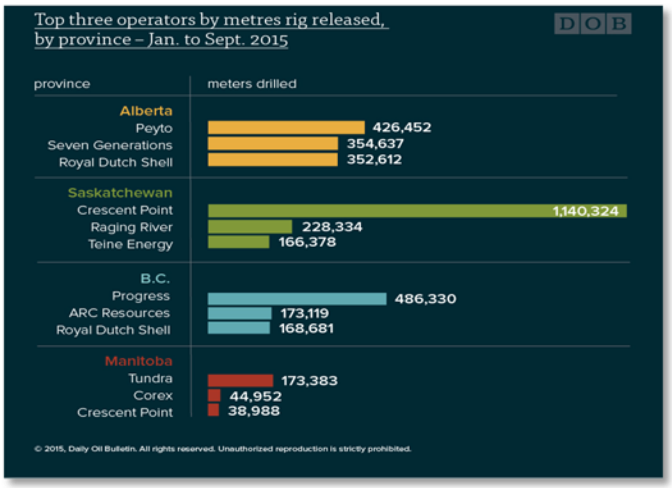
Peyto Exploration & Development Corp.
President's Monthly Report

November 2015 | From the desk of Darren Gee, President & CEO

Well, all I can say is, we're doing our part to hold up the Alberta economy this year. To the end of September, according to the Daily Oil Bulletin, Peyto had drilled more meters than anybody else in Alberta (Figure 1). That isn't saying much though, especially since the top 3 operators in Saskatchewan have drilled 35% more, and their plays are generally at much shallower depths than ours. Perhaps that difference has more to do with the respective provincial government's support than it does the current commodity prices.

Figure 1



Source: Daily Oil Bulletin

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	Q4	2014	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3
Acq.	0	0	0	0	0.3	3	0	0	0	0	0	-5	-2	-6
Land & Seismic	7	8	0	6	21.3	4	1	0	1	1	0	3	1	4
Drilling	80	68	83	81	310.8	70	19	16	25	59	31	29	28	88
Completions	36	48	46	54	183.1	43	11	8	14	33	15	15	14	44
Tie ins	16	10	11	14	51.3	7	3	3	5	11	4	5	6	15
Facilities	40	16	40	26	122.2	12	2	2	9	12	7	13	12	32
Total	**179**	**151**	**180**	**180**	**690**	**138**	**35**	**28**	**54**	**117**	**57**	**61**	**59**	**177**

Production*

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

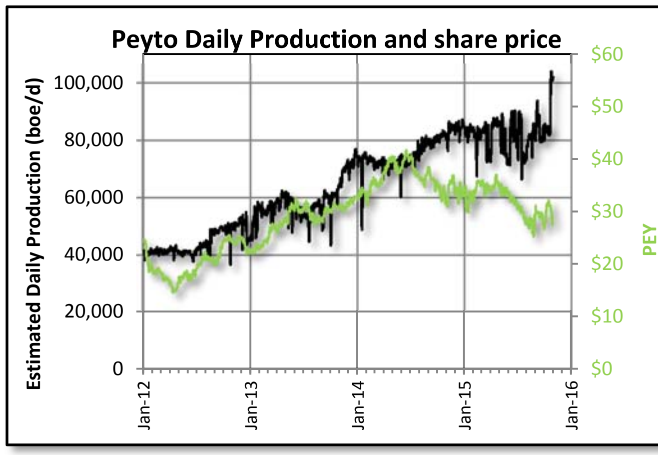
	Q2 14	Q3 14	Q4 14	2014	Q1 15	Q2 15	Jul	Aug	Sept	Q3 15	Oct
Sundance	51.7	57.2	59.4	**54.4**	56.5	57.1	56.7	57.4	60.7	58.2	62.3
Ansell	14.2	14.3	16.5	**15.2**	16.8	15.4	12.3	12.8	12.7	12.6	16.4
Brazeau	1.3	1.2	3.2	**1.8**	4.3	6.4	5.4	7.0	8.1	6.8	8.2
Kakwa	2.4	2.4	2.3	**2.4**	2.2	2.1	2.1	2.1	1.5	1.9	1.8
Other	2.5	2.4	2.0	**2.5**	1.7	1.6	1.5	1.8	1.3	1.5	1.4
Total	**72.1**	**77.5**	**83.3**	**76.3**	**81.6**	**82.6**	**78.0**	**81.1**	**84.3**	**81.1**	**90.1**

****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.***

We Did It Our Way

This President's report marks the 106th monthly report to shareholders since I began writing them in December 2006. While that isn't a particularly newsworthy milestone, I am thrilled this month to also report that we have finally crested the 100,000 boe/d production mark, with the last eleven days of October averaging 102,000 boe/d (Figure 2). I think this ***is*** quite the milestone, and it sure is a long way from the 2,000 boe/d level we were at when I joined Peyto in the spring of 2001. I also believe it's a rare achievement that the entire Peyto Team should be proud of.

