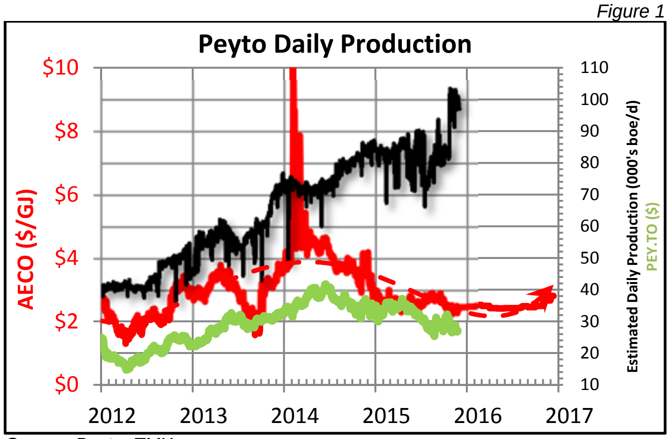
Peyto Exploration & Development Corp.
President's Monthly Report

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

Thankfully restrictions to take away capacity in November haven't been as severe as we had predicted and we've been able to hold on to 100,000 boe/d for most of the month. The market, however, continues to be fixated on natural gas prices and the upcoming winter (or lack thereof so far) with share price tracking gas price rather than production (see Figure 1).

Figure 1



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*

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

	Q1	Q2	Q3	Q4	2014	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct
Acq.	0	0	0	0	0.3	3	0	0	0	0	0	-5	-2	-6	0
Land & Seismic	7	8	0	6	21.3	4	1	0	1	1	0	3	1	4	0
Drilling	80	68	83	81	310.8	70	19	16	25	59	31	29	28	88	28
Completions	36	48	46	54	183.1	43	11	8	14	33	15	15	14	44	23
Tie ins	16	10	11	14	51.3	7	3	3	5	11	4	5	6	15	7
Facilities	40	16	40	26	122.2	12	2	2	9	12	7	13	12	32	4
Total	**179**	**151**	**180**	**180**	**690**	**138**	**35**	**28**	**54**	**117**	**57**	**61**	**59**	**177**	**62**

Production*

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

	Q2 14	Q3 14	Q4 14	2014	Q1 15	Q2 15	Jul	Aug	Sept	Q3 15	Oct	Nov
Sundance	51.7	57.2	59.4	54.4	56.5	57.1	56.7	57.4	60.7	58.2	62.3	63.2
Ansell	14.2	14.3	16.5	15.2	16.8	15.4	12.3	12.8	12.7	12.6	16.4	23.0
Brazeau	1.3	1.2	3.2	1.8	4.3	6.4	5.4	7.0	8.1	6.8	8.2	8.5
Kakwa	2.4	2.4	2.3	2.4	2.2	2.1	2.1	2.1	1.5	1.9	1.8	2.4
Other	2.5	2.4	2.0	2.5	1.7	1.6	1.5	1.8	1.3	1.5	1.4	1.9
Total	**72.1**	**77.5**	**83.3**	**76.3**	**81.6**	**82.6**	**78.0**	**81.1**	**84.3**	**81.1**	**90.1**	**99.0**

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 Lean, Green, Clean, Gas Machine!

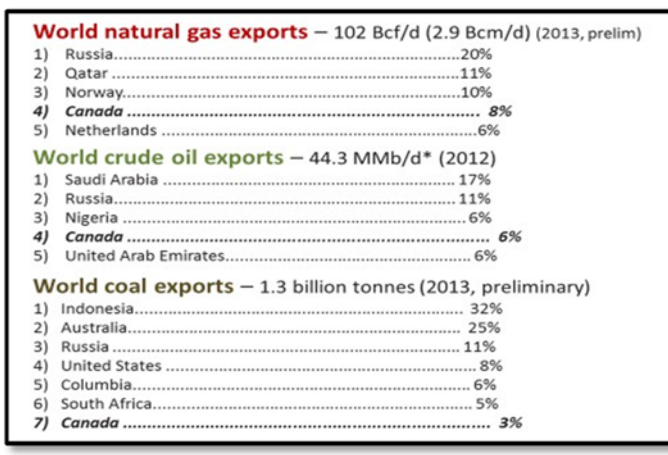
Climate change, climate leadership, and the role that the oil and gas industry in Alberta plays in all of that climate discussion has recently been front and center. All eyes were focused on Alberta's announcement of recommendations from its Climate Leadership Panel this past weekend, and on a 97 page document entitled "Climate Leadership - Report to the Minister" http://alberta.ca/documents/climate/climate-leadership-report-to-minister.pdf.

Immediately, questions were raised about the impact this new direction would have on the various parts of Alberta's petroleum industry and its economy in general. And while there was lip service paid to ensuring Alberta remained competitive in both the North American and World markets, at today's commodity prices, one can't help but think we are tying our own shoelaces together in this highly competitive and vital industry we call oil and gas.

The biggest overall concern to me is are we, in an effort to be a worldwide leader in environmentally responsible energy development, setting the environmental bar *too* high - so far beyond any of our competitor countries that we significantly lose our competiveness for energy export market share. One thing is for certain, the end user does not currently, nor may ever, differentiate where their energy comes from. No one today chooses the energy with the smallest environmental footprint. When was the last time you pulled up to the gas pump and chose Texas light oil versus Fort McMurray oil sands oil versus Venezuelan heavy oil based on its emissions intensity?

According to Natural Resources Canada 2015 Energy Markets Fact Book, Canada is in the top handful of nations providing the world with energy. Should we be an environmental leader? Absolutely! But let's keep in mind who we are leading and by what standards.

