Peyto Exploration & Development Corp.
President's Monthly Report

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

Just like the Staples commercials advertise, this really is the most wonderful time of the year. Not necessarily because the kids are all headed back to school, although that doesn't hurt. Mostly because this is the time of year when the nice, dry fall weather on the Prairies combined with freshly rested employees, just back from vacation, enables us to really put the hammer down and get very busy heading into the winter drilling season. With 10 rigs currently drilling and all the completions and tie-in crews following them, we are busier than the proverbial one armed paper hanger. Combine that with three new gas plants under construction and things are really hopping at Peyto.

We expect waves of new production will continue to add up as pad drilling locations are tied in and our new processing capacity comes on-line in October and early November. This, coincidentally, is forecast to occur just as natural gas prices move up significantly from their current summer doldrums of $2.35/GJ (Sept. AECO monthly) to $3.30/GJ (Nov. AECO). Considering the massive 40% increase in gas price about to occur, it makes good financial sense to delay some of those production start-ups for a month or two, rather than expose all of the flush production to almost $1/GJ less.

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*

*2012/13 Capital Summary (millions$ CND)**

	Q1	Q2	Q3	Q4	2012	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3
ONR Acq./other acq.			205	-21	184	0				0				
Land & Seismic	3	1	2	6	12	2	3	2	1	6	1			
Drilling	52	23	59	78	211	76	9	3	20	32	32			
Completions	31	14	35	47	127	41	9	0	1	10	20			
Tie ins	8	5	11	22	46	33	2	1	4	7	3			
Facilities	4	3	6	25	37	17	6	6	6	18	7			
Total	**99**	**46**	**317**	**157**	**618**	**169**	**29**	**13**	**32**	**73**	**62**			

Production*

*2012/13 Production ('000 boe/d)**

	Q2 12	Q3 12	Q4 12	2012	Q1 13	Apr	May	June	Q2 13	Jul	Aug
Sundance	34.3	35.7	36.0	35.4	39.7	43.2	41.7	40.0	41.6	38.1	42.1
Kakwa	4.2	3.6	3.1	3.7	3.3	3.2	2.9	2.9	3.0	2.7	2.5
Ansell	-	2.9	6.8	2.4	8.8	10.2	11.3	10.5	10.7	10.3	10.5
Other	2.8	3.6	3.6	3.0	3.3	3.4	2.8	2.6	2.9	2.4	2.5
Total	**41.3**	**45.9**	**49.5**	**44.5**	**55.2**	**60.0**	**58.7**	**56.0**	**58.2**	**53.5**	**57.6**

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.

Nothing But Bluesky

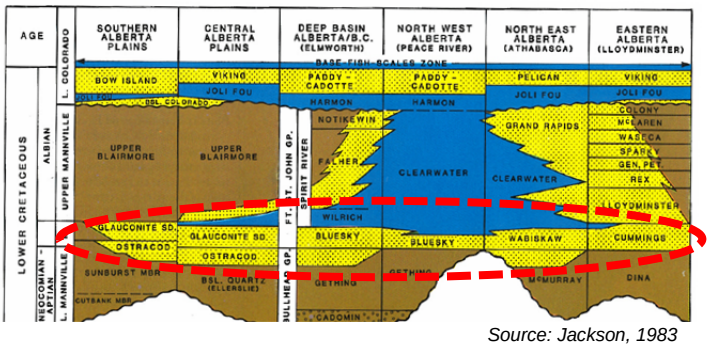
I think the term "resource play" tends to be overused in our industry. Especially when you consider *having* a resource play and *doing something* about it are two totally different things. Kind of like having a shiny new mountain bike strapped to the roof of your car and strutting it around town or actually going out and hitting the trails with it. These days, everyone is calling everything a Resource Play.

By most definitions a Resource Play involves large, known quantities that can deliver economically viable, long term production and where profitability can be enhanced through the use of technology and economies of scale. By that definition, most hydrocarbon bearing basins usually have several different resource plays in them. Whether they are in the Western Gulf basin, the Appalachian basin, the Williston basin or the Western Canadian Sedimentary basin (WCSB), to name a few.

Within the Western Canadian Sedimentary basin, for instance, there are many different accumulations of hydrocarbons to which the resource play definition applies. The oil sands would be one. Southeastern Alberta shallow gas would be another. The Deep Basin, where Peyto operates, would also be one. Or, you could use the term to define a certain formation or strata, like the Montney or the Wilrich, rather than a region.

One of the formations that we've recently been focusing on could also be argued to be a very large resource play - that being the lower Mannville Bluesky formation. This same aged sediment also goes by a few different names in other areas of the WCSB, like the Glauconite, or the Wabiskaw, or the Cummings. You may have already heard of it. In northeastern Alberta the Wabiskaw is one of the large oil sands bearing formations. In eastern Alberta heavy oil, it's the Cummings. In the gassy central plains of Alberta, it's the Glauconite or Ostracod. See the correlation of names in Figure 1 below.

