Peyto Exploration & Development Corp.
President's Monthly Report

February 2014 — From the desk of Darren Gee, President & CEO

Sorry for the late report. Disclosure rules for equity distribution don't allow me to make the kind of candid comments that I usually make in my monthly report. Like telling you that daily production in the month of January hovered around the 74,000 boe/d mark, although a severe wind storm which knocked down trees and power lines caused an outage at several of our gas plants for a day and a half. That took around 60,000 boes out of our January total, or 2,000 boe/d on average for the month. Otherwise, volume growth continues ahead of schedule.

Peyto Daily Production

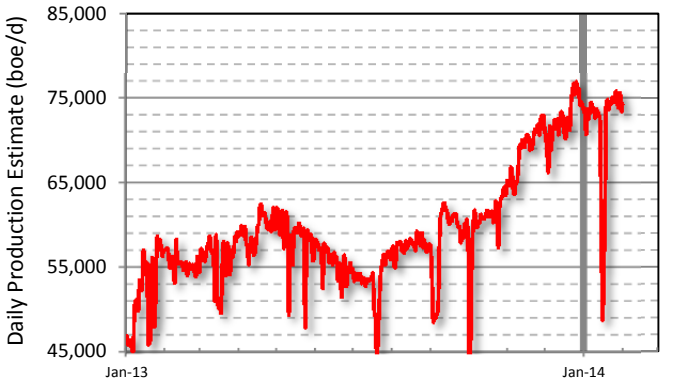


Figure 1

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	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4	2013
ONR Acq./other acq.			205	-21	184	0	0				0				0	0.0
Land & Seismic	3	1	2	6	12	2	6	1	1	1	3	1	1	0	2	11.9
Drilling	52	23	59	78	211	76	32	32	30	25	86	22	24	14	60	253.0
Completions	31	14	35	47	127	41	10	20	19	15	54	15	18	15	47	151.7
Tie ins	8	5	11	22	46	15	7	3	5	6	14	5	4	3	12	48.2
Facilities	4	3	6	25	37	36	18	7	9	9	24	19	10	5	34	112.2
Drilling Credit Used	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0.0
Total	**99**	**46**	**317**	**157**	**618**	**169**	**74**	**62**	**63**	**56**	**181**	**61**	**57**	**36**	**155**	**578**

Production*

*2012/13/14 Production ('000 boe/d)**

	Q1 12	Q2 12	Q3 12	Q4 12	2012	Q1 13	Q2 13	Q3 13	Oct	Nov	Dec	Q4 13	2013	Jan
Sundance	35.4	34.3	35.7	36.0	**35.4**	39.7	41.6	41.5	43.7	48.1	50.3	47.4	**42.6**	48.3
Kakwa	3.8	4.2	3.6	3.1	**3.7**	3.3	3.0	2.6	2.6	2.5	2.4	2.5	**2.9**	2.4
Ansell	-	-	2.9	6.8	**2.4**	8.8	10.7	9.9	11.7	14.6	15.4	13.9	**10.8**	16.1
Other	2.0	2.8	3.6	3.6	**3.0**	3.3	2.9	2.4	2.3	4.0	4.5	3.6	**3.1**	4.9
Total	**41.2**	**41.3**	**45.9**	**49.5**	**44.5**	**55.2**	**58.2**	**56.5**	**60.3**	**69.2**	**72.6**	**67.3**	**59.3**	**71.7**

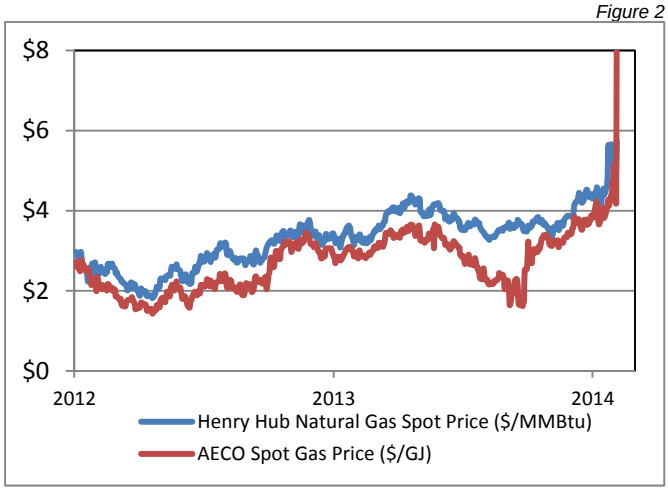
This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

The Times They Are A Changin'

Dylan may have had it right. Just when you think you have things figured out, it seems something comes along that changes everything. I am thinking back to last fall when we were supposedly awash in natural gas in North America, and AECO daily prices dipped to $1.57/GJ because there was so much gas being developed in the Marcellus that Canadian gas was superfluous. At that time, everyone was focused on oil development and the Canadian economy was said to be so strong that the Canuck Buck would trade at par for years to come.

Flash forward six months and the scene is quite different. The Canadian dollar has fallen to 90 cents on the greenback (perhaps we are finally admitting we are a resource based economy, dependent on our southern neighbor and her tenuous economy for the health of ours). Cold weather has cycled through the NE US and Eastern Canada a few times already this winter, marking January as one of the coldest months on record for many cities. And we're not done with the Polar Vortex yet (that's something else that's changed - when I was a kid it was referred to as the "Alberta Clipper"). As a result of the cold, natural gas consumption is way up. In fact, the EIA reported US demand hit a daily record of 137 Bcf/d on January 7th and 132 Bcf/d on January 28th. This, of course, made a big dent in natural gas storage volumes, and sent natural gas prices, both Henry Hub and AECO, spiking to almost US$6/mmbtu and CAD$5/GJ. For AECO, that's more than triple the low in September 2013. (*News flash, AECO was trading at $38/GJ intraday Feb 5/14!*).

