Peyto Exploration & Development Corp.
President's Monthly Report

May 2015 — From the desk of Darren Gee, President & CEO

Sorry I missed you last month. Our equity offering required that we temporarily restrict our communications. Not that much has changed in the last couple of months. Winter is done. Spring has sprung and with it comes the traditional "break-up" or frost and ice meltdown. Which means most of the industry has shut down activity. As we mentioned previously, we plan on drilling right through. At least, as much as we can, weather permitting. Commodity prices are still down, but so are costs, so it's time for us to take advantage of that. Our counter cyclical strategy as the lowest cost producer stands out right now as we are one of the most active drillers in W. Canada. See the table below.

Table 1

Top Active Drillers In Canada

Operator	Active Rigs	0 - 950M	951 - 1850M	1851 - 2450M	2451 - 3050M	3051 - 3700M	3701 - 4600M	4601+M
Royal Dutch Shell plc	9	0	0	0	1	0	0	8
Progress Energy Canada Ltd.	8	0	0	0	0	2	5	0
Seven Generations Energy Ltd.	8	0	0	0	0	0	0	8
Peyto Exploration & Development Corp.	**6**	**0**	**0**	**0**	**0**	**1**	**5**	**0**
Encana Corporation	4	0	0	0	0	0	1	3
Husky Energy Inc.	4	2	2	0	0	0	0	0
Cenovus Energy Inc.	3	0	2	0	0	0	0	0
Bonavista Energy Corporation	3	0	0	0	0	1	1	1
Apache Canada Ltd.	3	0	0	0	0	0	0	3
ARC Resources Ltd.	2	0	0	0	0	0	0	2
Canbriam Energy Inc.	2	0	0	0	0	0	1	1
Paramount Resources Ltd.	2	0	0	0	0	0	0	2
Birchcliff Energy Ltd.	2	0	0	0	0	0	1	1
Suncor Energy Inc.	2	0	1	1	0	0	0	0
ConocoPhillips Canada Limited	2	0	0	0	0	0	1	1
Chevron Canada Resources Limited	2	0	0	0	0	0	0	2

Source: Nickles

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*

*2014/15 Capital Summary (millions$ CND)**

	Q1	Q2	Q3	Oct	Nov	Dec	Q4	2014	Jan	Feb	Mar	Q1
Acq.	0	0	0	0	0	0	0	0.3	2	0	1	3
Land & Seismic	7	8	0	4	1	1	6	21.3	0	0	4	4
Drilling	80	68	83	28	29	24	81	310.8	26	18	25	70
Completions	36	48	46	20	16	17	54	183.1	16	13	14	43
Tie ins	16	10	11	7	5	3	14	51.3	2	2	3	7
Facilities	40	16	40	14	6	5	26	122.2	5	6	1	12
Total	**179**	**151**	**180**	**73**	**56**	**50**	**180**	**690**	**52**	**39**	**47**	**138**

Production*

*2014/15 Production ('000 boe/d)**

	Q1 14	Q2 14	Q3 14	Oct	Nov	Dec	Q4 14	2014	Jan	Feb	Mar	Q1 15	Apr
Sundance	49.4	51.7	57.2	59.3	59.6	59.2	59.4	**54.4**	57.8	56.5	55.3	56.5	57.9
Ansell	15.7	14.2	14.3	16.1	16.3	17.0	16.5	**15.2**	17.2	16.7	16.6	16.8	17.1
Brazeau	1.6	1.3	1.2	1.8	3.4	4.4	3.2	**1.8**	3.9	4.4	4.7	4.3	6.9
Kakwa	2.4	2.4	2.4	2.4	2.2	2.2	2.3	**2.4**	2.2	2.1	2.3	2.2	2.2
Other	3.2	2.5	2.4	2.1	2.0	1.9	2.0	**2.5**	1.9	1.9	1.4	1.7	1.8
Total	72.3	72.1	77.5	81.7	83.5	84.7	83.3	**76.3**	83.0	81.6	80.3	81.6	85.9

