



www.Peyto.com

**FirstEnergy
Energy Growth
Conference**

November 2013

Advisory

Regarding Forward-Looking Statements

This presentation contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, this presentation contains forward looking statements and information concerning Peyto Energy Trust ("Peyto") production; reserves, resources and gas in place; undeveloped land holdings; reserve life index; product mix; business strategy; future development and growth prospects, profile targets and rates; prospects; asset base; tax pools; drilling locations and inventory, down-spacing potential; exploration risk; access to capital; future cash flow, value, debt levels and debt to cash flow; capital investment and expenditure programs and the funding thereof; anticipated cash-on-cash yield; net asset value; credit facility; and statements with respect to levels of dividends to be paid to shareholders, dividend policy, and the timing of payment of such dividends.

The forward-looking statements and information are based on certain key expectations and assumptions made by Peyto, including expectations and assumptions concerning prevailing commodity prices and exchange rates, applicable royalty rates and tax laws; future well production rates; reserve and resource volumes; the performance of existing wells; the success obtained in drilling new wells; and the sufficiency of budgeted capital expenditures in carrying out planned activities; and the availability and cost of labour and services. Although Peyto believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward looking statements and information because Peyto can give no assurance that they will prove to be correct.

Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results could differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production; delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve and resource estimates; the uncertainty of estimates and projections relating to reserves, resources, production, costs and expenses; health, safety and environmental risks; commodity price and exchange rate fluctuations; marketing and transportation; loss of markets; environmental risks; competition; incorrect assessment of the value of acquisitions; failure to realize the anticipated benefits of acquisitions; ability to access sufficient capital from internal and external sources; and changes in legislation, including but not limited to tax laws, royalties and environmental regulations.

Readers are cautioned that the foregoing list of factors is not exhaustive. Additional information on these and other factors that could affect the operations or financial results of Peyto are included in reports on file with applicable securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com). The forward-looking statements and information contained in this presentation are made as of the date hereof and Peyto undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

The information contained in this presentation does not purport to be all-inclusive or to contain all information that a prospective investor may require. Prospective investors are encouraged to conduct their own analyses and reviews of Peyto and of the information contained in this presentation. Without limitation, prospective investors should consider the advice of their financial, legal, accounting, tax and other advisors and such other factors that they consider appropriate in investigating and analyzing Peyto.

Reserves

The recovery and reserve estimates of Peyto's crude oil, natural gas liquids and natural gas reserves provided in the presentation are estimates only and there is no guarantee that the estimated reserves will be recovered. Actual crude oil, natural gas liquids and natural gas reserves may be greater than or less than the estimates provided herein. Reserve and production volumes are quoted before royalty deductions.

Barrels of Oil Equivalent

"Boe" means barrel of oil equivalent on the basis of 1 boe to 6,000 cubic feet of natural gas. Boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 1 boe for 6,000 cubic feet of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Original Gas in Place

Original gas in place includes both discovered and undiscovered resources, and there is no certainty that any portion of the undiscovered resources will be discovered and, if discovered, that any volumes will be economically viable or technically feasible to recover or produce. Original gas in place also includes volumes that have already been produced from such accumulations. Readers should not unduly rely upon estimates of original gas in place in terms of assessing the combined company's reserves or recoverable resources.

Prices

All dollar values are quoted in Canadian currency.

Peyto Profile

- ✱ TSX Listing: PEY
- ✱ Shares Outstanding: 148.7 million, 5% insiders
- ✱ Monthly Dividend: \$0.08/share (incr. from \$0.06 effective May/13)
- ✱ Current Production: ~420 MMCFe/d (70,000 boe/d)
- ✱ YE 2012 2P Reserves: 2.35 TCFe (392 mmboes)
- ✱ Net Debt:
 - \$100 million (senior unsecured notes, 7 yr, 4.39% coupon, Prudential IM)
 - \$ 50 million (senior unsecured notes, 10 yr, 4.88% coupon, Prudential IM)
 - \$120 million (senior unsecured notes, 7 yr, 4.5%, expected close Dec/13)
 - (Q3 2013*) \$593 million (revolving bank debt, post note issue announced Nov 4/13)
 - \$863 million
- ✱ Bank Lines: \$1.27B total capacity (\$1.0B unsecured bank facility*)
- ✱ Enterprise Value: \$5.5 billion (\$31/share)

BOE factor - 6 mcf = 1 bbl of oil equivalent

Reserve and production volumes are before royalty deductions

**Revolving bank debt and total borrowing capacity is post the Nov 4/13 announced not issue which is expected to close Dec/13.*

Third Quarter 2013 Highlights

"Peyto is currently more active than ever in its history, profitably growing a world class asset base to deliver superior shareholder returns."

18%↑

YoY Production/share

25%↑

YoY FFO/share

75%

Q3/13 Operating margin

29%

YoY Share price
increase (incl. div.)
As at Sept. 30

33%↑

YoY Dividend/share*

23%

Q3/13 Profit margin

\$1.07

Q3/13 Total cash costs/mcfe**

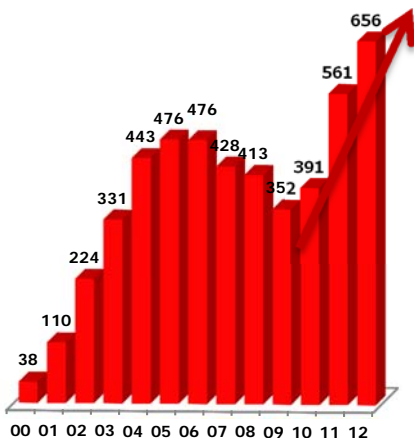
FFO is Funds From Operations, Operating margin is FFO/revenue, Profit margin is earnings/revenues,
*Monthly dividends increased 33% from \$0.06/sh to \$0.08/sh in May/13
**Cash costs are royalties, operating costs, transportation, G&A and interest

The Peyto Strategy

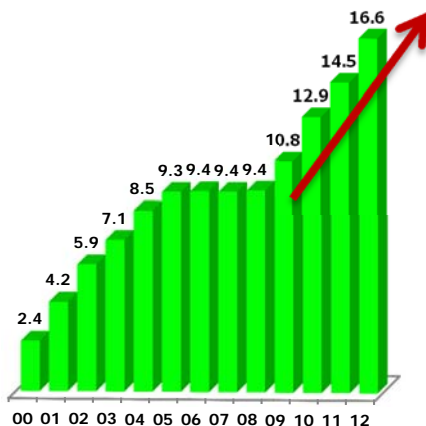
Grow Our Assets

"Our goal is to profitably grow our assets for shareholders. We've been doing that for several years, even in the face of low gas prices."

Production
(MMcfe/d/mm sh)



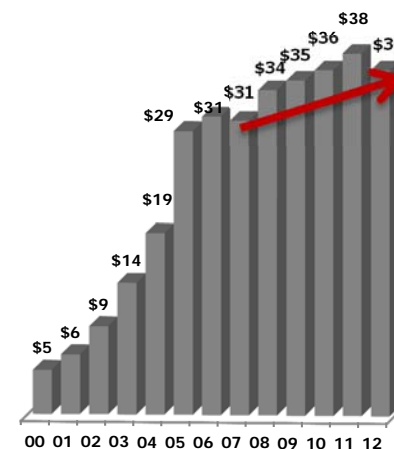
2P Reserves
(Bcfe/mm sh)



Funds from Operations
(\$/sh)



2P NPV₅ DA
(\$/sh)



BOE factor - 6 mcf = 1 bbl of oil equivalent

Reserve and production volumes are before royalty deductions

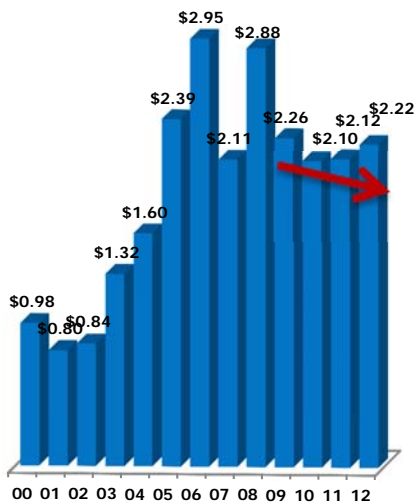
Historical annual average per share and shares outstanding numbers used above have been adjusted to reflect the May 27, 2005 2:1 stock split

The Peyto Strategy

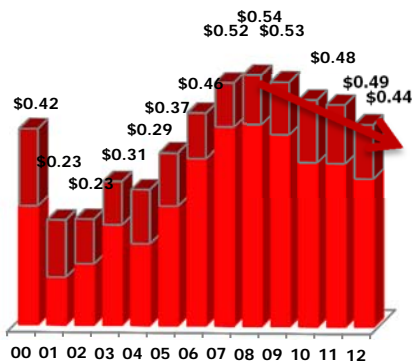
Control Our Costs

"We do it profitably by controlling our costs. The cost to build it and the cost to produce it."

PDP FD&A
(\$/Mcf)



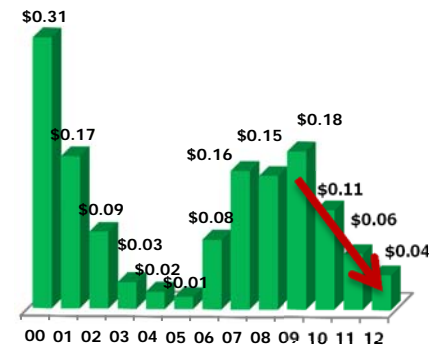
Operating Costs
w/transportation
(\$/Mcf)



Interest Cost
(\$/Mcf)



G&A
(\$/Mcf)

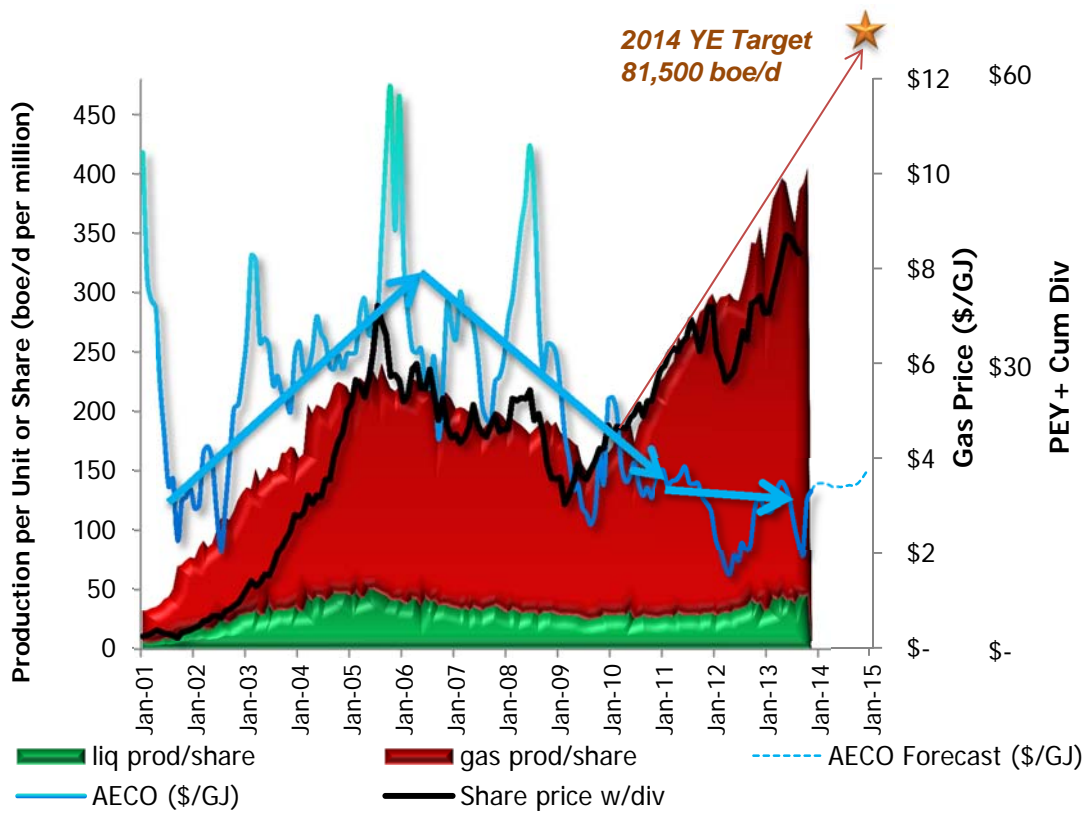


BOE factor - 6 mcf = 1 bbl of oil equivalent
Reserve and production volumes are before royalty deductions

The Peyto Strategy

Growth per Share

"Since the adoption of horizontal multi-stage frac well design in 2009, Peyto has been growing production per share at a CAGR of around 35%. And that's at \$3-4/GJ gas price."



