



www.Peyto.com

Annual General Meeting

May 2014

The Peyto Story

15 Years of Success

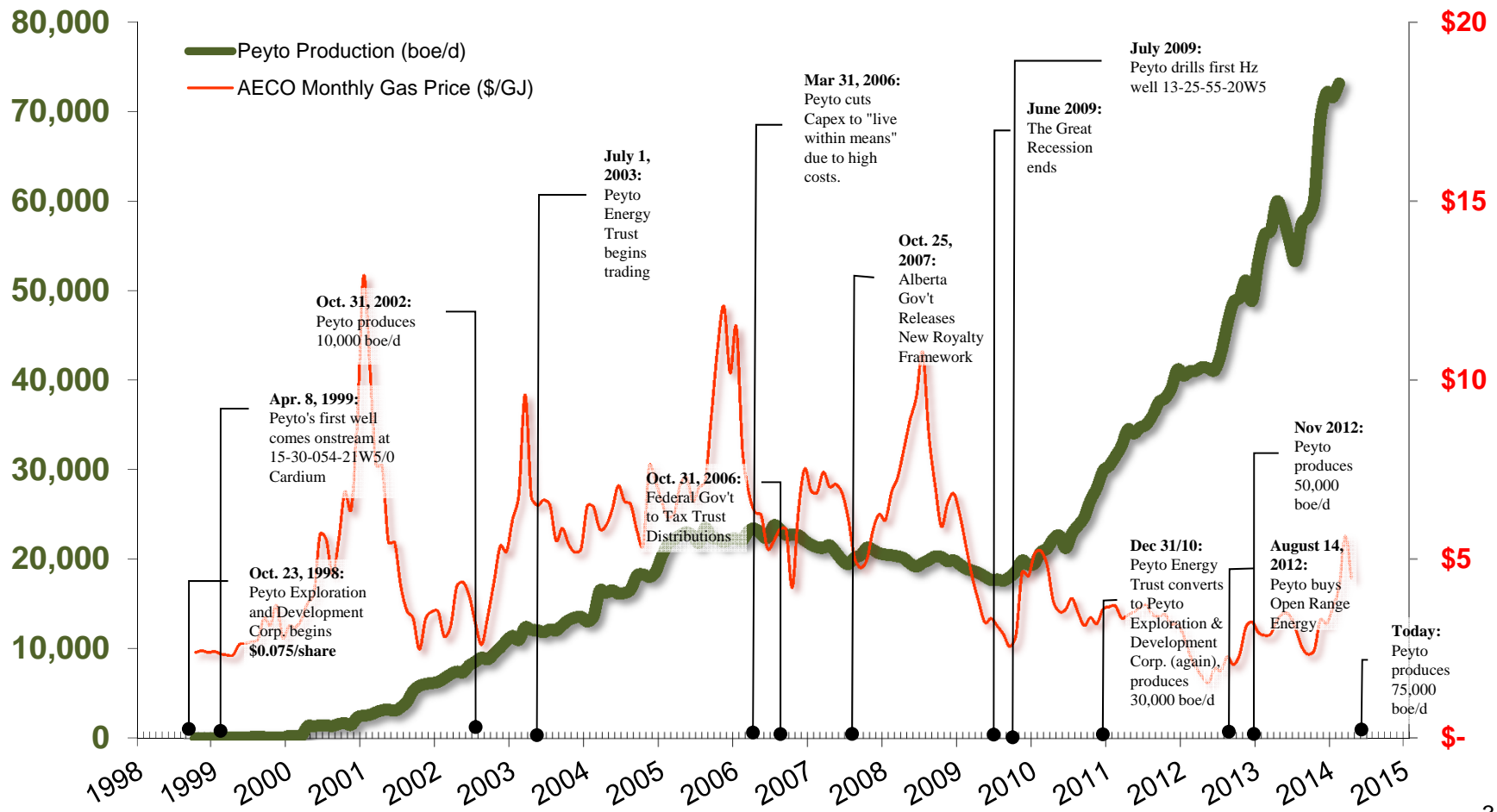
15th
1998-2013



The Peyto Story

Historical Milestones

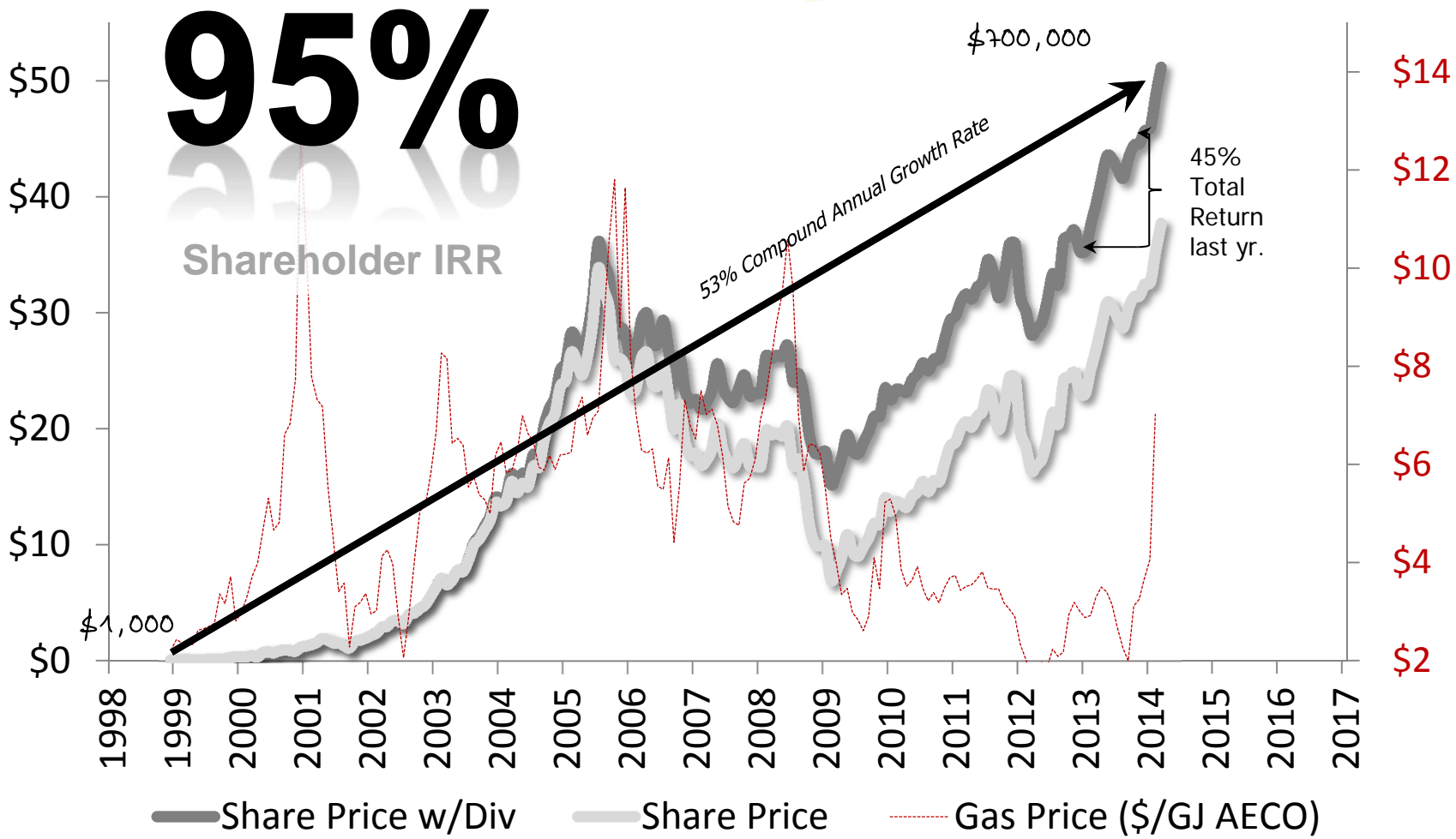
"We've had our share of obstacles in the past but we've persevered and succeeded."



The Peyto Story

15 Year Trading History

"In simple terms, \$1000 invested into Peyto 15 yrs ago, would be worth approx. \$700,000 today. That's a shareholder IRR of 95%."



Historical Per Unit and Units Outstanding numbers have been adjusted to reflect the May 27, 2005 2:1 stock split
 Oct 23, 1998 price of \$0.075/share, Dec 31/13 price of \$32.51/share, Cum Dist./Div. to Dec 31/2013 \$13.19
 2013 return: \$22.99/share to \$32.51/share plus \$0.88/share dividend

The Peyto Story

Long Overdue Recognition



The Peyto Strategy

How We Do It

"Basically, we strive to be the smartest (both with ideas and execution), build the best, and make the most for our stakeholders."



- ✱ Invest in our own ideas
- ✱ Build it ourselves
- ✱ Operate it ourselves
- ✱ Focus on maximum returns
- ✱ Stay concentrated, lean & efficient

The Peyto Strategy

What We Believe

"We believe natural gas offers an opportunity to create real value for everyone."



- ✱ *“We believe nature’s gas is the fuel for the future.”*
- ✱ *“We believe we can make a real profit by being the lowest cost, most efficient producer in the industry.”*
- ✱ *“We believe in partnering with shareholders to make that profit, not by trying to make your money our money.”*

Peyto's Profitable Business

"Build it for less than we sell it"

"A simple cost analysis shows where Peyto's profits come from. PDP FD&A is a good proxy for replacement cost and tends to match real depletion."

