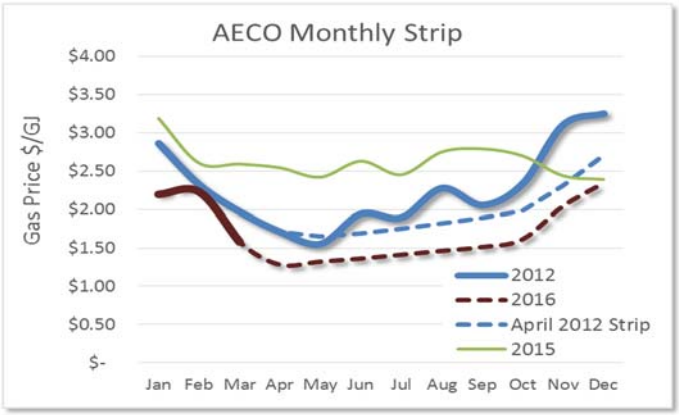
Peyto Exploration & Development Corp.
President's Monthly Report

March 2016 — From the desk of Darren Gee, President & CEO

Perhaps I shouldn't have been so quick to wish good riddance to 2015. Considering how commodity prices are shaping up for 2016, especially natural gas prices, 2015 might be looking pretty good. At least this time around we know what happens when gas prices get too low. The year 2012 is going to be our analog for the current warm winter and bloated storage levels. That year, as shown in Figure 1, gas rallied back quite quickly on the backs of fuel switching and a warm summer that required a lot of cooling. In fact, it rallied even faster than was forecast in the spring of that year. Hopefully 2016 will do the same.

Figure 1



Source: Peyto, GasAlberta

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*

*2014/15/16 Capital Summary (millions$ CND)**

	Q1	Q2	Q3	Q4	2014	Q1	Q2	Q3	Oct	Nov	Dec	Q4	2015	Jan
Acq.	0	0	0	0	0.3	3	0	-6	0	0	0	0	-3	0
Land & Seismic	7	8	0	6	21.3	4	1	4	0	2	0	2	12	3
Drilling	80	68	83	81	310.8	70	59	88	28	27	16	71	287	24
Completions	36	48	46	54	183.1	43	33	44	23	19	13	54	173	9
Tie ins	16	10	11	14	51.3	7	11	15	7	6	3	16	49	4
Facilities	40	16	40	26	122.2	12	12	32	4	5	12	20	76	16
Total	**179**	**151**	**180**	**180**	**690**	**138**	**117**	**177**	**62**	**58**	**44**	**163**	**594**	**56**

Production*

*2015/16 Production ('000 boe/d)**

	Q1 15	Q2 15	Q3 15	Oct	Nov	Dec	Q4 15	2015	Jan	Feb
Sundance	56.5	57.1	58.2	62.3	63.2	63.3	62.9	**58.7**	61.3	61.2
Ansell	16.8	15.4	12.6	16.4	23.0	24.2	21.2	**16.5**	24.1	23.7
Brazeau	4.3	6.4	6.8	8.2	8.5	10.0	8.9	**6.6**	11.3	12.7
Kakwa	2.2	2.1	1.9	1.8	2.4	2.1	2.1	**2.1**	2.1	2.2
Other	1.7	1.6	1.5	1.4	1.9	1.9	1.7	**1.6**	1.7	1.8
Total	**81.6**	**82.6**	**81.1**	**90.1**	**99.0**	**101.5**	**96.8**	**85.5**	**100.5**	**101.6**

