

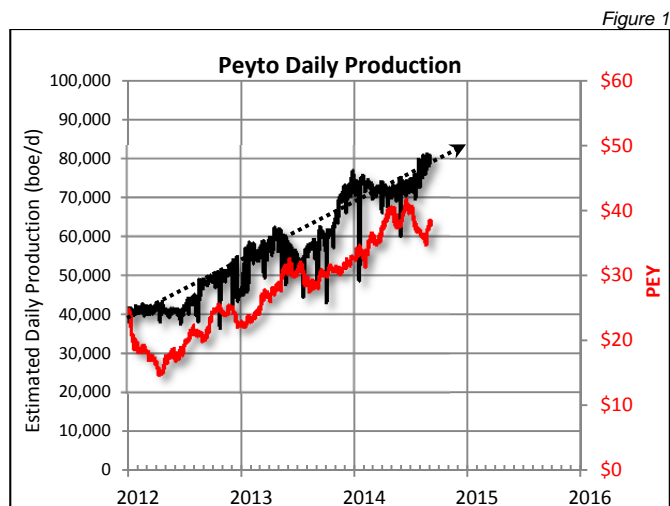
Peyto Exploration & Development Corp.

President's Monthly Report

September 2014

From the desk of Darren Gee, President & CEO

Much like the golf pros at the Shaw Champions Tour event in Calgary last weekend, Peyto just keeps crisply smacking them down the middle and making pars. Continued drilling success is resulting in production that's steadily marching higher. New pens to mark the occasion of 80,000 boe/d are on order.



Source: Peyto, TMX

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*

2013/14 Capital Summary (millions \$ CND)*

	2012	Q1	Q2	Q3	Q4	2013	Q1	Apr	May	Jun	Q2	Jul
ONR Acq./other acq.	184	0	0	0	0	0.0	0				0	
Land & Seismic	12	2	6	3	2	11.9	7	1	0	7	8	0
Drilling	211	76	32	86	60	253.0	80	22	22	24	68	28
Completions	127	41	10	54	47	151.7	36	16	14	18	48	17
Tie ins	46	15	7	14	12	48.2	16	4	3	3	10	3
Facilities	37	36	18	24	34	112.2	40	6	4	7	16	11
Total	618	169	74	181	155	578	179	49	43	60	151	60

Production*

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

	Q1 13	Q2 13	Q3 13	Q4 13	2013	Q1 14	Apr	May	June	Q2 14	Jul	Aug
Sundance	39.7	41.6	41.5	47.4	42.6	49.3	50.4	51.0	53.4	51.6	55.1	58.0
Kakwa	3.3	3.0	2.6	2.5	2.9	2.4	2.5	2.4	2.4	2.4	2.3	2.4
Ansell	8.8	10.7	9.9	13.9	10.8	15.7	14.3	14.8	13.5	14.2	13.2	14.5
Other	3.3	2.9	2.4	3.6	3.1	4.8	4.2	3.9	3.5	3.9	3.5	3.7
Total	55.2	58.2	56.5	67.3	59.3	72.3	71.4	72.1	72.8	72.1	74.1	78.6

*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.

1,000 Times Over

When I joined Peyto, back in the spring of 2001, we had 2,700 boe/d (6:1) and were drilling 20 wells (vertical) a year. We had an inventory of approximately seventy Cardium locations on a land base of 45 or so net sections. At the time, few people thought we'd be much more than just that; a small, flash in the pan, junior E&P with one little core area. No one would have predicted that 13 years later we would have drilled 1,000 wells, let alone 1,000 in the same general area as where we first started. Or that we'd be producing 80,000 boe/d, drilling 120 horizontal wells a year from a future inventory that stretches out a decade.

Definitely Talisman didn't think so, for they had us surrounded at the time, nor Canadian Hunter who was the joint interest owner in our first gas plant. Nor Anderson, or Anadarko, or Rio Alto, all competitors at the time - who no longer exist today, by the way (other than Talisman). If they had, you'd think they would have tried to stop us or take us out. So when asked, "what does it take to drill 1,000 wells?" one might first and foremost conclude that it takes staying power. But I think, looking back, it takes so much more than that.

In our case, 1,000 Deep Basin wells was over 22,000 days of drilling, through more than 3.1 million meters of rock (Calgary to Houston) and cost us a little over \$1.6 Billion. It took thousands of hours of seismic interpretation, log interpretation and geological mapping to pick those locations. Countless successes at land sales and with farm-in negotiations to get the land. One thousand surveys and licence applications. Miles of road and wellsite construction. One thousand drilling programs, carefully designed to keep from getting stuck in the hole at every turn. Thousands of hours of phone calls between wellsite and Calgary geologists and engineers discussing things like chip samples, formation tops, gas shows, mud weights, bit runs, and directional surveys, just to name a few. And of course, it's taken much, much more than that. All to get a hole in the ground, lined with pipe, exactly where you want it.

But then, a hole in the ground isn't necessarily worth anything; at least, not until it's producing something you can sell. So then came one thousand completions. Along with several hundred-thousand tonnes of frac sand. Followed by 1,000 separator buildings and over 1,000 km of pipelines to gather the resultant production. If we wanted to control how that production was processed and at what cost, then it required the construction of several large natural gas plants.