35%

Production/share
growth rate

Historical Per Unit (share) and Units (shares) Outstanding numbers have been adjusted to reflect the May 27, 2005 2:1 stock split
BOE factor - 6 mcf = 1 bbl of oil equivalent

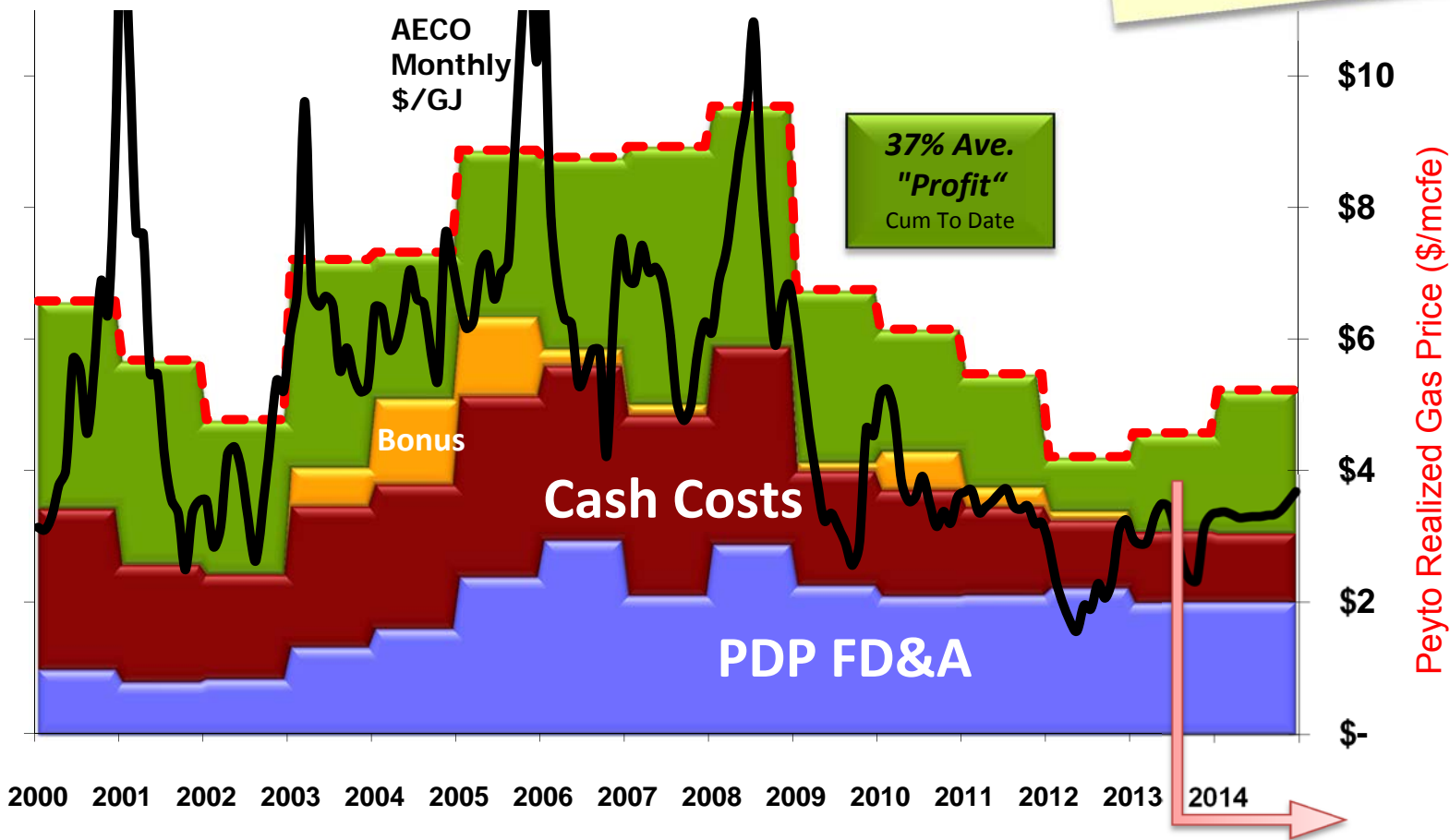
Peyto's Profitable Business



Peyto's Profitable Business

Profitable Even Through The Lows

"Peyto has always built it and produced it for less than we sell it, despite where we are in the commodity price cycle. That's the power of the low cost producer."



Total Cash Costs per mcf includes – Royalties, Op Costs, G&A, and Interest
 PDP FD&A – Proved Developed Producing Finding Development & Acquisition Costs

Forecast with
 AECO Strip
 Prices and
 Historical Costs

Peyto's Profitable Business

Cost Control Challenges for the Canadian Industry

"The Canadian industry is struggling to generate profits with current costs and commodity prices. That makes sustainable dividends difficult too."

	<u>CND 2012**</u>	<u>CND 2011*</u>	<u>CND 2010*</u>
PDP FD&A \$/mcfe	(\$3.84)	(\$4.17)	(\$4.71)
Cash Costs \$/mcfe	(\$3.79)	(\$3.91)	(\$3.71)
Sales Price \$/mcfe	<u>\$7.12</u>	<u>\$7.89</u>	<u>\$7.69</u>
Profit/(Loss)	(\$0.51)	(\$0.19)	(\$0.74)

*Includes: AAV,ARX,BIR,BNP,BTE,CLT,CPG,CR,ERF,FEL,NAE,NGL,PBN,PGF,PMT,POU,PRQ,PWT,TET,TOU,VET,ZAR

**Includes: AAV,ARX,BIR,BNP,BTE,CPG,CR,ERF,FEL,NGL,PBN,PGF,PMT,POU,PWT,TET,TOU,VET,ZAR

Peyto's Unique Assets



Peyto's Assets

Geographically Focused Core Areas

"Peyto operates 99% of its production and processes 97% of that production through its nine owned and operated gas plants. Concentration and control are how you achieve low costs."

