Peyto Exploration & Development Corp.
President's Monthly Report

January 2013 — From the desk of Darren Gee, President & CEO

Well, the ending of B'ak'tun 13 which was the resetting of the Mayan long-count calendar came and went on Dec. 21, 2012, and we're all still here. So I guess all the theories about the apocalyptic end of the world were wrong. It was a bit anticlimactic, like Y2K was at the turn of the millennium.

I'm definitely game to believe that we may have come to the end of one era in humankind and be at the start of the next one. The world is changing so rapidly these days, we easily could be. On a less grandiose scale, I think we've definitely entered a new era as far as global energy is concerned. Innovation, ingenuity, and perhaps necessity have conspired to create new technology that has helped unlock even more hydrocarbon resources than ever before. And that is changing how we view energy around the globe. Good thing too, because the number of humans on the planet that need that energy is rapidly expanding – over 7.1 billion at last count.

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

*2012 Capital Summary (millions$ CND)**

	2010	2011	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4	2012
ONR Acq./other acq.									205		205					
Land & Seismic	19	28	3	1	1	0	1	0	1	1	2	4	0			
Drilling	141	178	52	6	0	16	23	19	17	23	59	26	30			
Completions	65	104	31	4	0	10	14	9	14	12	35	11	15			
Tie ins	30	32	8	2	1	2	5	3	4	4	11	8	5			
Facilities	19	40	4	1	1	1	3	1	2	2	6	2	3			
Total	**262**	**379**	**99**	**14**	**4**	**29**	**46**	**33**	**243**	**41**	**317**	**50**	**53**			

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 *(see Activity Update for year end discussion)*

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

	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Oct	Nov	Dec	Q4 12	2012
Sundance	32.3	35.1	35.4	34.3	35.7	36.6	37.5	34.0	36.0	**35.4**
Kakwa	3.0	3.4	3.8	4.2	3.6	3.2	3.2	2.9	3.1	**3.7**
Ansell			-	-	2.9	5.9	6.5	8.1	6.8	**2.4**
Other	1.0	1.3	2.0	2.8	3.6	3.4	3.8	3.5	3.6	**3.0**
Total	**36.4**	**39.8**	**41.2**	**41.3**	**45.9**	**49.1**	**51.0**	**48.5**	**49.5**	**44.5**

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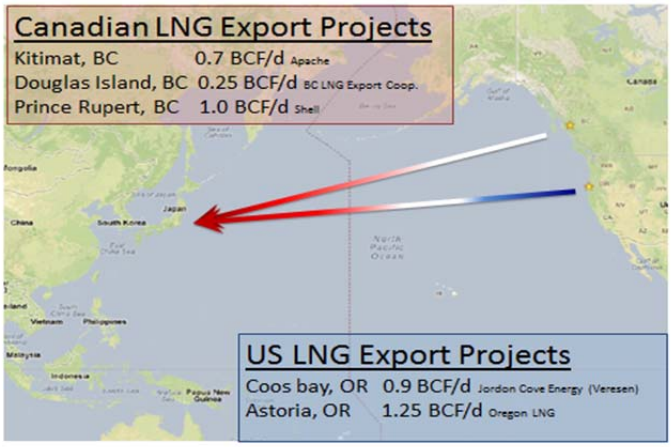
The Race is On

Perhaps one of the biggest arbitrages these days is the price for natural gas around the world. Here in North America, we have some of the lowest prices for this type of hydrocarbon anywhere on the planet. In Alberta, natural gas is forecast to fetch around $3/MMBTU this month, while in parts of Asia, it's over $15/MMBTU. The technology already exists to move it from one point to the other, and in a reasonable amount of time. It's forecast a cargo of LNG can travel from the West Coast of North America to Asia in as little as 10 to 12 days. And so long as it doesn't cost more than $12 to buy it, pipeline it, liquify it, tanker it and ship it, then there is money to be made (currently Cheniere estimates around $4-5/MMBTU plus NYMEX to do so). If there is money to be made by "someone", I believe there is money to be made by "everyone" along the way.

World LNG Estimated January 2013 Landed Prices

All of this is rather obvious from the above map of world LNG prices. Which is why there has been so much talk the last few years about LNG exports from North America to other parts of the world, especially Asia.

The bigger question in my mind is, who's going to be first? Logically, the cheapest solution is off the West Coast of North America. That's a much more direct route than from the Gulf of Mexico or East Coast of North America.