Figure 1



Source: Jackson, 1983

Suite 1500, 250 – 2nd St. SW
Calgary, AB T2P 0C1
Fax: 403 451 4100

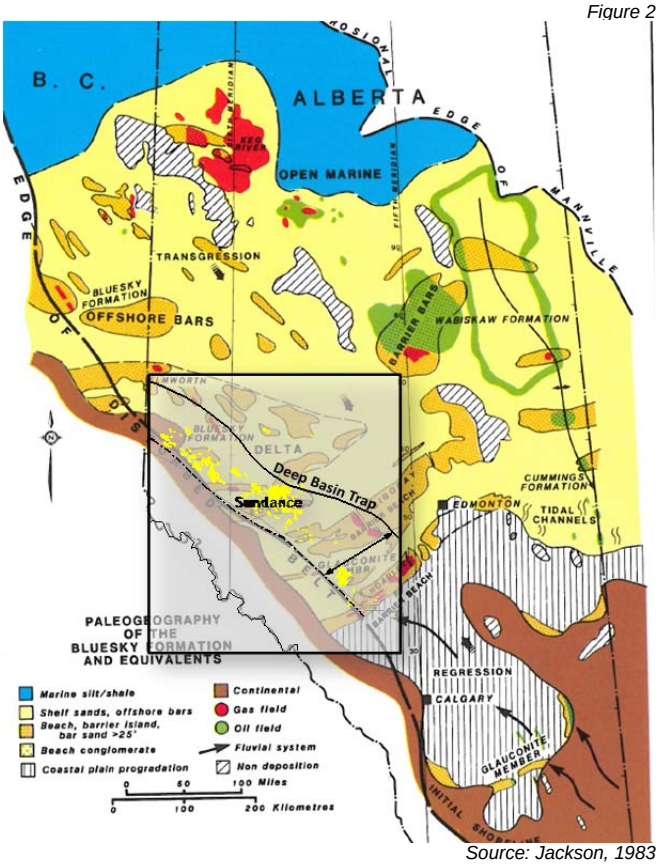
TSX Symbol: PEY
E-mail: info@peyto.com

Peyto Exploration & Development Corp.
President's Monthly Report

September 2013 | From the desk of Darren Gee, President & CEO

Figure 2 shows a map of Bluesky aged sand across the WCSB and the many different hydrocarbon accumulations it contains.

Figure 2



Source: Jackson, 1983

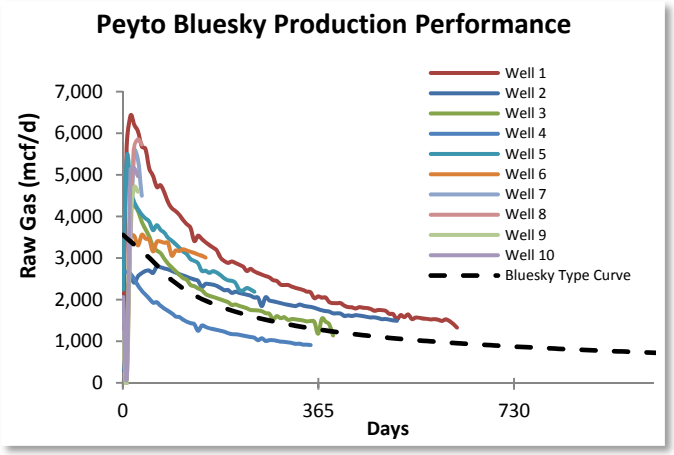
Within the confines of the Deep Basin (no mobile water in the system) there are also large accumulations of hydrocarbons in the Bluesky and equivalent. Fields like the Bigoray, Hoadley and Elmworth natural gas fields were discovered and developed years ago. Today, however, it's the application of new technology to these known accumulations that is creating all the excitement.

A quick search of the public data shows there have been close to 500 horizontal multi stage frac wells drilled across the Deep Basin alone in this aged sand, with 2/3rds of those down in the Hoadley trend.

Even up where we operate, there has been close to 100 wells drilled recently. So Peyto may be new to this party but its been going for a while already.

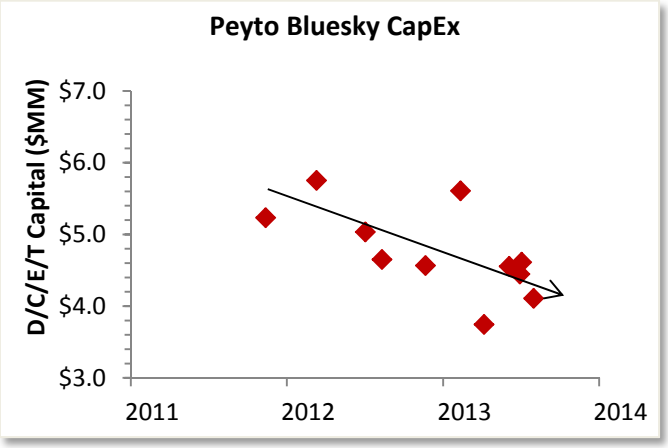
Nonetheless, the results we are getting are still new and exciting for us. So far we have drilled 10 wells in the Bluesky, with all but one beating our "type curve" expectations. That same type curve is predicted to deliver approximately 25% BT IRR (full cycle) at strip prices. So "better than the type curve" sounds pretty good to me. See Figure 3 showing the 10 wells.

Figure 3



Not only are the production results exceeding expectations, the costs are too. We had expected this deeper formation to cost a little more than our average well but practice is paying off and we're now drilling, completing, installing wellsite equipment and pipelines (C/D/E/T) for almost $1MM less than origianlly budgeted.

Figure 4



All of this is adding up to more opportunity to generate attractive returns for shareholders and more future locations for us to choose from. I'd say that the Bluesky is one aptly named formation and we are planning to take it off the roof and hit the trails with it.