97%

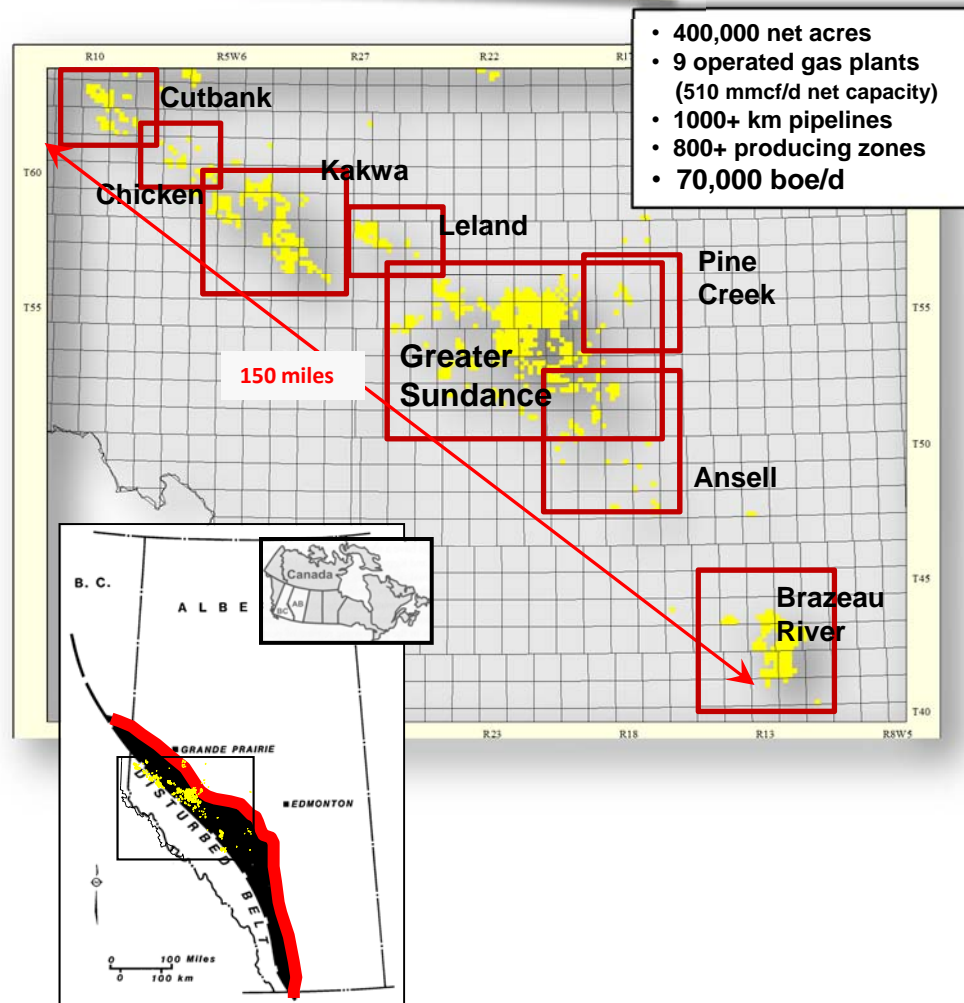
Processed by Peyto

99%

Operated by Peyto

96%

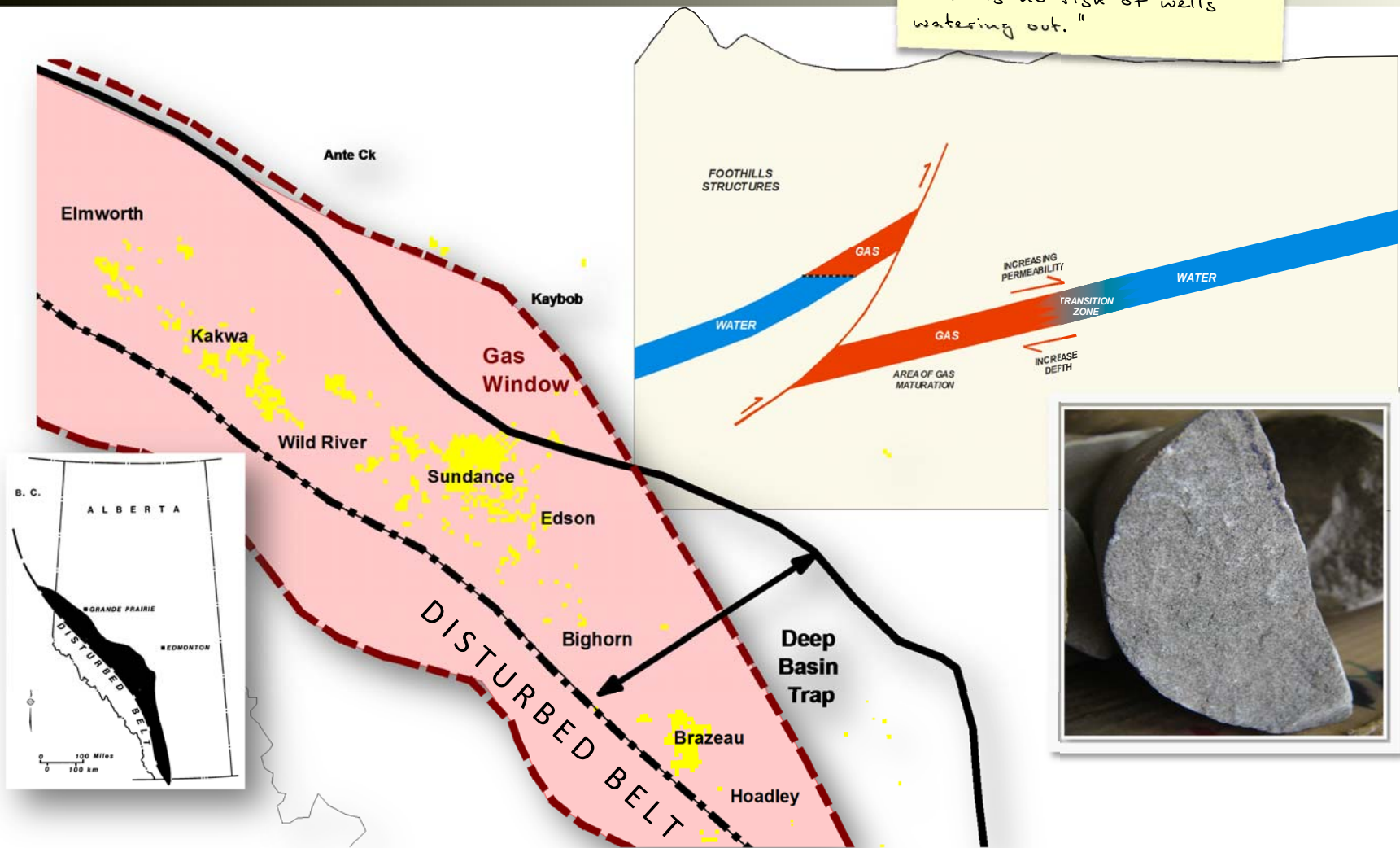
Interest in 9 Processing Facilities



Peyto's Assets

Deep Basin Permeability Segregation

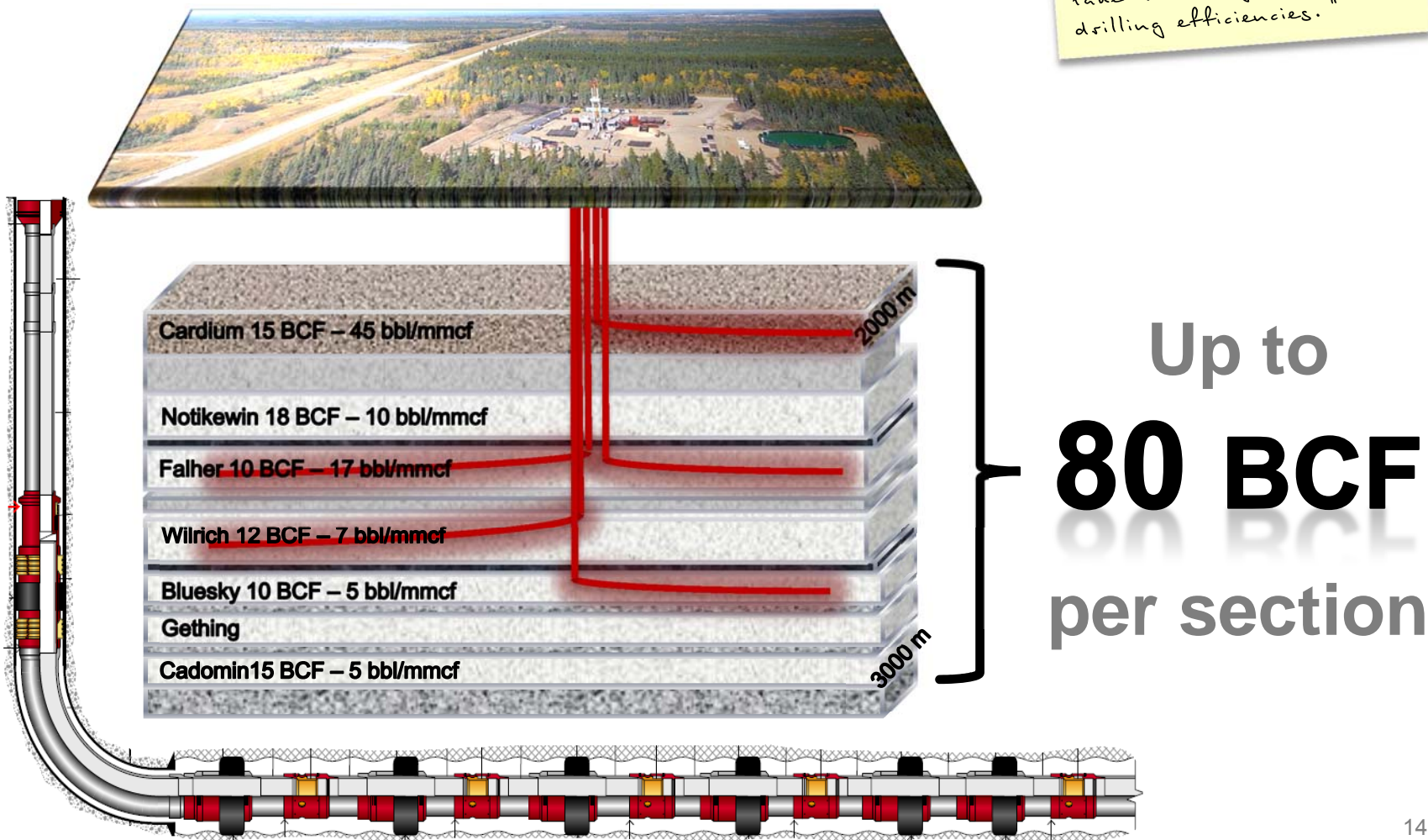
"The Deep Basin is a permeability trap, because the fluids in the updip position can't travel through these fine grained, tightly compacted reservoirs so there is no risk of wells watering out."



Peyto's Assets

Multi Zone Stacked Sandstone Reservoirs

"Large resource potential, in a concentrated, stacked package, that can be developed with modern horizontal MSF well design and allows us to take advantage of pad drilling efficiencies."



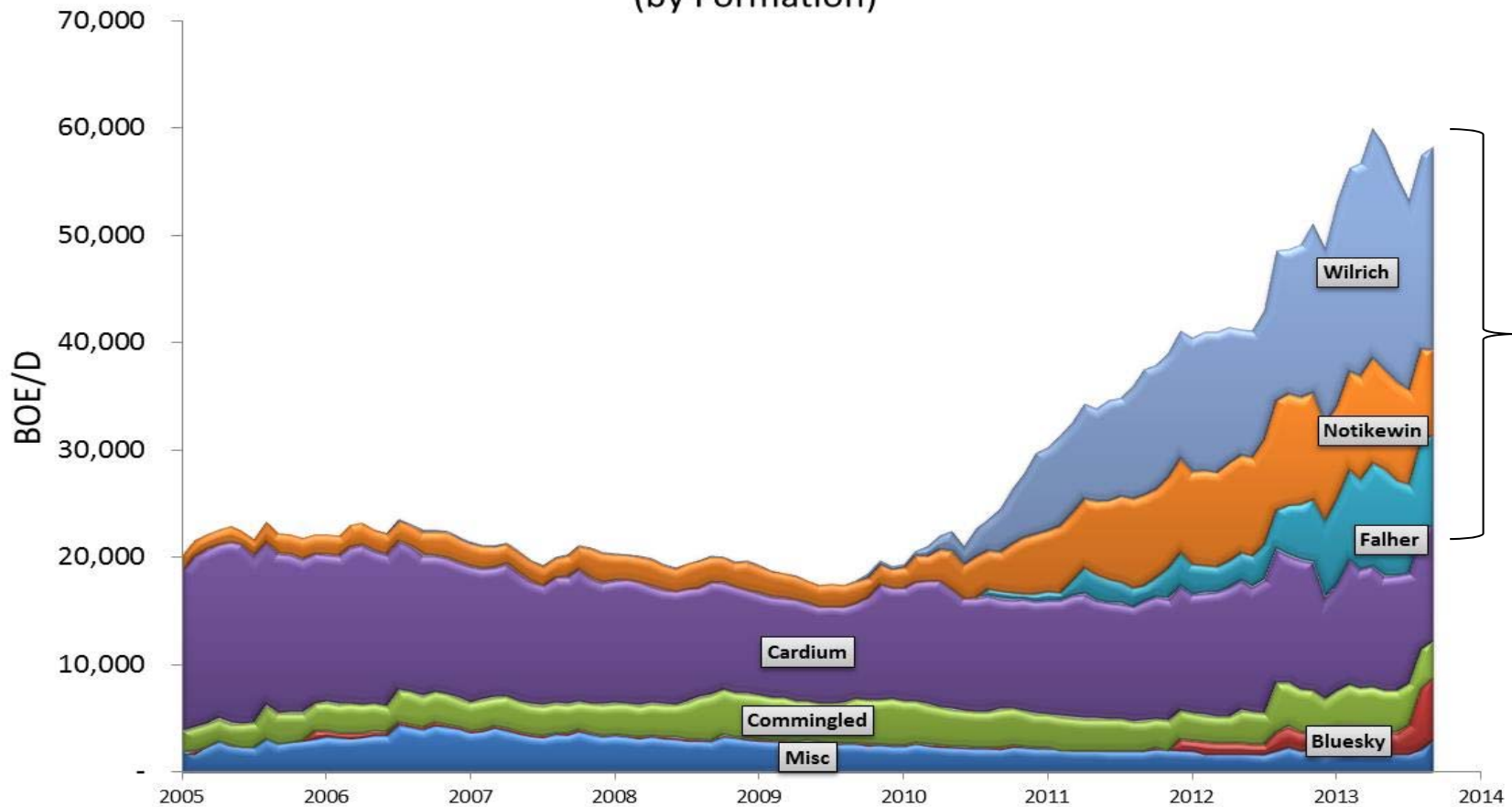
*NGL recoveries can increase by 15+ bbl/mmcf with deeper cutting processing facilities

Peyto's Assets

Production By Formation

"The Wilrich, Notikewin and Falher sands of the Spirit River Group have provided the majority of our growth since the implementation of horizontal MSF wells. Look for the Bluesky next."

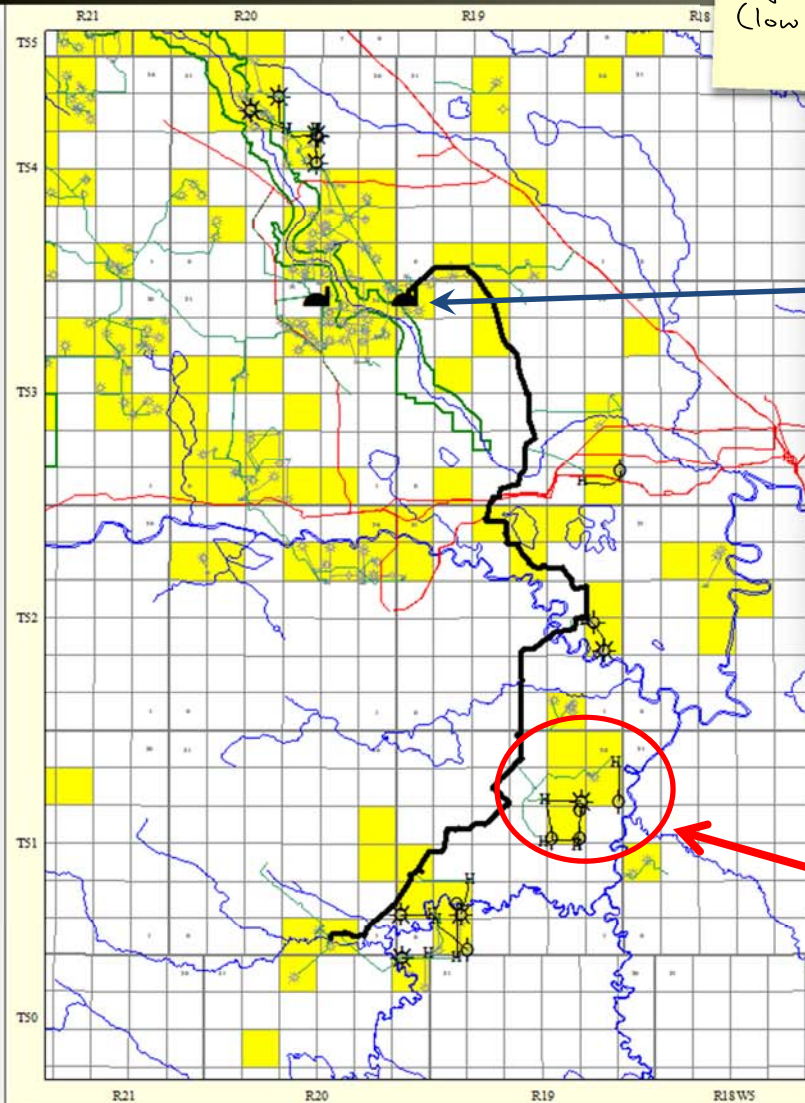
Peyto Production (by Formation)



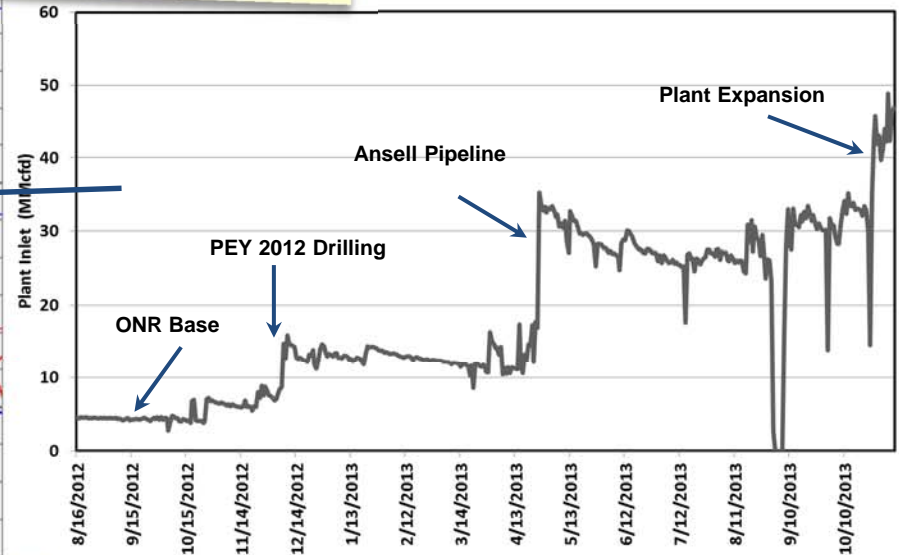
Peyto's Assets

Swanson/Ansell Area

"The combination of the ONR plant, Peyto's lands and a long trunk line have resulted in rapid production growth and high facility utilization (low costs)."