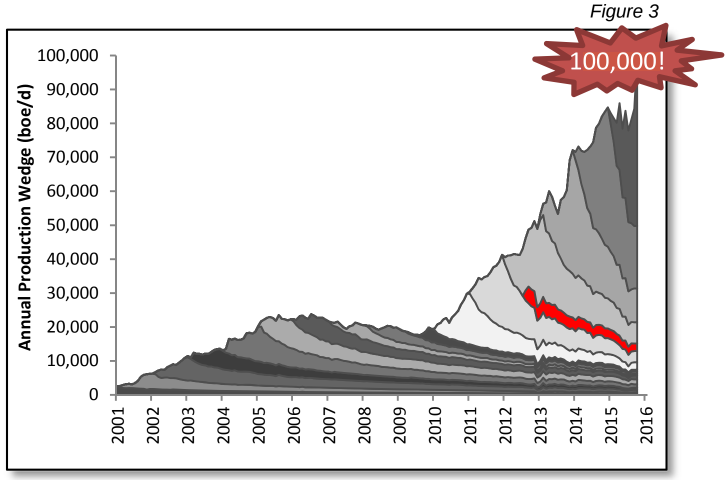
Figure 2



Source: Peyto

Looking back over Peyto's complete 17 year history, almost all of that 102,000 boe/d total (~100,000 boe/d) was developed with the drill bit. The only significant acquisition Peyto has ever done, in the summer of 2012, was the 5,000 boe/d purchase (now 2,500) of Open Range Energy (Figure 3 in red).

Figure 3



Source: Peyto

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It's not that we didn't want to buy what others might have had for sale over all that time period. It's just that, for the total purchase price and the subsequent development costs, we could never achieve the return hurdles we needed (except for ONR, of course). So as a disciplined, returns-driven strategy, we had to build it ourselves instead.

Over the history of the WCSB, it is extremely rare for a company to have built virtually all of its production base from scratch. And, more importantly, to have made money on it along the way! It's one of the reasons why I believe Peyto is so unique. Most E&P companies in our industry are normally in too big of a hurry to get big. I suspect that's because the principals believe size is the road to financial security or that's where the fame and fortune is. It's too bad really. Because the real fun, and the real profit in this industry, is generated when you build something from nothing yourself. But that takes time and patience.

When you consider all the benefits - to shareholders, to employees and workers, and to the residents of the Province of Alberta, for instance - the organic way we've done it has benefitted all. When you acquire someone else's production and reserves you don't generate new royalties, like you do building incremental production, you just move that same resource between companies. Our way has a much greater lasting benefit. Which is why I suppose the tax write offs for exploration and development activity are so much greater than for acquisitions.

Normally, we don't pay much attention to instantaneous production levels. Mostly because this is a business of making money and to do that you need to focus on other things, like costs, and margins, and profits, in order to generate a real return. But because this is a pretty big milestone, that few actually achieve, we'll take the time to celebrate it. Why not? These days with more and more roadblocks going up against our industry from increased competition, to environmental villainization, to increased government take, our industry is getting more and more challenging.

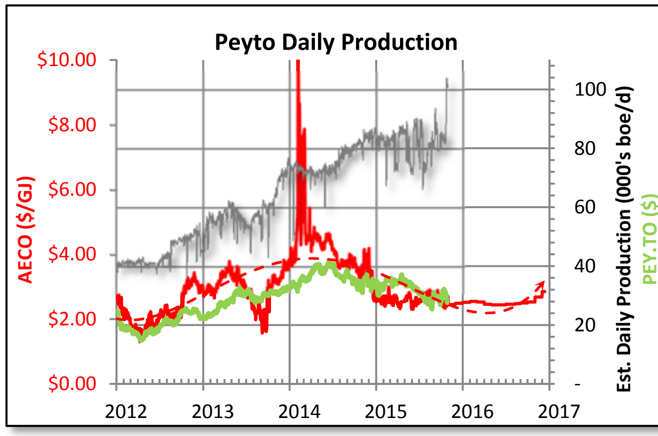
In the short term, we may not stay above the 100,000 boe/d mark as another couple weeks of TCPL transport restriction are likely coming our way, but I suspect by the end of the year this is a level that will be here to stay. We've definitely proven we have what it takes.

By no means is the end of Peyto near, nor do we face our final curtain, but in those immortal words of Paul Anka, popularized by my favorite crooner from Hoboken, New Jersey:

"We planned each charted course;
Each careful step along the byway,
And more, much more than this,
We did it our way."

Activity Levels and Commodity Prices

Figure 4



Source: Peyto

From the looks of Figure 4 above, the market has been rather focused on weak near term natural gas prices than on what we're doing at Peyto. But if the ol' farmers are correct again, this winter looks to be a repeat of last year (Figure 6). Sorry to all those shareholders who are on Bay St. and Wall St. If they're right, Bain Capital will be doing well again with their Canada-Goose clothing company since everybody on the east side of the continent will be loading up on their down-filled expedition parkas. It shouldn't be so bad for natural gas prices either.

Figure 5

Source: http://farmersalmanac.com/weather-outlook/2016-winter-forecast/