***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.**

Our Real Competition

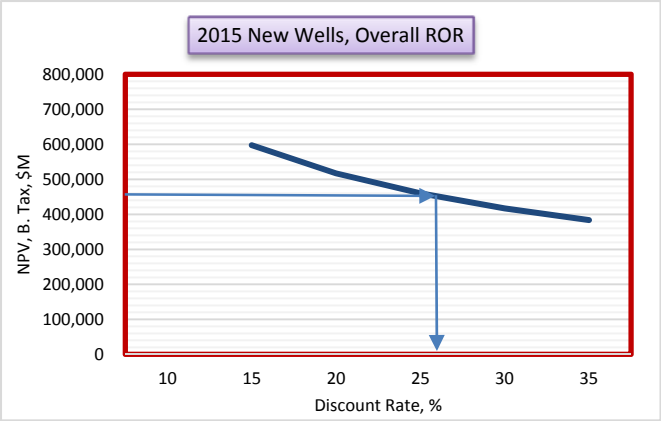
These days it would be all too easy to be distracted by our Federal and Provincial governments' deficit spending our children's future away. Or get caught up debating with the socialist and environmentalist movements the future of hydrocarbon energy in our lives. But as direct players in Canada's largest and most important export industry, we can't afford to do that if we really do want to build a lasting future for the next generation of Albertans. We have to focus on keeping this industry alive and thriving. That means we have to focus on making it more profitable and staying competitive with our biggest challenger, the US.

So are we still competitive? With year-end results pouring in, now is a good time of year to do that analysis. And since Peyto is a natural gas company, of course I want to see if our natural gas industry is still competitive, and more specifically, how does Peyto sit relative to those competitors.

First off we need to look at how good a job ***we*** did last year, relative to past years. In other words, for the capital we invested last year, what did we get? One simple way is to just isolate the 2015 new drilling in the Independent Engineering report and compare that to the total capital spent. Figure 2 shows the Before Tax Net Present Value of only the wells drilled in 2015, at various discount rates, as at December 31, 2015.

First, we have to adjust the capital spent in 2015 by the net operating income generated from these wells in the year ($143 million). That leaves us still needing to recover $451 million ($594 minus $143). According to the evaluation, these wells will generate another $1.4 billion over their life, $600 million if future cashflows are discounted at 15% or the required $451 million discounted at 26%. This implies a rate of return of 26%, on the capital spent, valued at the engineers price deck. All in all, a pretty good year. Thankfully, achieving lower costs helped offset most of the loss in the commodity prices.

Figure 2



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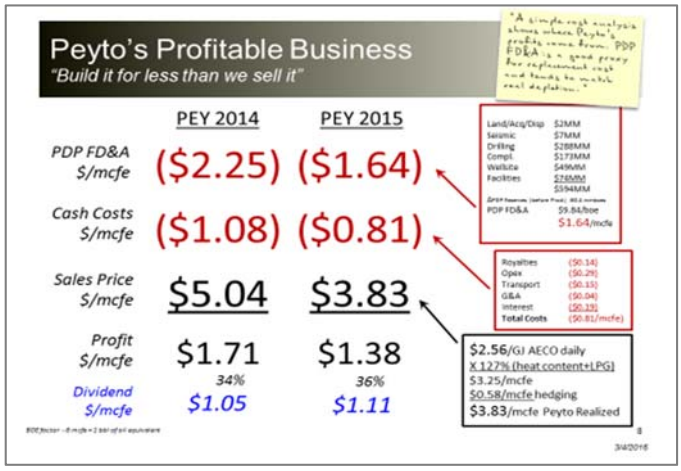
Looking at well economics is fine, but rarely do companies disclose the post mortem economic results and unfortunately that still doesn't tell us if Peyto, the company, is competitive. And since ***companies*** are required to develop these resources, that's the more important comparison of relative competitiveness. So how did Peyto do?