Swanson Gas Plant
(12-31-51-19)



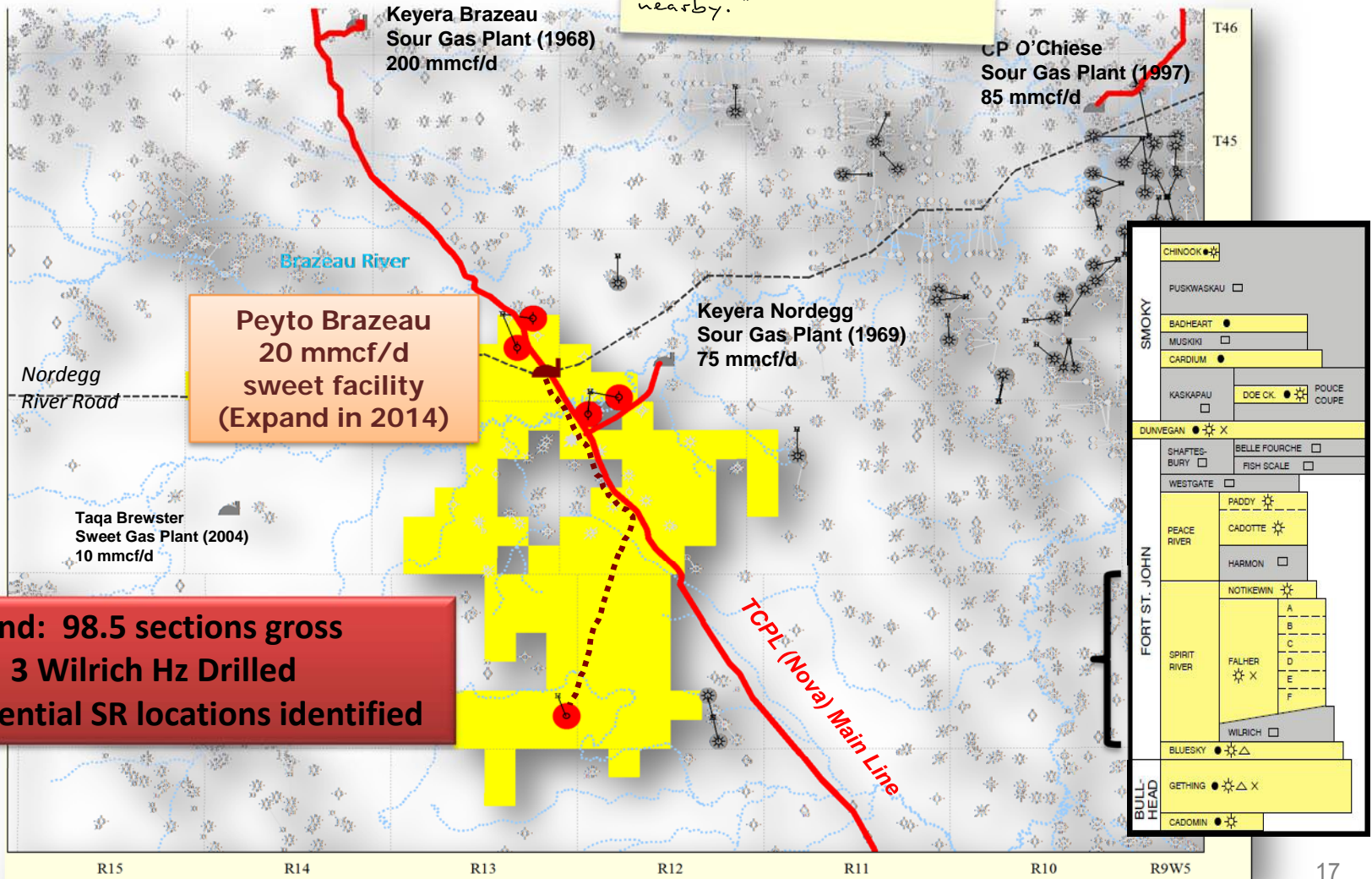
2013 Activity

- 50km 10" Pipeline to Swanson plant (ONR)
- 18G (17.5N) Wells drilled (Wilrich, Cardium, Falher)
- Plant refrig expansion from 30 mmcf/d to 50 mmcf/d
- Plant throughput increased from 5 mmcf/d to 46 mmcf/d since purchased from ONR
- 5 wells drilled on lands purchased and farm-in
- Follow-up development in 2014

Peyto's Assets

Brazeau River Area

"The new Brazeau area is well positioned on the TCPL system and existing roadways. Peyto's new sweet facility will be a much cheaper solution than old, sour gas plants nearby."



Peyto's Assets

Deep Basin Lands Go A Long Way

"Peyto's land position in the Deep Basin has grown by over 30% in 2012, which multi zone potential more than triples. Only 8% of the land is currently developed, 13% currently booked."

624

Net Peyto Sections

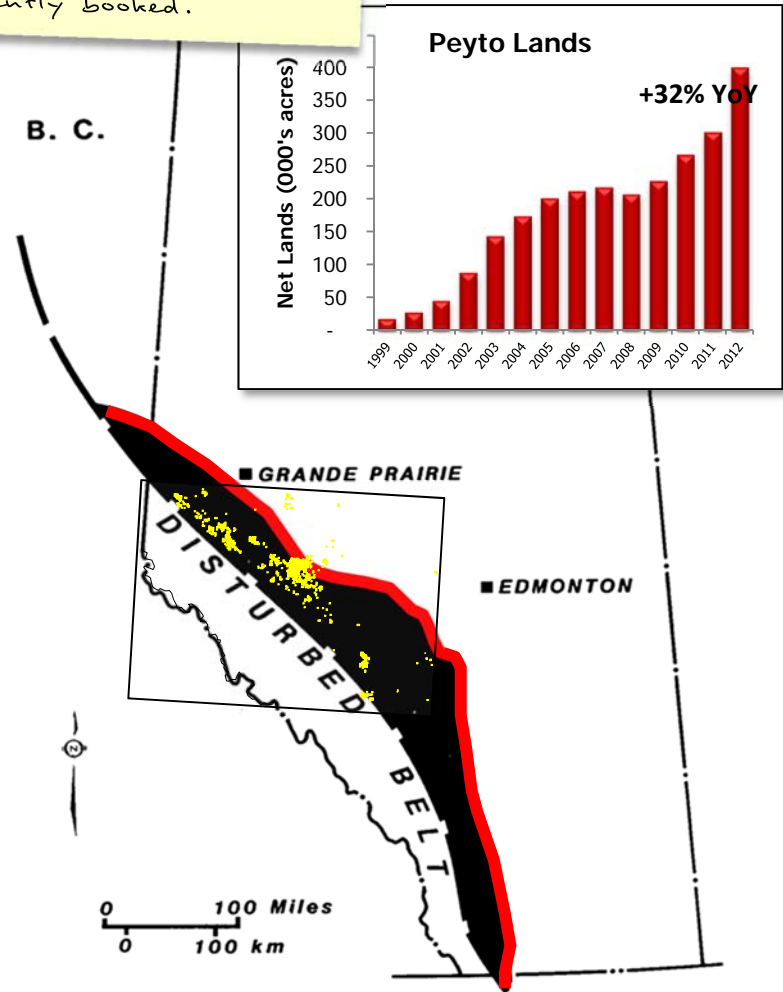
2,182

Net Sections of Cardium, Dunvegan, Notikewin, Falher, Wilrich, Bluesky, & Cadomin

176

Net Sections for 1.9 TCFe of PD EUR*

TCFe of PD EUR – Trillion Cubic Feet equivalent of Proven Developed Estimated Ultimate Recoverable
*Based on InSite Petroleum Consultants Dec 31, 2012 Reserve Report.
Lands at December 31, 2012



Peyto's Assets

Large Hz MSF Inventory

"Peyto has developed over 1.5 TCFz using vertical and now horizontal wells. But there is a lot more to do. More than 12 years worth of drilling inventory."

	<u>Done</u> ¹		<u>To Do</u>	
	<u>Total Vertical Wells</u>	<u>Total Hz Wells</u>	<u>Total Hz Locations Booked*</u>	<u>Total Hz Locations Unbooked</u>
SMOKY				
CHINOOK ●*				
PUSKAWASKAU □				
BADHEART ●				
MUSKIKI □				
CARDIUM ●				
KASKAPAU □				
DOE CK ●*				
POLICE COUPE				
DUNVEGAN ●*				
SHAPTES-BURY □				
BELLE FOURCHE □				
FISH SCALE □				
WESTGATE □				
PADDY *				
PEACE RIVER				
CADOTTE *				
HARMON □				
NOTIKEWIN *				
SPIRIT RIVER				
FALHER *				
WILRICH □				
BLUESKY ●*				
FORT ST. JOHN				
GETHING ●*				
CADOMIN ●*				
BULL-HEAD				
TOTAL	432	52	191	56
	5	1	5	29
	1			14
	90	39	79	61
	7	14	14	54
		13	35	222
	14	93	97	165
	4	6	46	36
	12	2	21	205
	87	2	21	205
	652	222	488	842

Over 1300 locations

1. Drilling to Dec 31, 2012

*As recognized in the IPC independent reserve report dated Dec. 31, 2012

Peyto's Assets

Longest Reserve Life

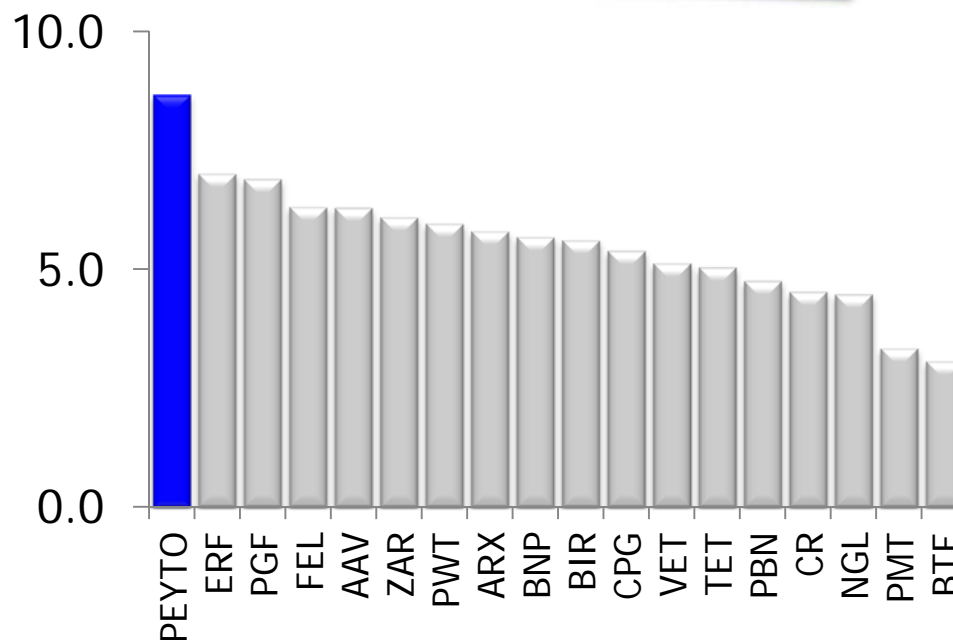
"Peyto is a pure play unconventional tight gas company. Others may claim to have long reserve life assets but only because they are measuring current production against undeveloped reserves, not the reserves associated with the current production."