***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.**

Take or Pay

Back in the mid 1980's, before my career in the industry had even begun, natural gas markets in Canada underwent a dramatic change. An abundance of supply and lack of demand had created a supply bubble (or supply sausage it was called because it lasted so long). This was solved (popped) by deregulation which effectively allowed pipeline companies to expand and seek new markets (in the US) for all that extra Canadian supply. Traditional long term transportation agreements between producers and shippers that were tied to reserves and production rates were replaced with new, shorter term, common carrier agreements allowing for an acceleration in the development of gas reserves. Canadian natural gas prices rose as supplies accessed those new US markets (US supplies were in decline). Higher prices drove more activity and supply increased, including higher cost unconventional production. I vaguely recall at one point in my career (around 1992) the natural gas price tripling from $0.90/mcf to $2.80/mcf over a few months which was followed by a heyday of gas development projects.

What was interesting about that time before deregulation, was how the development pace of gas reserves was restricted by the available take away (pipeline) capacity. I recall the old 1:7300 reserves type contracts which allowed, for example, 1 mmcf/d of firm take away for every 7300 mmcf (7.3 bcf) of reserves.

Fast forward 25 years. Today, those types of take away contracts no longer exist. (Can you imagine choking a 7 bcf well back to 1 mmcf/d? Now they come on at 20 mmcf/d!) These days, the pace at which reserves are extracted is left to the producer and their respective economics. Today, gas producers have virtually unrestricted access to North American consumers via a vast pipeline distribution system allowing for the daily free market trading of the commodity. Or should I say, *we did*. As long as pipeline capacities and their location stay ahead of both production supplies and consumer demands.

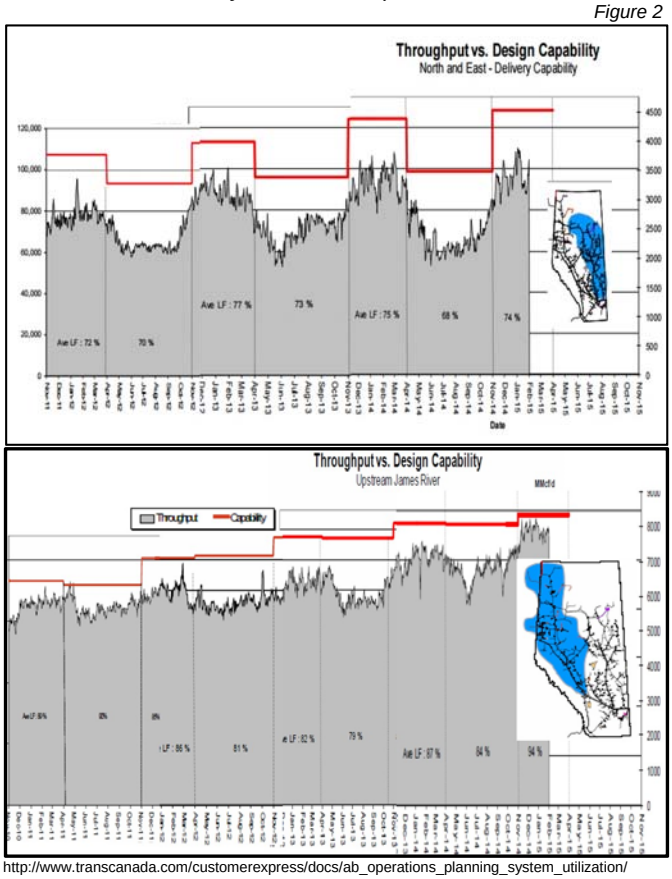
There are two basins specifically, where that is starting to change, or has changed. One is the Appalachian basin (Marcellus and Utica) and one is the Western Canadian Sedimentary Basin (Montney and Deep Basin). In both basins, a lack of take away capacity has the potential to restrict the growth of new supply. For some producers in the WCSB this has come as a bit of a shock. They are asking: "How is it that we don't have enough take away capacity? We've produced a lot more gas in the past as compared to today."

The answer is that today's volumes are coming from a different part of the basin than in past years. Which is putting pressure on the capacity of the pipelines in those parts of the basin. Couple that with a lack of material expansion, in most part because shippers don't know which direction to build out new pipe capacity. Do we go south or do we build west?