At each and every step along the way, it required the small Peyto team, both in Calgary and our extended team of contractors in the field, to execute their individual jobs to perfection. Because at any point along the way a mistake

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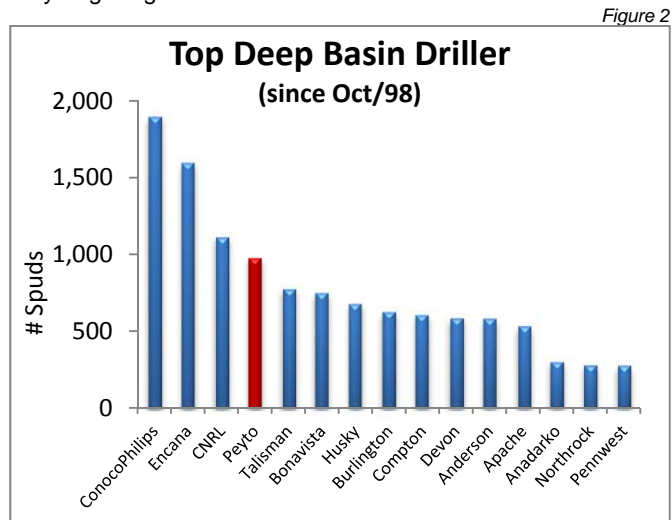
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could be made that could turn any one of those wells from a profitable investment into a loss of shareholder's capital.

That's what makes the accomplishment of drilling 1,000 wells doubly impressive to me. The fact that in almost every one of those cases, the dollars invested will ultimately yield more dollars in return. Which is the truest measure of success of 1,000 wells. Not just the iron in the ground or the production created or the reserves developed, or even the royalties paid to the people of Alberta, but the profit generated - the predictable and repeatable returns that were produced.

Sure, the sheer amount of activity is impressive. If we look at the basin over the last 15 years and who's been responsible for what, little Peyto ranks among the top 5, alongside some very large organizations.



Source: IHS Accumap, Peyto

I have to tip my hat to the Peyto team. They may be small in number but what they have accomplished over the last 15 years, is by no means small.

Ultimately, though, the amount of activity is still just a means to an end. Because it's not a race to see who can drill the most wells. It's about who can make the most profit. About who can get the most dollars out, for the dollars they put in. This is the oil and gas business, and business is about making money.

So when we come to a milestone like 1,000 wells, I think it's important to consider what we've learned.

- We've learned it's not about what you said you could do, it's about what you did (and we did a lot).
- We've learned that it's not about just getting things done but generating a return and earning a profit (and we have

– positive earnings for the last 38 consecutive quarters in a row).

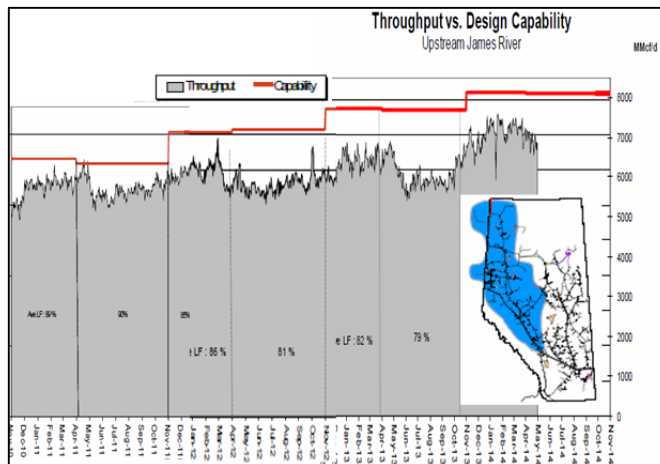
- We've learned that doing it carefully and correctly, one well at a time, eventually adds up (and will continue adding up).
- We've learned that you only run out of opportunities if you stop exploring for them (we haven't and we won't - heck, it's right there in our name Peyto "Exploration").

So it might be rather boring to suggest we should keep doing it that same way for the next 1,000 wells. But I won't apologize for boring. As I've said before, when it comes to making money, predictable, repeatable, profitable and boring are exactly the adjectives I'm looking for.

Activity Levels and Commodity Prices

Lately, I've been curious if all this new gas development in plays like the Montney and the Duvernay in Alberta and BC is really showing up in the main distribution system that moves gas out of the province. A quick check of TCPL's website reveals some interesting data. In the greater Deep Basin, Kaybob and Peace River arch areas (all upstream of TCPL's James River interchange in blue below) there has definitely been some volume growth (see Figure 3). Currently this part of TCPL's system is moving just over 7.0 BCF/d, up from 6.0 BCF a year ago, with capacity to move over 8.0 BCF/d. It's relieving to know that there is additional room considering the timelines for building new distribution systems. Of course, there is always the threat of additional volumes coming over from BC with all of the Montney development (imports currently sit at around 2 BCF/d), but much if not all of that volume will eventually end up going straight east to the oilsands and shouldn't impact the mainline system that runs through the Deep Basin.

Figure 3



Source: TCPL