9

Peyto 2012 PP RLI (yrs)

5

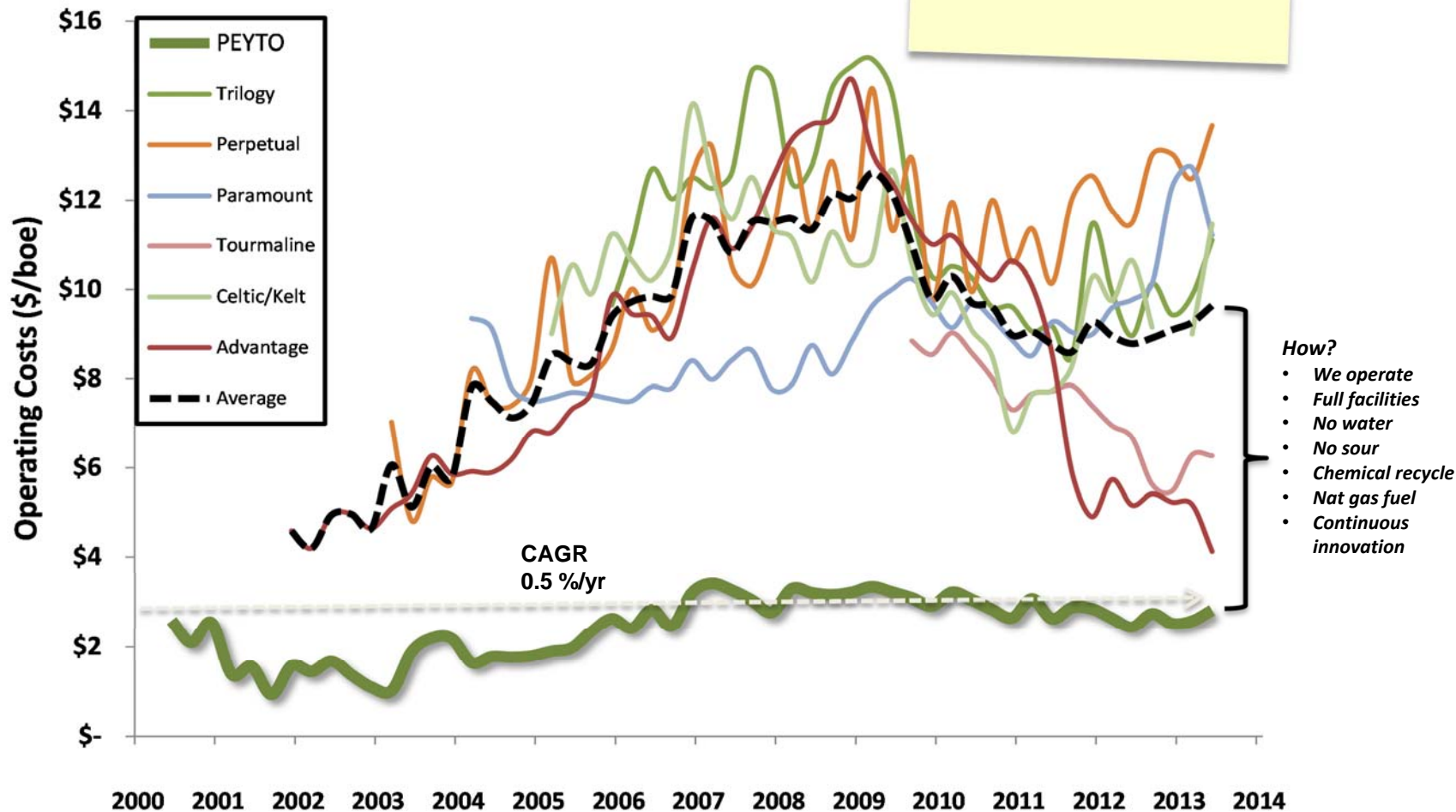
Industry 2012 PP RLI (yrs)



Peyto's Assets

Lowest Operating Costs – Gas Producers

"If all we had was our op cost advantage that would be significant but our other cash costs are low too!"

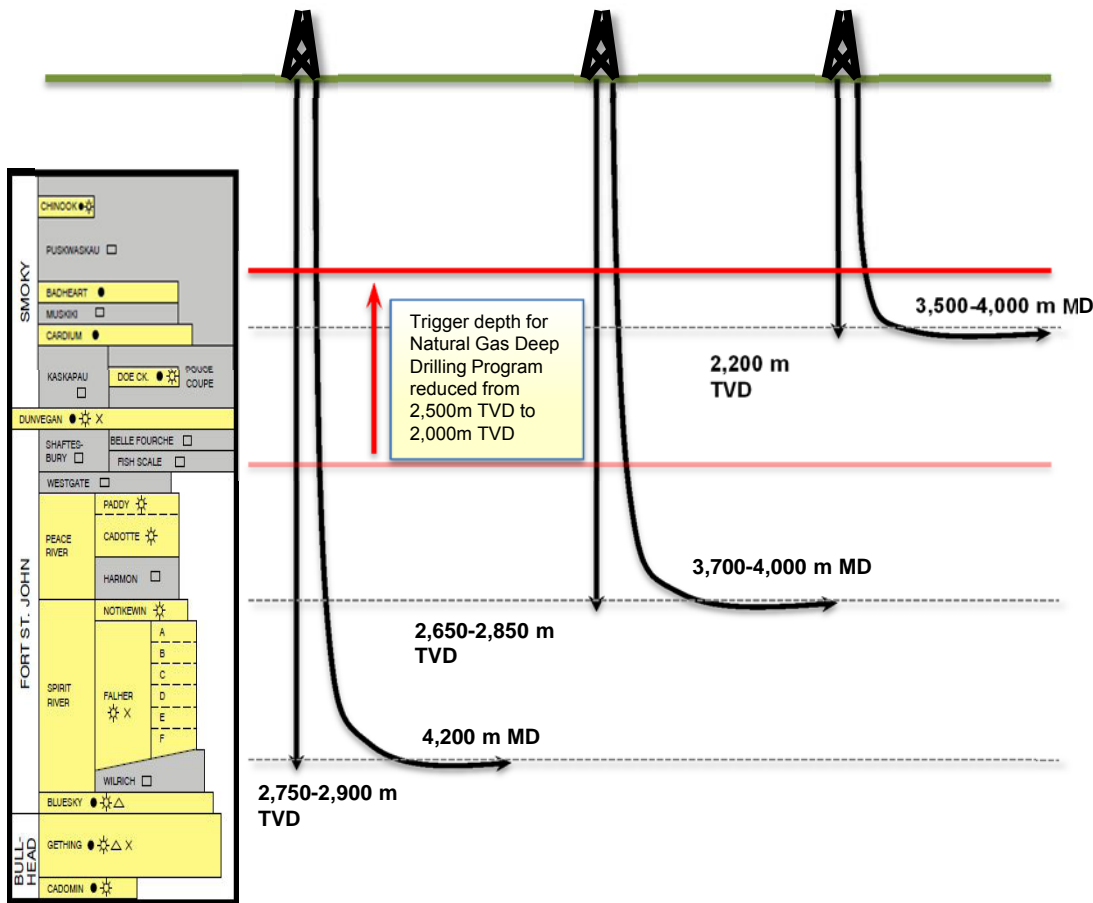


BOE factor - 6 mcf = 1 bbl of oil equivalent
Operating costs include transportation

Peyto's Assets

Deep Gas Drilling Royalty Incentives

"All of the formations that Peyto targets are eligible for the Natural Gas Deep Drilling incentives. At \$4 gas, royalties for the first 5 yrs are effectively capped at 5%."



5%

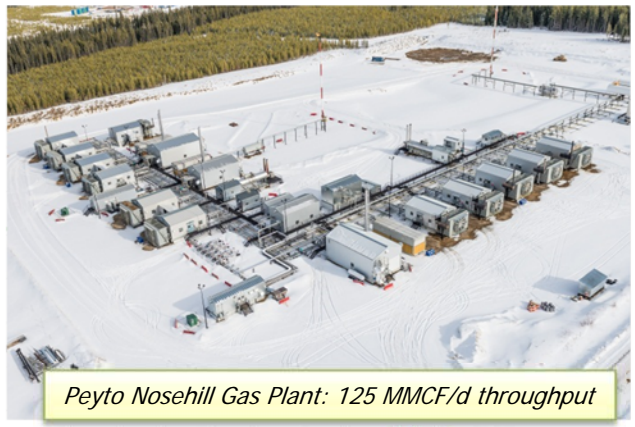
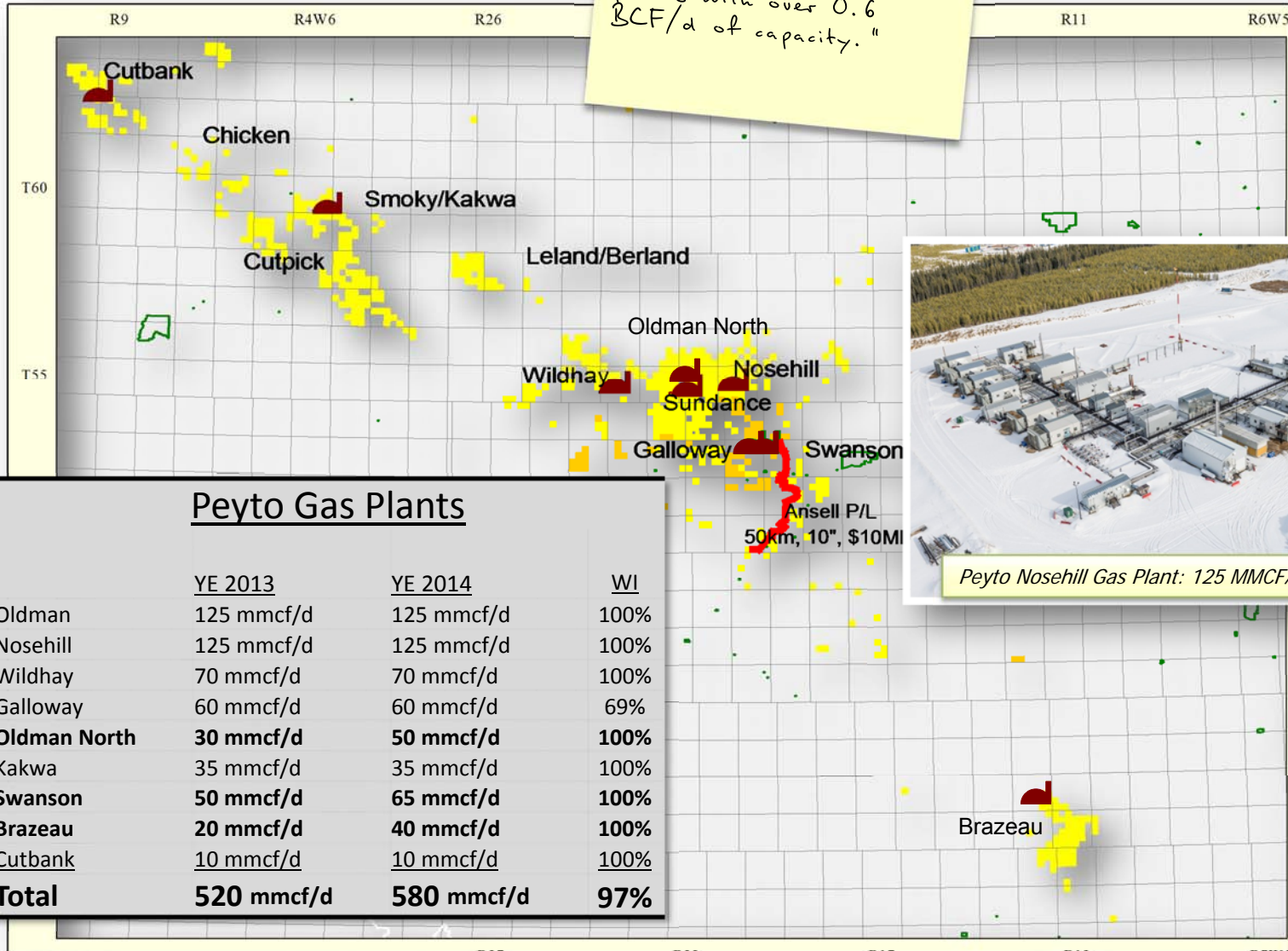
Effective Royalty

***3,700m Cardium Horizontal Well would receive**
1,500m at \$625/m
+200m at \$2,500/m
\$1,437,500 in royalty credit

Peyto's Assets

Facility Ownership and Control

"2014 budget includes expansion work at 3 of Peyto's gas plants. In total, that will be 9 plants with over 0.6 BCF/d of capacity."