Figure 2



All of a sudden, the attention has shifted back to natural gas. Are we suddenly short supply? Can the industry respond? What will it take to pull the rigs away from drilling oil wells and back to drilling for gas? We were told we had a 100 year

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supply, where is it? If I had suggested last summer that this is where we'd be by mid winter, you would have said I was crazy.

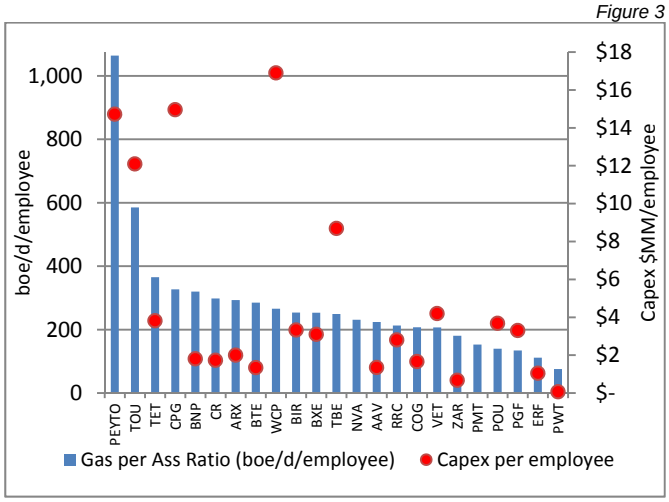
Similarly, if, a few years ago, I had suggested to you that your typical 100,000 boe/d producer could be investing between $500MM and $1B a year and have less than 100 employees, you'd have said I was nuts. And yet, that also seems to be where we are headed.

The make up of today's new (and in some cases improved) oil and gas producer is dramatically changing. The days of your larger intermediate and senior producers, who fill an entire office tower in downtown Calgary with their name on the top, are disappearing.

That's the power of technology at work, yet again. With the latest horizontal multi-stage fractured well designs, the same number of staff can invest over three times as much capital, achieve three times as much production and reserves development as they could using vertical wells. On a capital dollars per person or boes per person basis, that's much more efficient (Figure 3).

And while Peyto is the extreme case (highest gas per ass ratio), we're not the only ones. There are few new style E&Ps that have grown through the drill bit with similar, and dramatically different makeup than the old world E&Ps.

Figure 3



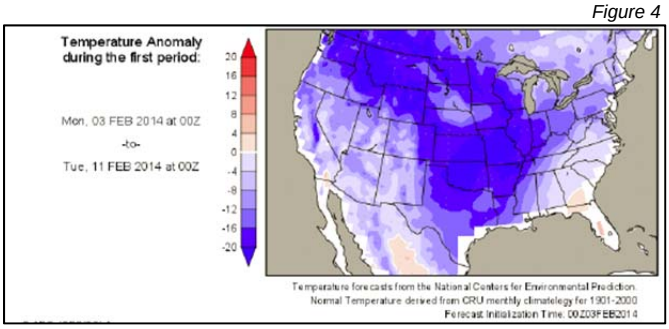
Source: 2012 AIF and AR

The biggest difference being the nature of the growth. Either it was with the drillbit and the technology or it was through acquisition of both assets and people. The cost benefits of the former, in both efficiency and profitability, vastly outweight the latter. And we`re seeing more and more evidence of that as time marches on, bringing with it even more change.

Activity Levels and Commodity Prices

I have to say, this is my favorite map (Figure 4). I know those down east don`t particularly agree with me, but when a good portion of the continent is experiencing much colder than normal weather, that spells good news for gas prices.

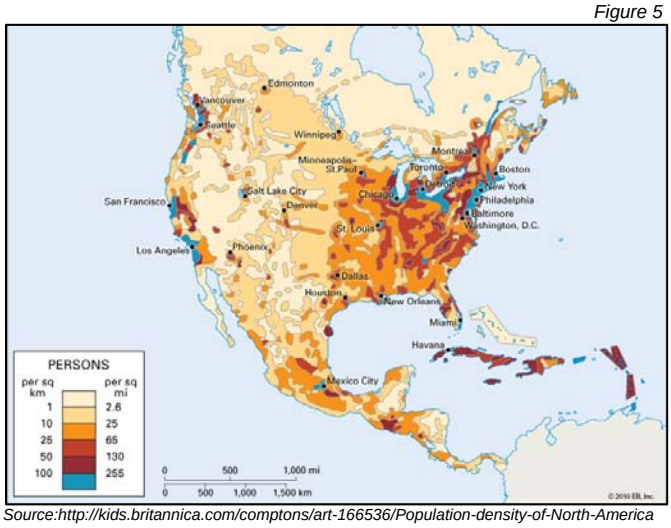
Figure 4



Source: http://wxmaps.org/pix/temp1.html

Especially when you overlay it on the population density map below (Figure 5).

Figure 5



Source:http://kids.britannica.com/comptons/art-166536/Population-density-of-North-America

Until we have LNG exports, weather will continue to be the number one driver of both the demand for and price of natural gas in North America.