Peyto Exploration & Development Corp.
President's Monthly Report

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

With all the summer rain we've been having in Alberta, our leases in the Edson, AB area look a little like the Stampede Rodeo infield during the Sunday finals. It's making the job of quickly turning on all our deferred production a little more challenging. As well, our eight drilling rigs are temporarily accomplishing less than we expected with all the weather delays which means we may need to add a ninth rig at some point to catch us back up. On the sunny side, natural gas prices have continued to strengthen nicely going into this fall and winter, faster than we had anticipated.

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) as well as any production deferrals.

Capital Investment*

*2015/16 Capital Summary (millions$ CND)**

	2014	Q1 15	15	Q3 15	Q4 15	2015	Jan	Feb	Mar	Q1 16	Apr	May	Jun	Q2 16
Acq.	0.3	3	0	-6	0	-3	0	10	18	28	0	0	0	0
Land & Seismic	21.3	4	1	4	2	12	3	0	1	4	1	0	1	1
Drilling	310.8	70	59	88	71	287	24	23	16	63	8	7	15	30
Completions	183.1	43	33	44	54	173	9	13	11	33	2	0	5	8
Tie ins	51.3	7	11	15	16	49	4	4	4	12	0	1	1	3
Facilities	122.2	12	12	32	20	76	16	13	9	37	3	2	4	9
Total	**690**	**138**	**117**	**177**	**163**	**594**	**56**	**62**	**57**	**176**	**14**	**10**	**26**	**50**

Production*

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

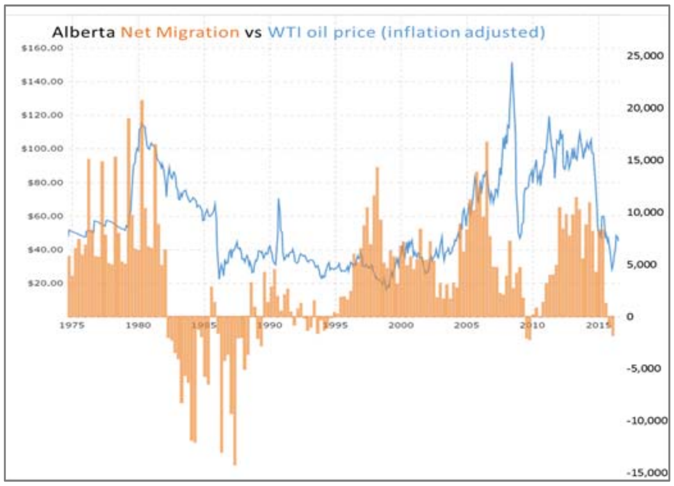
	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Apr	May	June	Q2 16	Jul
Sundance	56.5	57.1	58.2	62.9	**58.7**	60.9	54.9	54.0	54.1	54.3	54.3
Ansell	16.8	15.4	12.6	21.2	**16.5**	24.6	20.5	19.1	20.1	19.9	20.5
Brazeau	4.3	6.4	6.8	8.9	**6.6**	12.2	11.2	9.5	11.4	10.7	14.2
Kakwa	2.2	2.1	1.9	2.1	**2.1**	2.2	2.2	2.2	2.2	2.2	2.1
Other	1.7	1.6	1.5	1.7	**1.6**	1.7	0.6	1.2	1.7	1.2	1.4
Total	**81.6**	**82.6**	**81.1**	**96.8**	**85.5**	**101.4**	**89.4**	**86.0**	**89.5**	**88.3**	**92.5**
Deferral							**17.1**	**19.9**	**15.1**	**17.4**	**9.3**

****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 Great Alberta Crew Change

I read in the news that in the last quarter of 2015 more people were leaving Alberta to go to other provinces than arriving and that it was the first negative migration we'd seen in the last 6 years. The initial and obvious conclusion was that it was because of Alberta's difficult economy primarily caused by weak oil and gas prices. With less revenue from oil and gas production there is less re-investment and less work for our specialized workforce. A quick trip to the stats Canada website confirmed that conclusion.

Figure 1



Source: Statistics Canada, Cansim table 051-0017, Macrotrends.net

If we overlay oil prices, we can indeed see the dramatic drop in oil price in 2014-2015, followed by the outflow of people. In reality, other than a little blip following the Great Recession, there hasn't been a significant and lasting outflow of people from Alberta since the National Energy Program began in 1980. That program, combined with a broader economic recession, caused an outflow of people that saw Alberta's workforce shrink for more than seven years. Interestingly, from around 1995 to 2003 there was lasting, *positive* migration despite persistently low oil prices (Alberta's tax advantage? Now that's gone too).

The danger of this negative migration as it pertains to Peyto and our industry, is that we suffer from "brain drain" and permanently lose some of the technical talent that allows our industry to bounce back when commodity prices are stronger.

Thankfully, we've designed Peyto with an industry leading low cost structure and incredibly lean team that can not only take advantage of lows in the commodity price cycle but we can also retain that technical knowledge base when the rest of the industry is at risk of losing theirs.