Peyto Nosehill Gas Plant: 125 MMCF/d throughput

Peyto Gas Plants

	<u>YE 2013</u>	<u>YE 2014</u>	<u>WI</u>
1 Oldman	125 mmcf/d	125 mmcf/d	100%
2 Nosehill	125 mmcf/d	125 mmcf/d	100%
3 Wildhay	70 mmcf/d	70 mmcf/d	100%
4 Galloway	60 mmcf/d	60 mmcf/d	69%
5 Oldman North	30 mmcf/d	50 mmcf/d	100%
6 Kakwa	35 mmcf/d	35 mmcf/d	100%
7 Swanson	50 mmcf/d	65 mmcf/d	100%
8 Brazeau	20 mmcf/d	40 mmcf/d	100%
9 Cutbank	10 mmcf/d	10 mmcf/d	100%
Total	520 mmcf/d	580 mmcf/d	97%

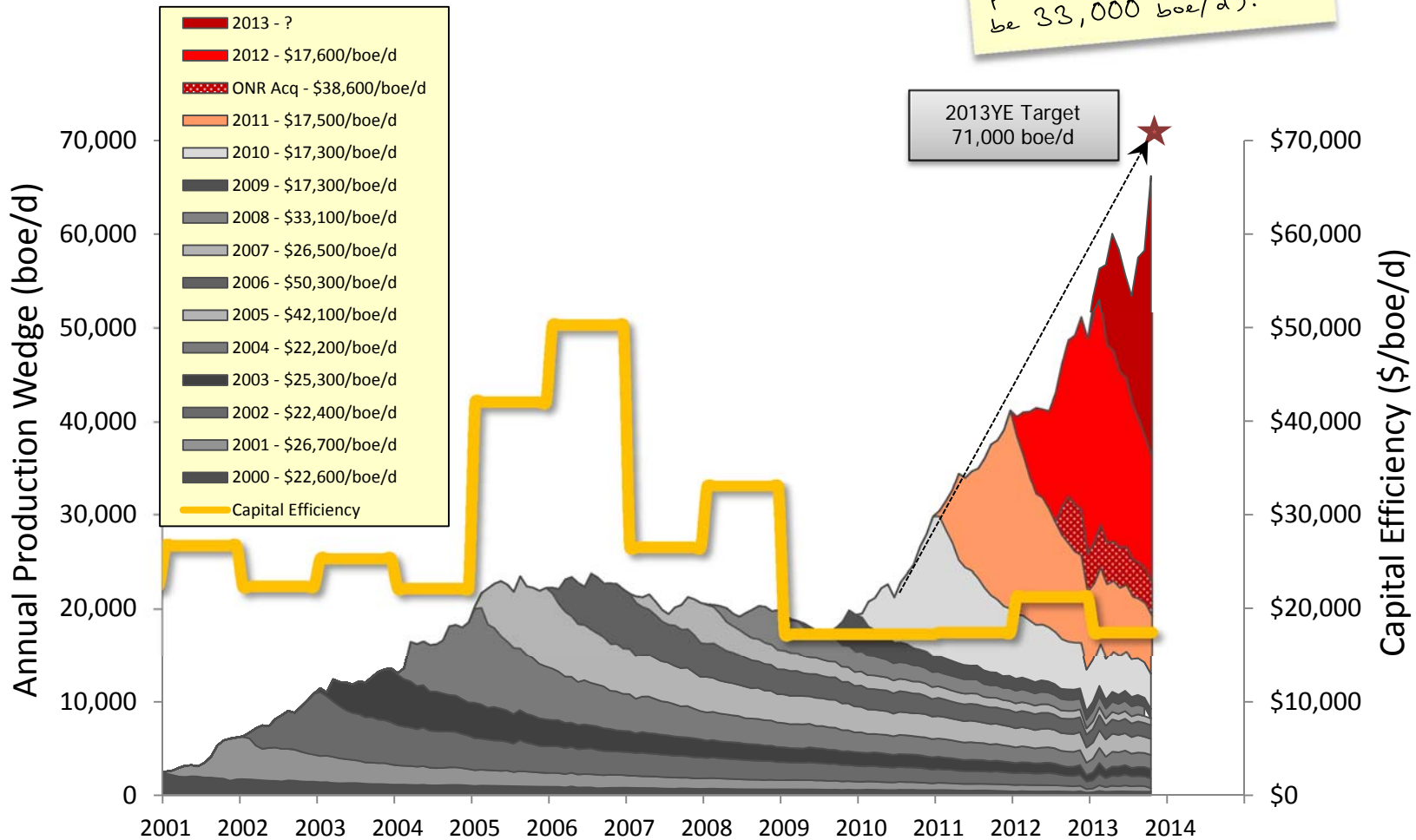
Peyto's Incredible Returns



Peyto's Business

Focus on Returns Drives Capital Discipline

"Improvements in capital efficiency have resulted in progressively larger capital programs since 2010 and record wedges of new production (2013 should be 33,000 boe/d)."

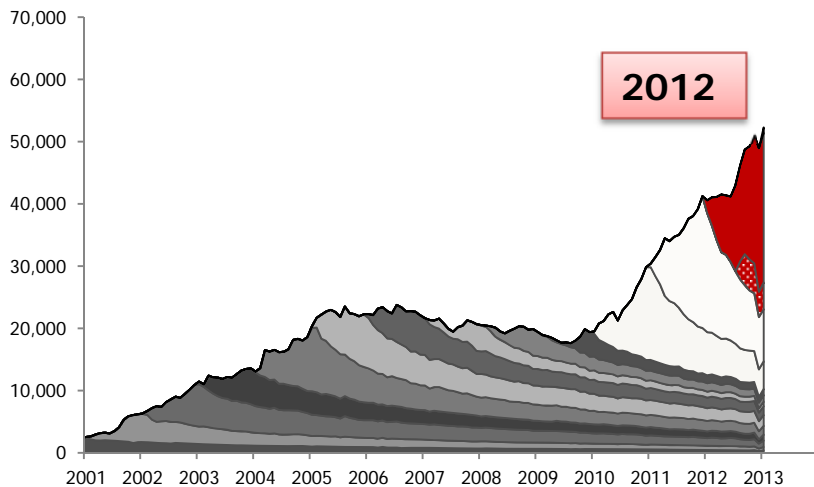


* Capital Efficiency is the cost to add new production measured at Dec 31 each year. Example: In 2010, Peyto invested \$261MM to build 15,100 boe/d for a capital efficiency of \$17,300/boe/d.

Peyto's Returns

Returns Driven – Organic Activity

"The 2012 organic capital program (incl. wells, land, seismic & facilities) generated 24% IRR and turned \$373 MM into \$748MM PVS (\$578M PV10) based on the engineering evaluation."



\$373M → \$748M

Net Capital to PV₅

17%

Production/share growth*

13%

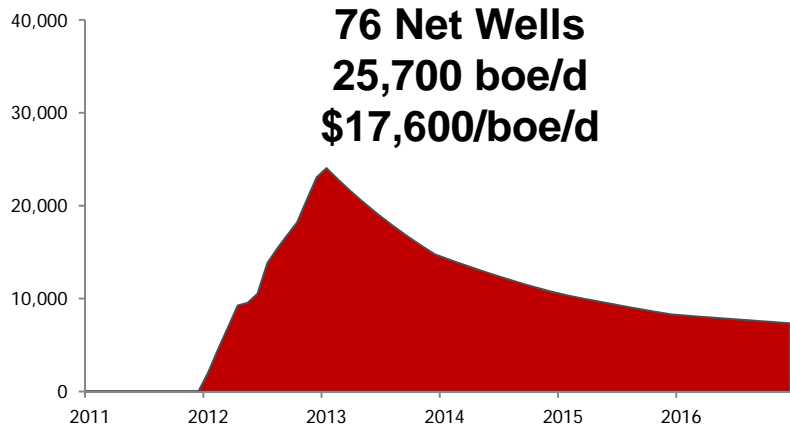
2P Reserves/share growth*

24%

IRR

2012 Capital Program

76 Net Wells
25,700 boe/d
\$17,600/boe/d

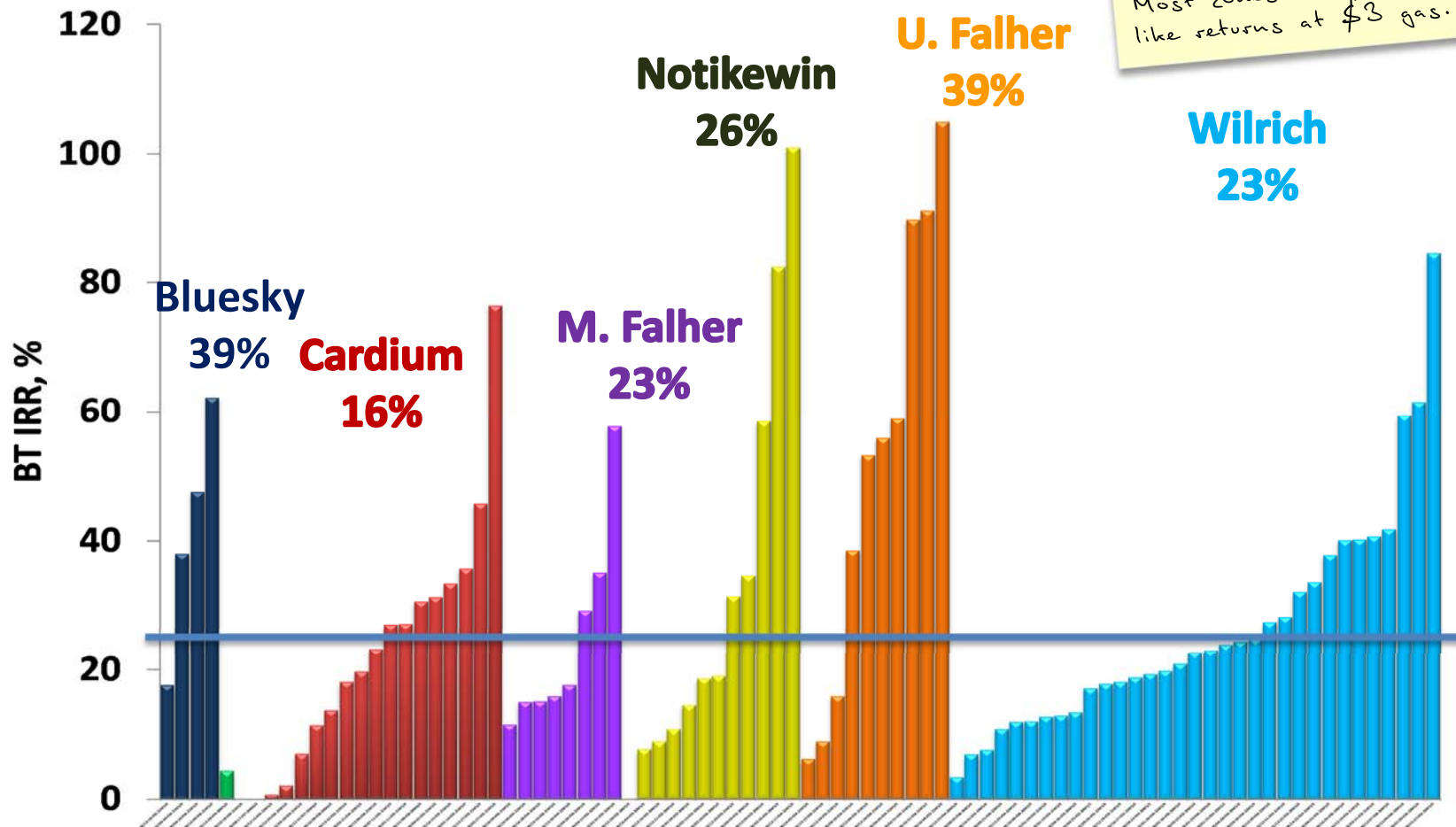


*Production and reserves per share growth includes the ONR acquisition.
 Based on IPC is InSite Petroleum Consultants (formerly Paddock Lindstrom & Ass.) - Dec 31, 2012 Reserve Report.
 Net Capital for 2012 equals \$452MM total capital investment less \$79MM of operating income generated in 2012

Peyto's Returns

Flexible Capital Allocation Required

"Peyto constantly reviews the economic results of each well and tries to allocate capital to only the best projects and zones going forward. Most zones are yielding like returns at \$3 gas."