Gas flows in the Eastern part of Alberta have been relatively flat, while production in the Western part of Alberta including transfers into AB from BC have increased. Overall, Canadian

gas production has grown slightly but not beyond what we produced a few years ago. (Eastern flows include those volumes consumed by the oil sands).

Figure 2

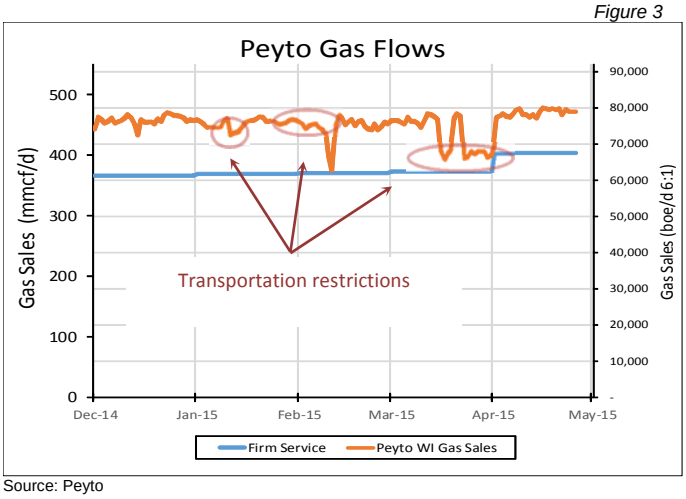


http://www.transcanada.com/customerexpress/docs/ab_operations_planning_system_utilization/

In the second graph you can see that the capacity of the system to move gas from the western part of Alberta and Eastern part of BC, where volumes are growing, is becoming tight at 94% of "rated" capability. The first sign of this tightness is that interruptible service (IT) becomes just that – interrupted, especially when TCPL is doing maintenance and having to prove to the NEB their pipeline integrity is sound. We have experienced that restriction first hand at Peyto. Our daily production, especially in the first 4 months of this year, has been impacted as IT service has been restricted (see Figure 3). IT service was either significantly curtailed or completely eliminated for 41 out of 90 days in the first quarter, with March being eliminated for over half the month.

Fortunately, we have a large portion of our daily production contracted with firm transportation commitments. We can make these take-or-pay commitments with confidence because of the low risk nature of our reserves/production (no water/sweet gas/predictable liquids), the fact that we operate virtually 100% of our production, and because we process virtually all of our production at Peyto gas plants. If we didn't control the gas production or process it, it would be very hard to commit to a take or pay transportation contract. The risk of being shut in by the operator or the processor would just be too great.

Figure 3



Source: Peyto

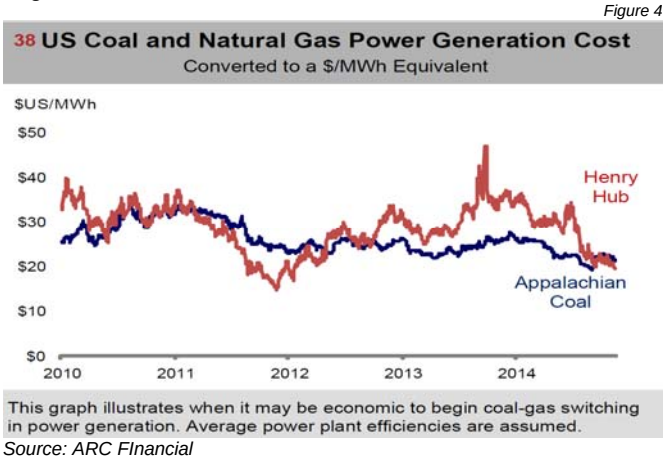
As our production grows, we will continue to add firm take or pay commitments. But even Peyto has to be a bit careful. Being a low cost producer, we must be vigilant to avoid a lot of un-utilized firm service costs.

Ultimately though, we may be re-entering an era whereby the pace of growth will be dictated by the pace at which take away capacity is expanded and producers may need to rethink how much capital they are deploying to accelerate the extraction of reserves. High initial productivity is going to be meaningless if you just end up choking wells back due to transportation restrictions.

Activity Levels and Commodity Prices

Gas is now cheaper than coal. Let the coal to gas switching begin!

Figure 4



Source: ARC FInancial