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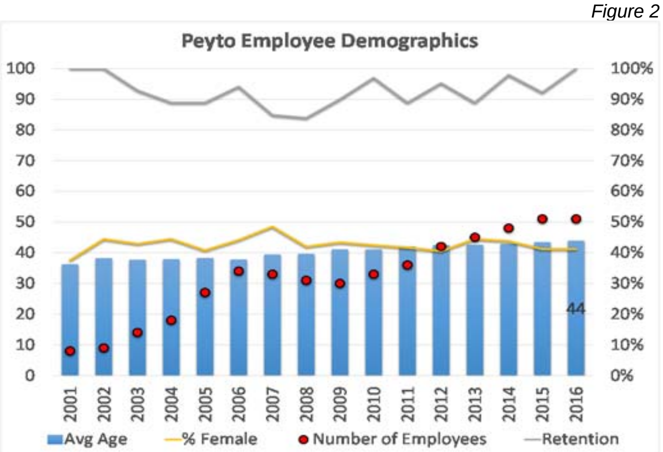
Looking specifically at Peyto's demographics (Figure 2), you can see that, as our workforce has grown over the last 17 years, we've managed to retain a large number of key technical staff (>90%), while at the same time keeping it relatively young (44 yrs old). Which brings to mind one of the other problems facing our industry right now. With the *villainization* of the energy industry in mainstream media and by governments these days, finding young people willing to come work in our industry is increasingly difficult. Has anybody been able to convince their teenagers to pursue a career in the energy business lately?

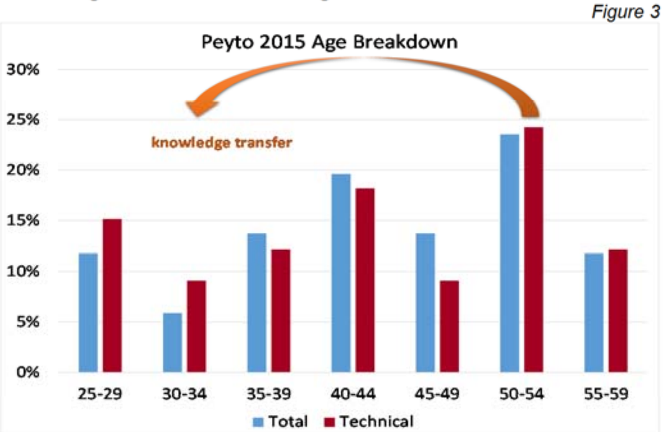
Figure 2



Source: Peyto

Even if you can find and attract those young professionals to your organization, the next challenge is then passing on the technical expertise and know-how to the next generation. This is much easier if companies are active, to allow for hands-on, learning-by-doing experiences. With today's rig count, that knowledge transfer is a lot tougher.

Figure 3

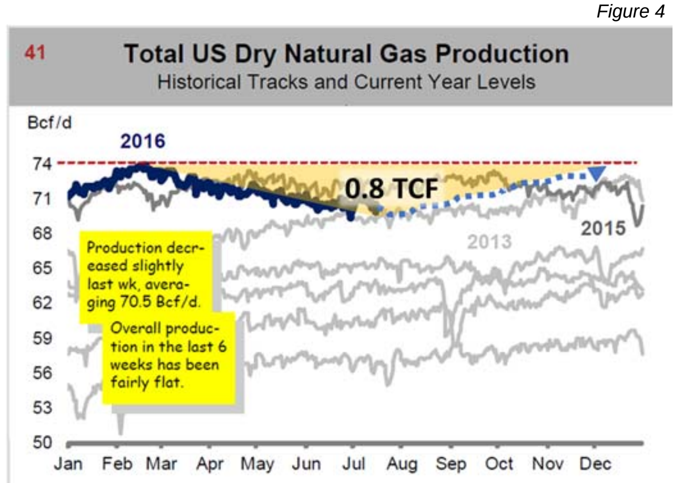


Source: Peyto

When the commodity prices finally do come back around, as they always do, it won't just be about who had the financial fortitude to survive but also about who is left in those organizations and are they still as capable as before. The more expertise we lose from Alberta just means the longer it will take to get this next crew up to speed and working effectively again. This particular crew change could end up being a very challenging one.

Activity Levels and Commodity Prices

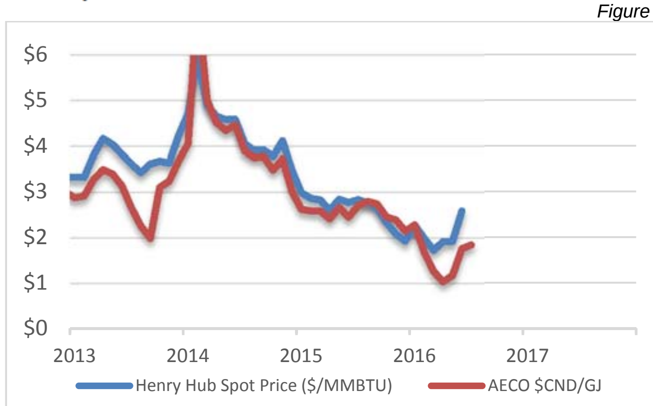
Figure 4



Source: ARC Financial

Even if US natural gas production stops declining due to a pick-up in activity (which I believe will take longer than people think due to pad drilling, see last month's report), by the time it recovers to pre-decline levels we will have eroded almost the entire storage overhang of 1 TCF that we had coming out of last winter (see Figure 4). That belief has caused US gas prices to climb back to a level we were at prior to last winter. AECO prices are still disconnected from US Henry Hub due to temporarily high IT tolls on the mainline. Those should come back down to normal levels with contract renewals this fall just like they did in late 2013.

Figure 5



Source: EIA, Peyto

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