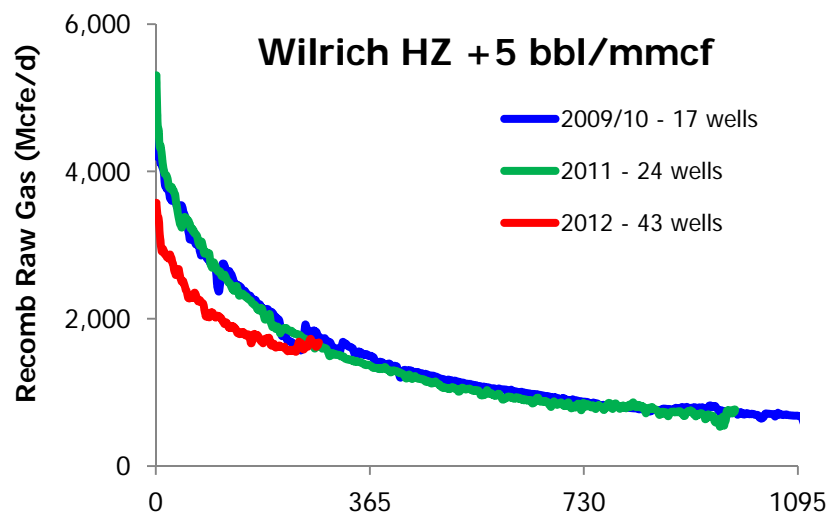
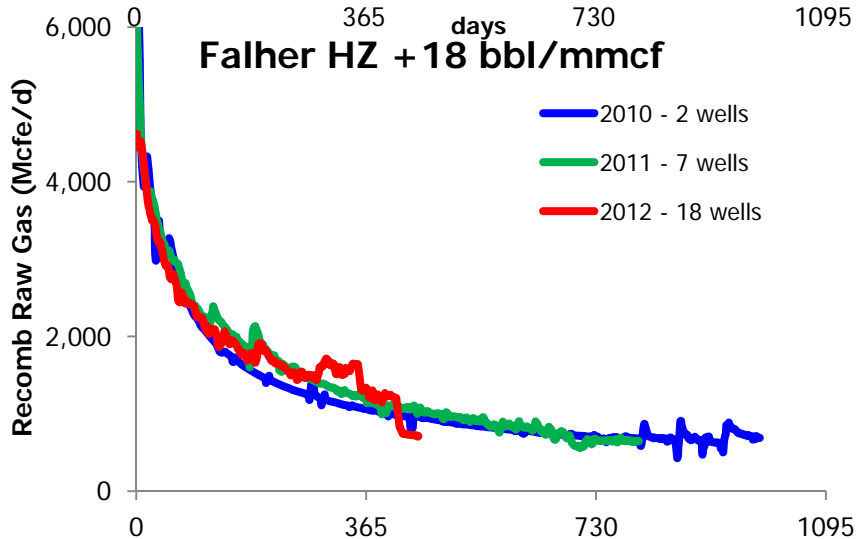
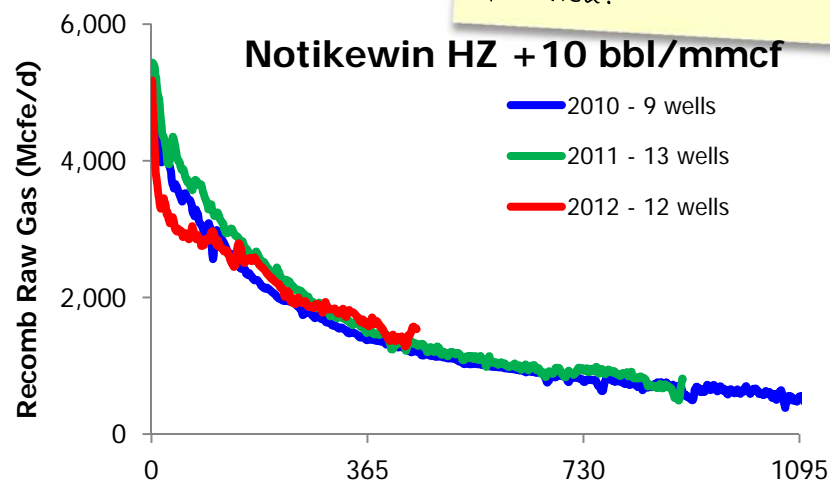
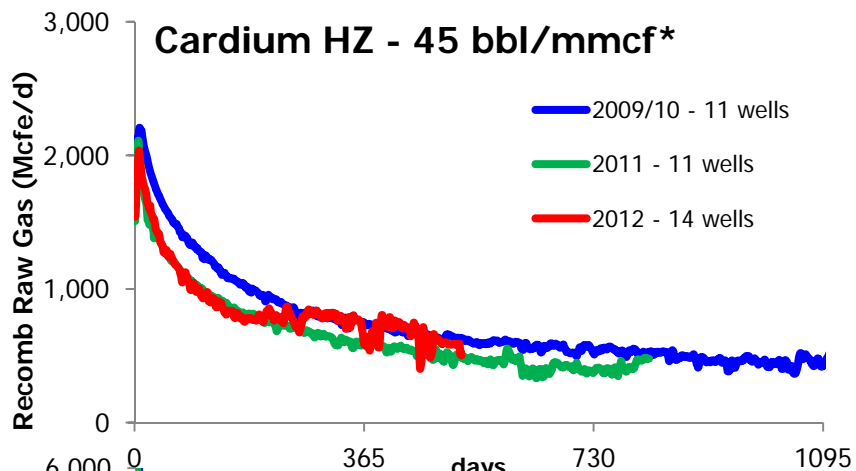


*Includes provision of \$520k per well for Facilities, Land and Seismic
Full Cycle IRR on 86 of 86 2012 Wells by Species, Insite Dec 31/12 Prices*

Peyto's Returns

Continuously Improving Results

"Results have been very consistent while costs have continued to slowly come down. By maintaining the same well design we can improve efficiency of execution."



*Liquid yields are all before the enhanced liquids extraction facilities. For example, Cardium yields increase to over 70 bbl/mmcft with the "cheap cut" facilities installed.

Peyto's Future



2014 Outlook

Biggest Year Ever (again!)

"Our 2013 budget calls for more of the same. Horizontal drilling in the Deep Basin with infrastructure expansion to handle the new volumes."

\$575M-
\$625M

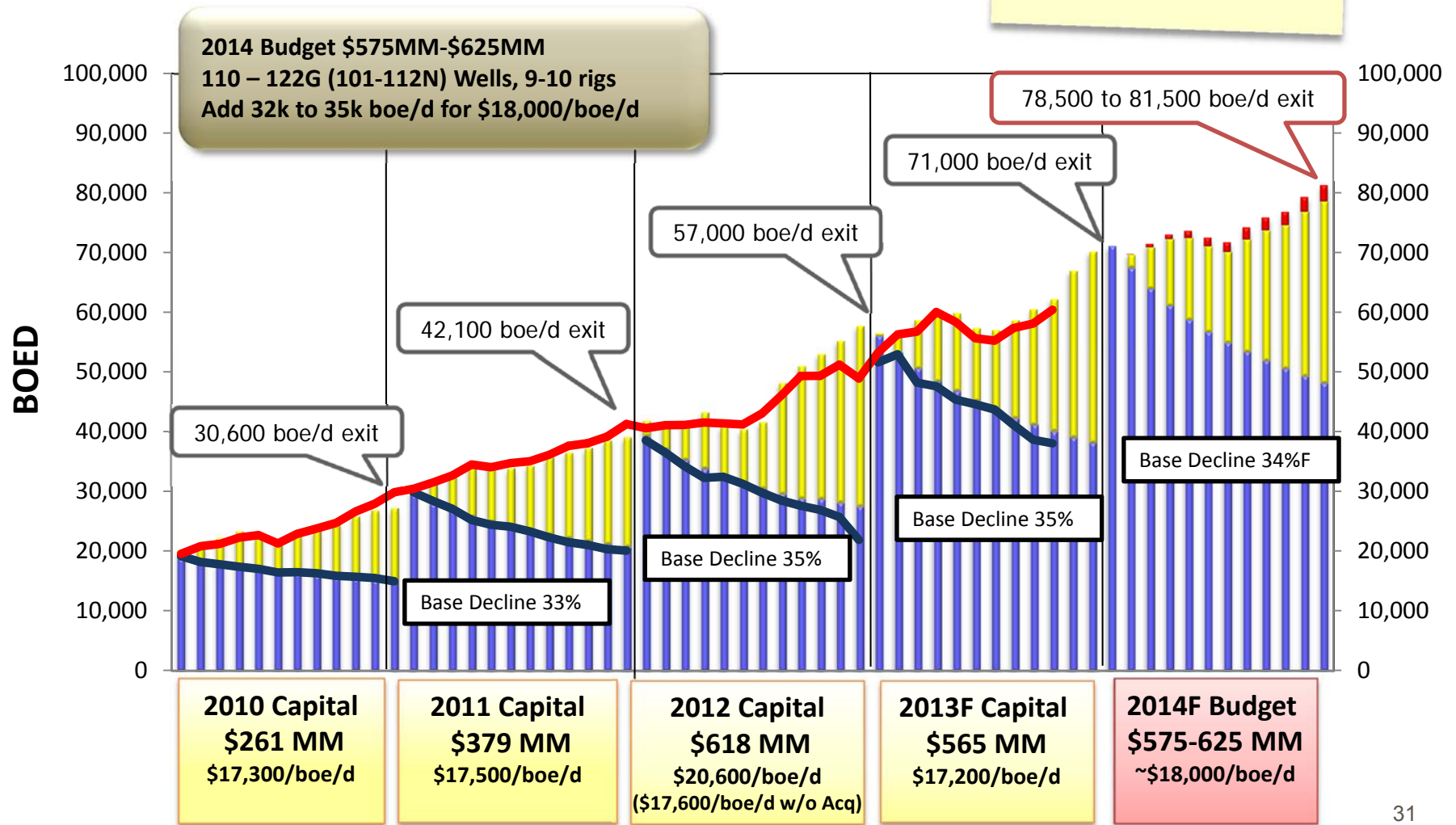
2014 Capital Program

- ✓ **Drill 115-125 Hz Wells**
(100% Hz-MSF, Liquids Rich Natural Gas)
- ✓ **Expand & Extract**
Increase Processing Capacity & NGL Yield
- ✓ **Increase**
Undeveloped Land Base
- ✓ **Shoot**
Seismic
- ✓ **Acquire**
Additional Opportunities and Partner Interests

2014 Outlook

Large Resource + Low Cost = Profitable Growth

"Our 2014 budget of \$600MM assumes approx. 100 gross (85 net) wells can add ~29,000 boe/d of new production at our 4yr average \$17.5k/boe/d."



2014 Outlook

Continuously Improve Profitability

"At Peyto, our cost advantage comes from constantly challenging the status quo on costs. We are always working on ways to improve our profitability."

2014 Goals*

PDP FD&A
\$/mcfe

< (\$2.00)

- Pad drilling
- CNG powered rigs
- Longer laterals
- Water optimization
- Natural gas heated water
- Summer drilling

Cash Costs
\$/mcfe

< (\$1.00)

- Natural gas fired power
- CNG trucks
- Facility utilization
- Pad wellsite/automation

Sales Price
\$/mcfe

> \$5.00

- Cheap cut
- Liquids rich fms
- Hedging
- \$3.25/GJ*155%

40% Profit

> \$2.00

BOE factor - 6 mcfe = 1 bbl of oil equivalent

* 2014 goals are not budgeted expectations

Appendix

- ☀ Quarterly Track Record
- ☀ Tax Pools
- ☀ Payout
- ☀ Hedging Strategy
- ☀ Gas Marketing
- ☀ Liquids Marketing
- ☀ FAQ

Quarterly Track Record

	2013			2012					2011			
	Q3	Q2	Q1	Total	Q4	Q3	Q2	Q1	Total	Q4	Q3	Q2
Operations												
<u>Production</u>												
Oil & NGLs (bbl/d)	6,295	6,374	5,840	4,778	5,286	5,236	4,480	4,101	3,856	3,947	3,918	3,811
Natural gas (mcf/d)	300,286	310,621	297,191	238,490	266,808	244,794	221,176	220,811	189,653	212,715	194,832	183,790
Barrels of oil equivalent (boe/d)	56,343	58,144	55,372	44,526	49,754	46,035	41,343	40,903	35,465	39,400	36,390	34,443
Year over Year % Growth	22%	41%	35%	26%	26%	27%	20%	30%	49%	40%	53%	55%
<u>Average Product Prices</u>												
Oil & NGLs (\$/bbl)	70.91	67.82	75.88	73.92	73.01	68.62	71.27	84.83	81.67	88.04	78.07	84.06
Natural gas (\$/mcf)	3.35	3.72	3.49	3.23	3.45	3.06	2.86	3.53	4.47	4.21	4.43	4.43
Operating expenses (\$/mcf)	0.49	0.47	0.43	0.44	0.42	0.46	0.41	0.45	0.48	0.47	0.49	0.45
Field Netback (\$/mcf)	3.49	3.77	3.67	3.46	3.62	3.29	3.16	3.75	4.46	4.32	4.41	4.41
Financial (\$000)												
Revenue (net of royalties)	123,851	134,765	122,612	380,646	111,105	95,410	80,471	93,661	383,496	104,393	98,261	91,186
Funds from Operations ¹	99,736	109,987	102,612	308,865	90,078	76,918	64,732	77,645	314,622	80,410	82,506	77,010
Net earnings (loss)	30,461	37,773	36,405	93,951	25,823	23,058	18,201	26,868	128,183	26,036	37,741	32,718
Capital expenditures	180,801	73,809	169,099	617,985	156,847	317,089	45,924	98,632	379,061	94,688	111,570	69,017
Net Debt ²	862,864	746,094	749,546	662,461	662,461	683,540	519,328	512,627	465,391	465,391	526,743	474,008
Common shares outstanding (000)	148,759	148,759	148,759	148,519	148,519	143,886	138,486	138,312	137,960	137,960	133,061	133,061
Weighted average shares	148,759	148,759	148,673	141,094	145,450	142,069	138,399	138,312	133,196	133,913	133,061	133,061
Per share data												
Funds from operations	0.67	0.74	0.69	2.19	0.62	0.54	0.47	0.56	2.36	0.60	0.62	0.58
Earnings (loss)	0.21	0.25	0.25	0.67	0.18	0.16	0.13	0.19	0.96	0.19	0.28	0.25
Dividends (Distributions)	0.24	0.22	0.18	0.72	0.18	0.18	0.18	0.18	0.72	0.18	0.18	0.18

