily gas prices finally topped $3/GJ again and so the rally beard I've been sporting for almost a year seems to have done the trick! Not that I'm superstitious, but sometimes a little fun keeps things in perspective. The future strip has been above $3 since May of 2012 so we had some indication where spot prices were going a few months ago but it's nice to finally be there.

As I've just shown, we can do a lot with $3/GJ gas prices paired with a decent oil price of $90/bbl or so. In fact, we have already been doing a lot. Our production per share is already up over 20% YoY and is set to grow even more rapidly. As shown in the graph below however, Peyto stock price has mirrored AECO gas price for almost a year now (see Figure 3).

Figure 3



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