Figure 2


World natural gas exports – 102 Bcf/d (2.9 Bcm/d) (2013, prelim)
1) Russia....20%
2) Qatar....11%
3) Norway....10%
4) ***Canada 8%***
5) Netherlands....6%

World crude oil exports – 44.3 MMb/d* (2012)
1) Saudi Arabia....17%
2) Russia....11%
3) Nigeria....6%
4) ***Canada 6%***
5) United Arab Emirates....6%

World coal exports – 1.3 billion tonnes (2013, preliminary)
1) Indonesia....32%
2) Australia....25%
3) Russia....11%
4) United States....8%
5) Columbia....6%
6) South Africa....5%
7) ***Canada 3%***

http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/energy/files/pdf/2014/14-0173EnergyMarketFacts_e.pdf

According to Figure 2, we need to set our bar above that of Russia, Saudi Arabia, Qatar, Nigeria, Norway and the like. But nowhere in the recommendations from the Panel is a comparison to those countries of our current or future emissions intensity. Maybe we're already better than they are? It might be great to lead the world, and we might even be able to do it, but by how far and at what cost to us. Based on data from FirstEnergy as shown in Figure 3, Canada is already more efficient than anyone else on our continent (or off) in terms of the minimization of GHG emissions per unit of useful energy produced.

Figure 3

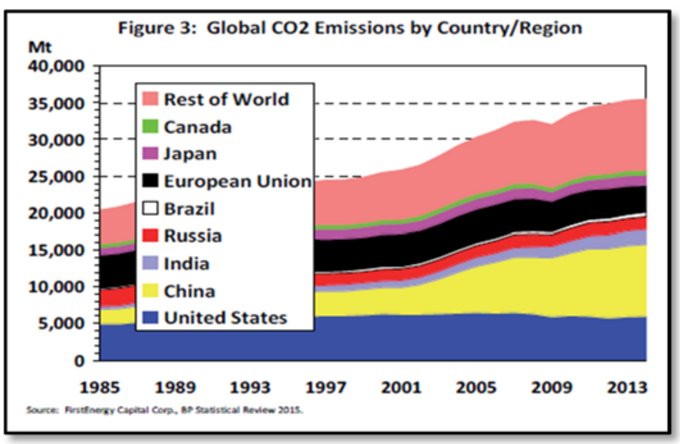
Emissions per Energy Produced

	Emissions (Gigatonnes) BP Statistical Review 2015	Energy Produced (Gigaton) EIA	Emissions per ton of Energy Produced
Canada	0.6	4.8	0.13
USA	6.0	20.0	0.30
Mexico	0.5	2.2	0.23
China	9.8	25.7	0.38

Source: FirstEnergy, EIA, BP

Canada's emissions are just a tiny drop in the bucket compared to the rest of the world, so a significant reduction is not going to make much difference (Figure 4). We are not going to single-handedly affect the earth's climate - but that's not the point. The point of reducing our emissions is to show the world it can be done and educating them on how to do it. That's where the leadership part comes in.

Figure 4

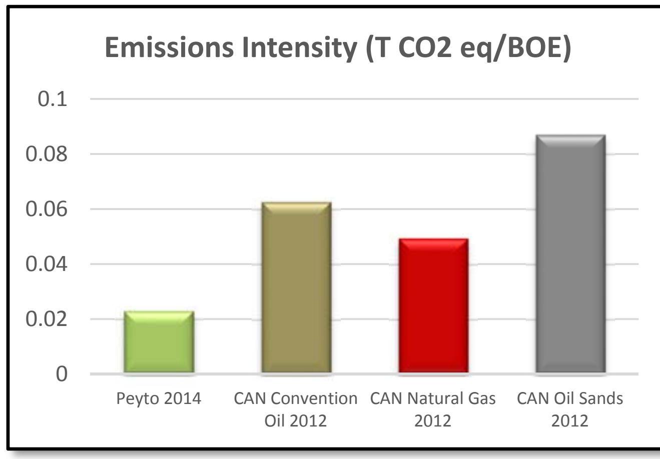


Source: FirstEnergy

I suppose it's kind of like us at Peyto. We too are a leader in the industry when it comes to efficiency and, as a correlatable side benefit, environmental leadership. Of course, much of what we've done is driven by economic justification, and profitability, but when we compare our total emissions to that of our industry, encompassing reservoir to sales meter, we are a lean, green, clean, natural gas producing machine!

Remember, at Peyto we operate 99% of our production in the field and process 98% of it at one of our 9 gas processing plants, which means we are in a unique position to know and measure all of the emissions throughout our operations. Everything from drilling and completion operations, to pipeline and facility construction, to gas plant and wellsite production operations. And the evidence of our efficiency shows up in our industry leading operating costs. It also shows up in our total direct emissions per boe of production as compared to the rest of the Canadian industry (Peyto 2014 internal assessment versus Environment Canada 2012 data - Figure 5).

Figure 5



https://ec.gc.ca/ges-ghg/E0533893-A985-4640-B3A2-008D8083D17D/ETR_E%202014.pdf

At Peyto, our leadership in this area is driven by doing things smartly, efficiently and cost effectively with little bureaucracy and a lot of direct action. And we certainly wouldn't suggest we destroy economic value or jeopardise our competitive position by accomplishing these gains. I can only hope Alberta does the same.

Activity Levels and Commodity Prices

Alberta currently has approximately 60% of the ~200 drilling rigs running in Western Canada with about half of the total rigs direct towards natural gas. And out of those 60 or so gas rigs in Alberta, Peyto has 10 working on in its Deep Basin core areas. Hardly what you'd call robust activity for the industry, but in contrast it's the busiest we've ever been, especially when those 10 rigs are doing the work of 12-13 rigs as a result of improvements in efficiency. Our counter cyclical investment strategy is hard at work as we head in to the winter drilling season this year.