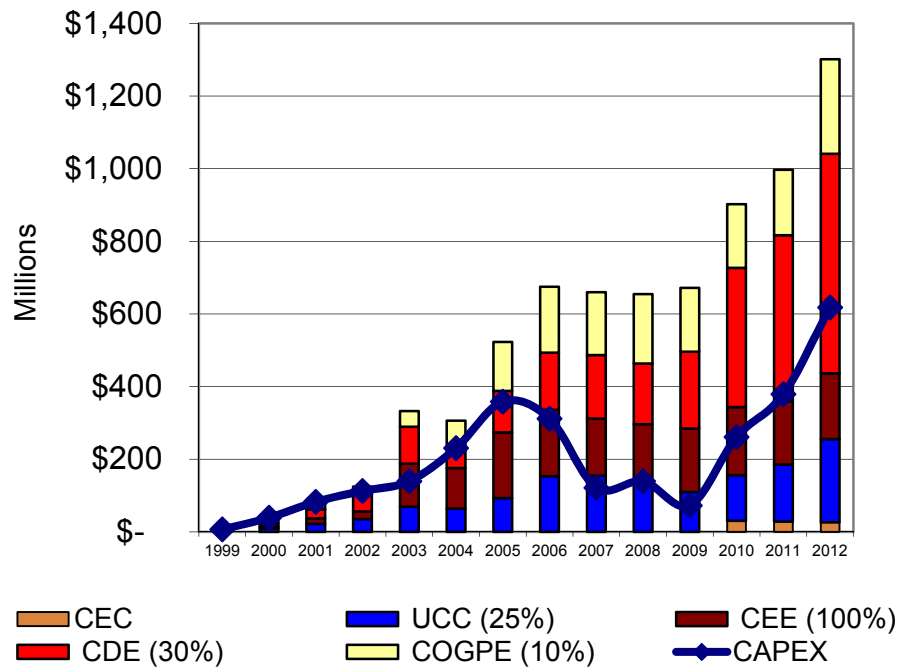
¹ Management uses funds from operations to analyze operating performance. In order to facilitate comparative analysis funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. As presented, funds from operations does not have any standardized meaning prescribed by Canadian GAAP.

² Net debt does not include provision for future performance based compensation, site restoration, abandonment and income taxes.

Organic Business Model

Peyto's Tax Pools

"At Peyto, our tax efficiency accumulates the old fashioned way, we build it."



\$1.3B

Federal Tax Pools
Q4/12

\$2.9B

Peyto Cum. CapEx
Q4/12

Peyto's Payout

Dividend Sustainability

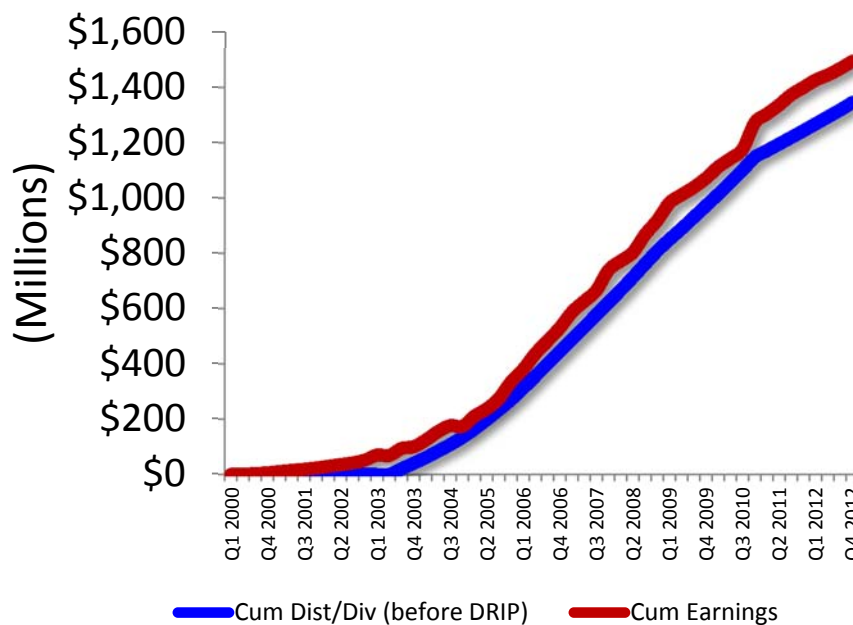
"The best way to ensure sustainable distributions (trust) and dividends (corp.) is to generate earnings. That's where they are supposed to come from and that's where Peyto's come from."

\$1.5B

Peyto Cum. Earnings
Q4/12

\$1.3B

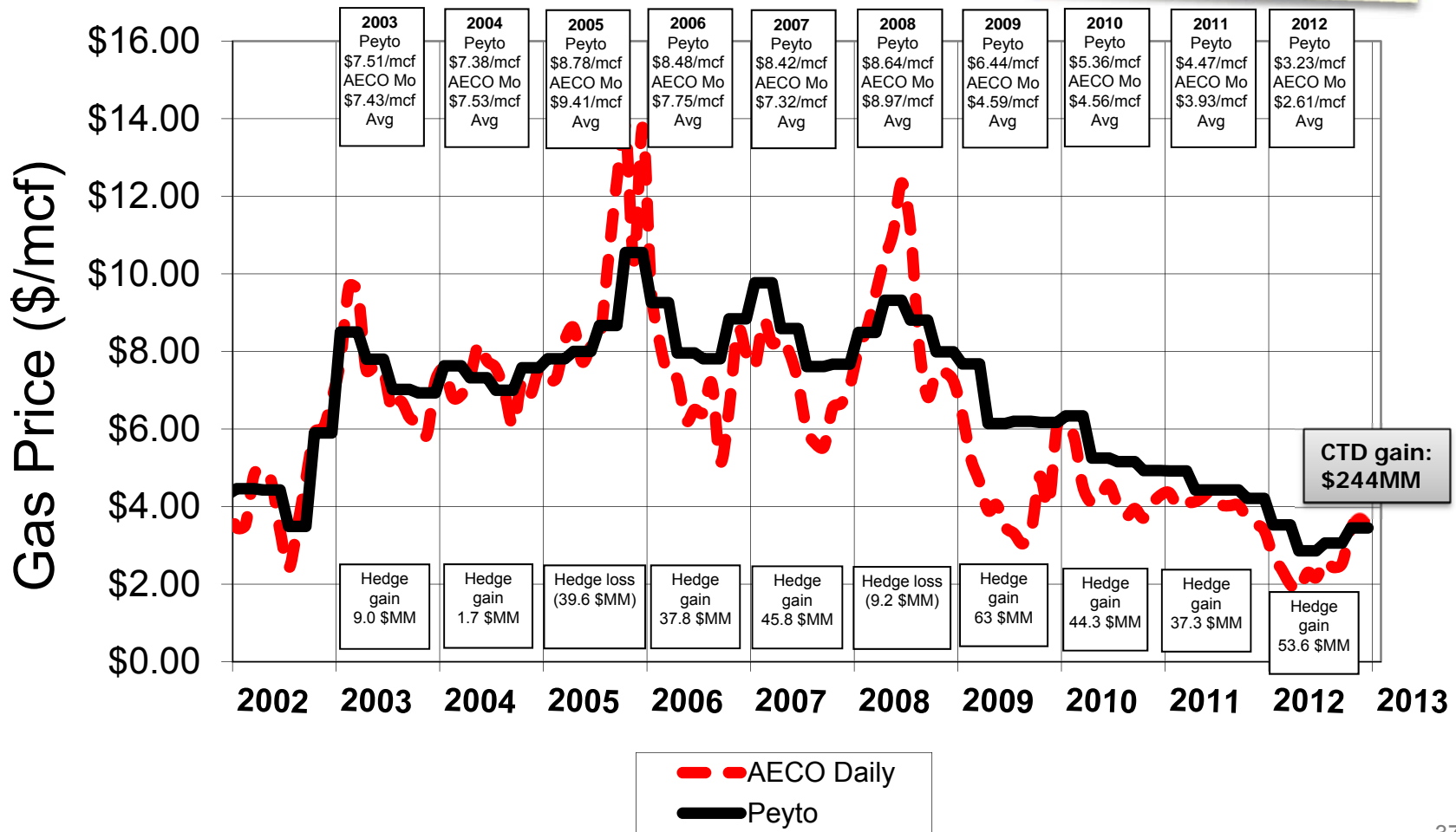
Peyto Cum. Dist/Div.
Q4/12



Successful Hedging Strategy

Peyto Realized Price History

"The 'dollar cost averaging' approach to our forward sales is to smooth out the volatility and avoid speculation. We forward sell up to 50% of gross production over a 24 month period."



FAQ

Frequently Asked Questions

1. Peyto has had some spectacular growth over the last two years, how can that growth continue?

The profitable growth in production, reserves and funds from operations per share that we've experienced over the last two years is the result of achieving very good rates of return and improved capital efficiency on large capital programs. Much of that improvement is due to a shift to horizontal well development on our traditional tight gas resource plays which has resulted in quicker payout and faster reinvestment of capital, thus driving greater sustained growth. Peyto's superior assets and strong core competency within its technical team continue to yield undeveloped opportunities faster than we can develop them, further expanding our inventory of undeveloped opportunities.

2. Why is Peyto pursuing such high growth levels at low natural gas prices?

Peyto's strategy has always been to maximize returns for shareholders. Our low full cycle development costs and our low producing costs are the foundation for this return and provide robust economics through a spectrum of natural gas prices. History has shown us that when natural gas and oil prices rise, so too do service costs and industry activity levels. This results in much greater development costs and effectively the same rates of return being generated for higher natural gas prices. The problem is that prices tend to be cyclical and do not necessarily stay high to justify higher development costs. Peyto takes a counter-cyclical investment strategy and invests aggressively when gas prices are low, ensuring costs are also at their lowest and returns are at their highest.

3. What will the corporate decline rate be going forward with this growth?

As we've shown in previous analysis (President's Monthly Report May 2011), the only way for our base decline to rise is for us to deploy ever greater capital programs and combine larger volumes of new high-decline production with older low-decline production. In fact, we would have to increase the capital program by 35% or more every year just to hold the current corporate decline flat, otherwise it is expected to naturally come down over time, making it easier to grow.

4. How can this growth be funded in a low gas price environment?

Peyto is the lowest cost producer in Canada. That fact combined with our high heat content, liquids rich natural gas means we generate some of the highest netbacks of any gas weighted producer. By comparison, our netbacks rival those of much oilier companies and allows us to fund the bulk of our capital program and our dividend from our Funds from Operations. The remaining balance of our large capital programs can be funded from the strength of our balance sheet while maintaining a safe and conservative level of debt. As the value of our producing asset base grows, so does the amount of debt we can safely carry against it.

5. What is the end game with Peyto?

The strategy at Peyto has always been about recovering the maximum returns for shareholders on the capital we put to work. Everyday we produce and sell our reserves for more than it cost us to build them. Over the company's history this proven strategy has resulted in the largest shareholder "IRR" of any energy company on the TSX and a track record of 15 consecutive years of positive earnings. As long as there are future returns to be generated, Peyto will be hard at work.

6. How much running room is there in terms of locations relative to some of the other Deep Basin players?

Not all land holdings or drilling inventories are the same amongst industry competitors. Likewise, the means by which future locations are funded and when they are developed plays a large part in the real returns that shareholders ultimately realize. At Peyto, we have as many as 10 years of high quality drilling inventory in front of us with several more initiatives in the Deep Basin currently underway which could extend this timeline. Our proven track record of using internal funding to "build it for less than we sell it" in a timely manner will play a large part in ensuring these future opportunities generate accretive returns for shareholders.