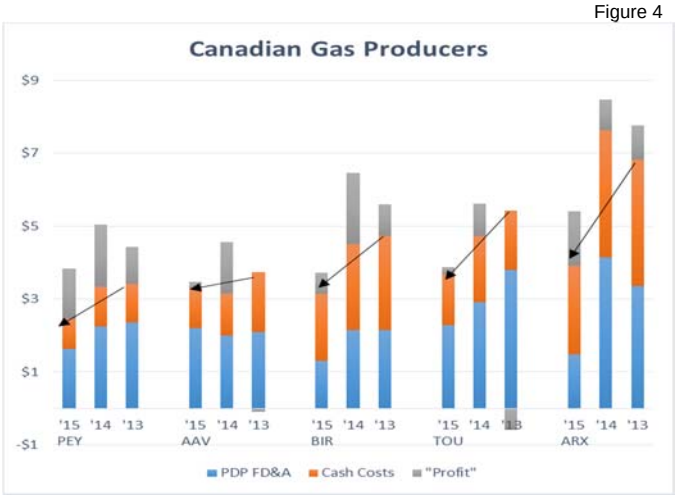
Figure 3 shows the cost to build new producing reserves, the total cash costs to produce them and what we sold them for. Again, the same conclusion. Costs were lowered so profit margins could be maintained at lower commodity prices. Nicely done.

Figure 3



How about other gas producers in Canada? Looking at a few of the more profitable gas producers, they seem to have more or less accomplished the same – lowered costs to try and preserve margins.

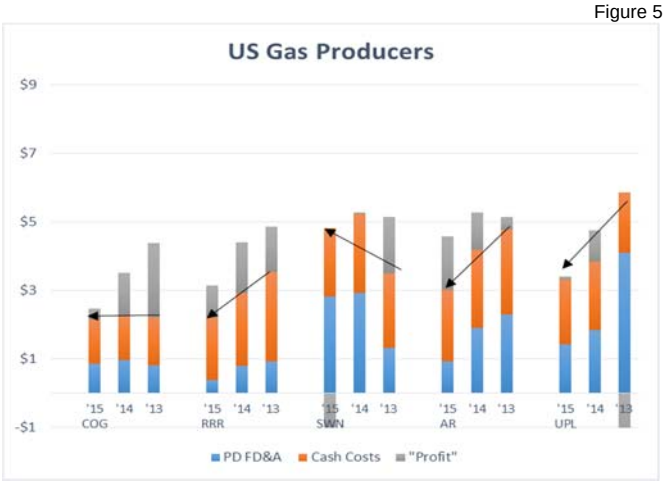
Figure 4



Source: Peyto, company financials

So how about our US competitors? Were they able to do the same?

Figure 5



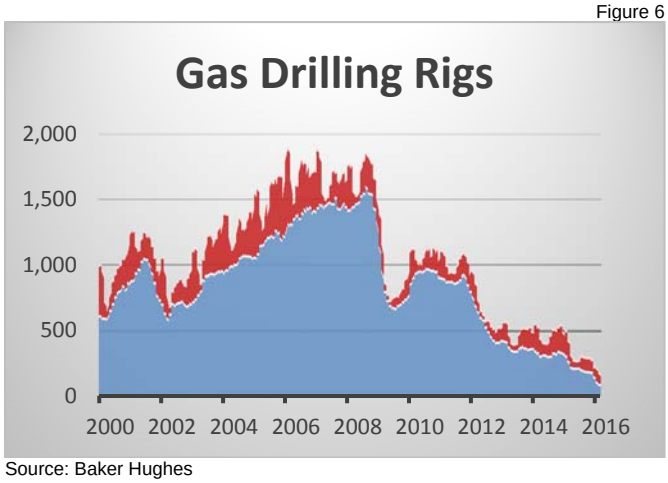
Source: Peyto, company financials

For the gas producers I looked at, focused in some of the more prominent shale plays in the US, it doesn't look like they did as good a job of holding on to their margins. Perhaps that's because they don't generally control as much of their cost structure as we do in Canada. Which means they also cannot lower their costs like we can here and ultimately makes them less profitable than us when commodity prices fall.

Activity Levels and Commodity Prices

The current gas rig count is something quite astonishing with the number of gas rigs in North America falling through 200. That's the first time in as far back as Baker Hughes (the industry standard) reports data that the rig count is that low. One would think there has to be a supply response coming right around the corner in response to so little drilling

Figure 6



Source: Baker Hughes

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