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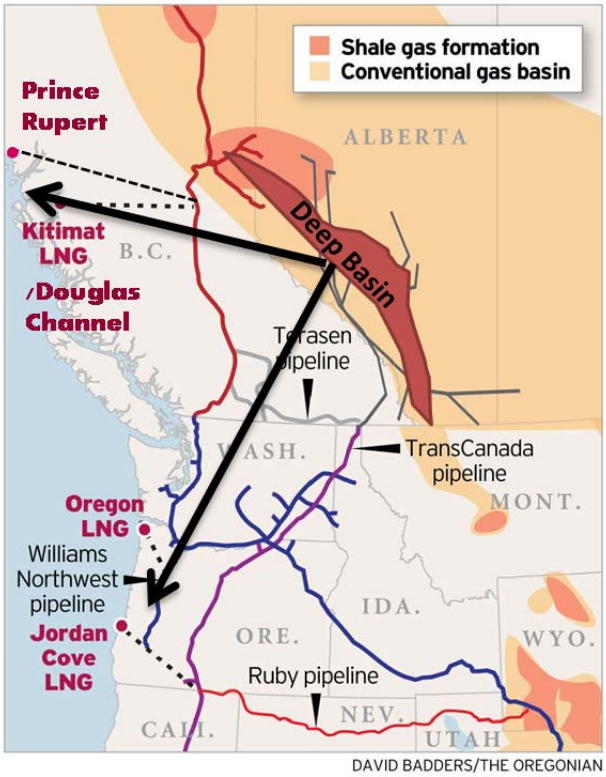
Currently, there are several projects on the West Coast, in both Canada and US, moving ahead at various stages. In the US, it seems the projects are limited more by politics and regulations than by labor or capital - with higher unemployment and a willingness for US companies to carry much more debt than in Canada. In Canada, it is the reverse. The political will seems to be there, at least for natural gas anyway, with less environmental resistance (oil is a different story). But there is a shortage of skilled labor (it's already in the Alberta Oil Sands) and a shortage of capital to make it happen, especially when natural gas companies aren't making much money at current prices.

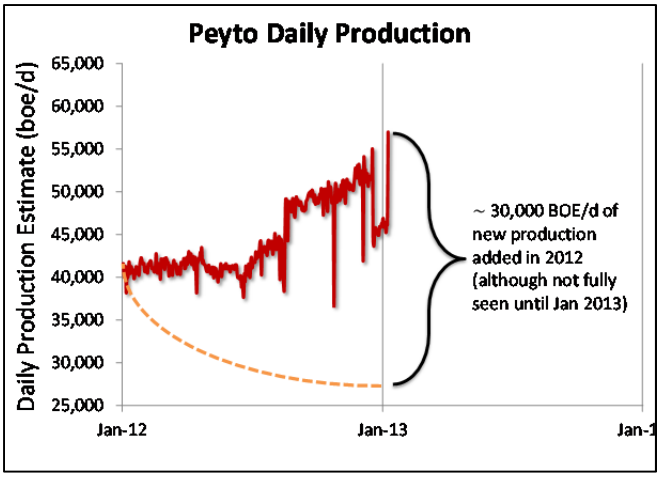
Personally, I'd wager on the US to be first. For the same reasons that the US has developed their natural gas resource plays (shale gas) faster than we have in Canada (more resources, more capital, economics be damned!). Although, in some ways it's ironic that the company proposing the Jordon Cove project is Canadian (Veresen).



Either way, Peyto's Deep Basin asset base is located proximal to either "out" and that should ultimately provide upward pressure on natural gas prices for those nearby.

Activity Update and Commodity Prices

Perhaps just like many of you, Peyto had a long Christmas list this year. In the month of December alone, we attempted to drill 10 new wells, complete and tie in some 15 new wells, expand our pipeline system with 25 km of new gathering lines, and install a 80 mmcf/d choke plant at our Oldman gas plant to act as our deep (aka "cheap") cut addition. For the most part, we made it through our Christmas list, adding an estimated 11,000 boe/d of new productive capacity. Unfortunately, we also had to endure significantly more downtime at our Oldman plant than originally expected. A vital component to the new cold temperature process had been delivered to the site out of specification and unsuitable for service. As a result, approximately 14,000 boe/d of processing capacity at Oldman was offline from Dec 18 to Jan 6, reducing year end volumes to approximately 45,500 boe/d. This issue has been rectified and production is today ramping up to the 57,000 boe/d level.



With over 25,000 boe/d of total production additions in the year (plus 4,500 boe/d acquired via Open Range) it officially makes 2012 the biggest year in Peyto's illustrious history. It amazes me that just three years ago we were only 20,000 boe/d in total. But I guess that was also before some $1.25 Billion in capital investment. All of this was done with less than 40 full time employees in our head office. My hat is off to all of the Peyto team and our many contractors out in the field. Well done indeed!

I suspect that the efficiency and profitability of all that activity will be similar to previous years if our production results are any indication. Plus, we're not done yet! 2013 may well be an even bigger year, and the environment appears ripe to take advantage of low levels of activity and lower service costs. The sweet spot for Peyto to deliver profitable growth continues.