PEY 2013

PDP FD&A
\$/mcfe

(\$2.35)

Cash Costs
\$/mcfe

(\$1.06)

Sales Price
\$/mcfe

\$4.43

23% Profit

\$1.02

Dividend
\$/mcfe

\$1.01

Land/Acq	\$9MM
Seismic	\$3MM
Drilling	\$254MM
Compl.	\$152MM
Wellsite	\$48MM
Facilities	<u>\$112MM</u>
	\$578MM
ΔPDP Reserves (before Prod.)	41.0 mmboes
PDP FD&A	\$14.09/boe
	\$2.35/mcfe

Royalties	(\$0.31)
Opex	(\$0.35)
Transport	(\$0.12)
G&A	(\$0.04)
Interest	<u>(\$0.24)</u>
Total Costs	(\$1.06/mcfe)

\$3.01/GJ AECO daily
X 144%*
\$4.32/mcfe
<u>\$0.11/mcfe hedging</u>
\$4.43/mcfe Peyto Realized

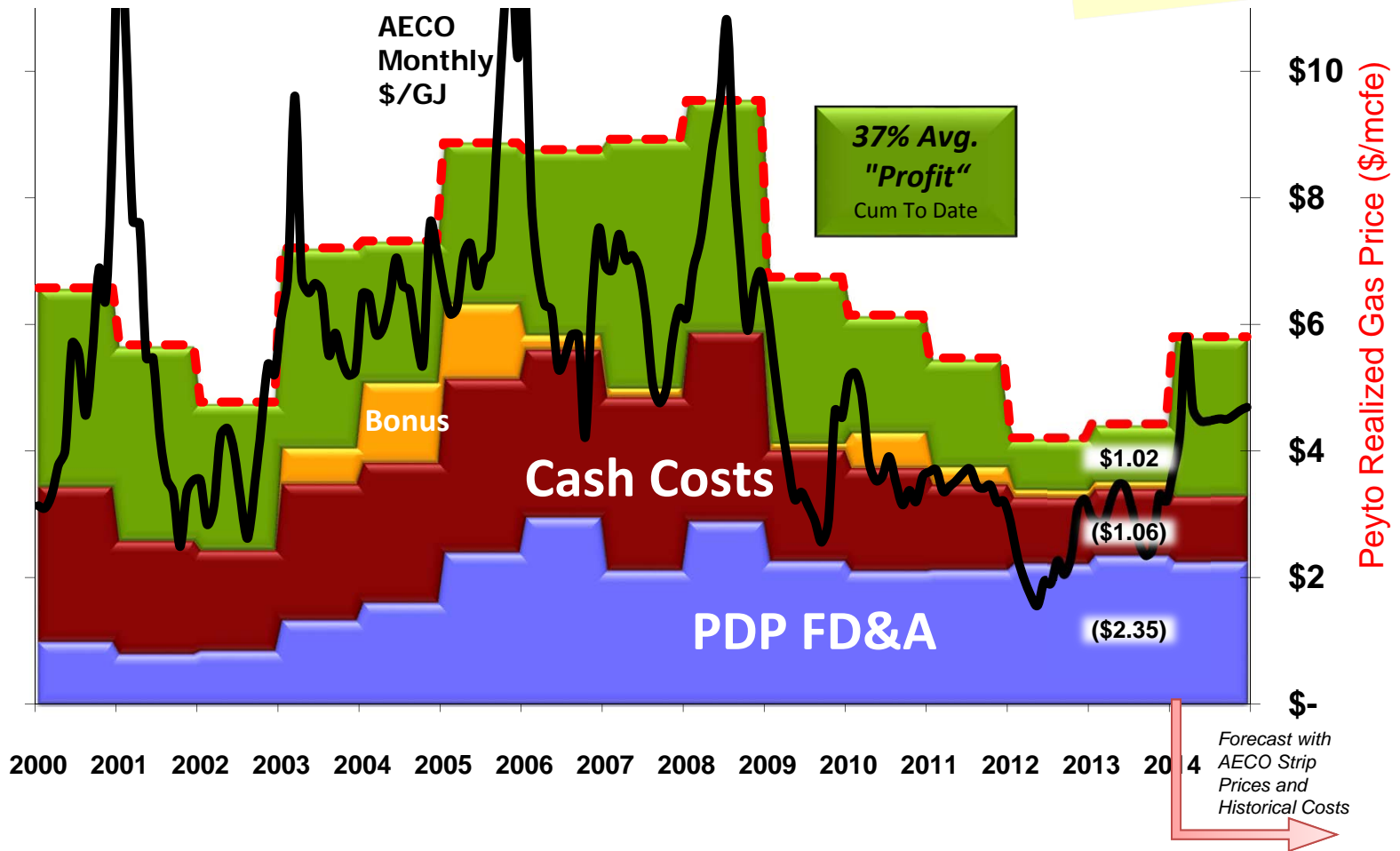
BOE factor - 6 mcfe = 1 bbl of oil equivalent

* 2013 uplift for NGLs and heat content from average Alberta daily natural gas price (\$/GJ)

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

Peyto's Profitable Business

Profitability Challenges For The Canadian Gas Industry

"The larger, gas focused entities that survived are still challenged to consistently build it and produce it for less than the sales price."

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010¹</u>
PDP FD&A \$/mcfe	(\$2.93)	(\$3.43)	(\$3.68)	(\$3.11)
Cash Costs \$/mcfe	(\$3.13)	(\$2.98)	(\$3.31)	(\$3.19)
Sales Price \$/mcfe	<u>\$6.56</u>	<u>\$5.91</u>	<u>\$6.95</u>	<u>\$6.56</u>
Profit/(Loss)	\$0.50	(\$0.50)	(\$0.05)	\$0.27

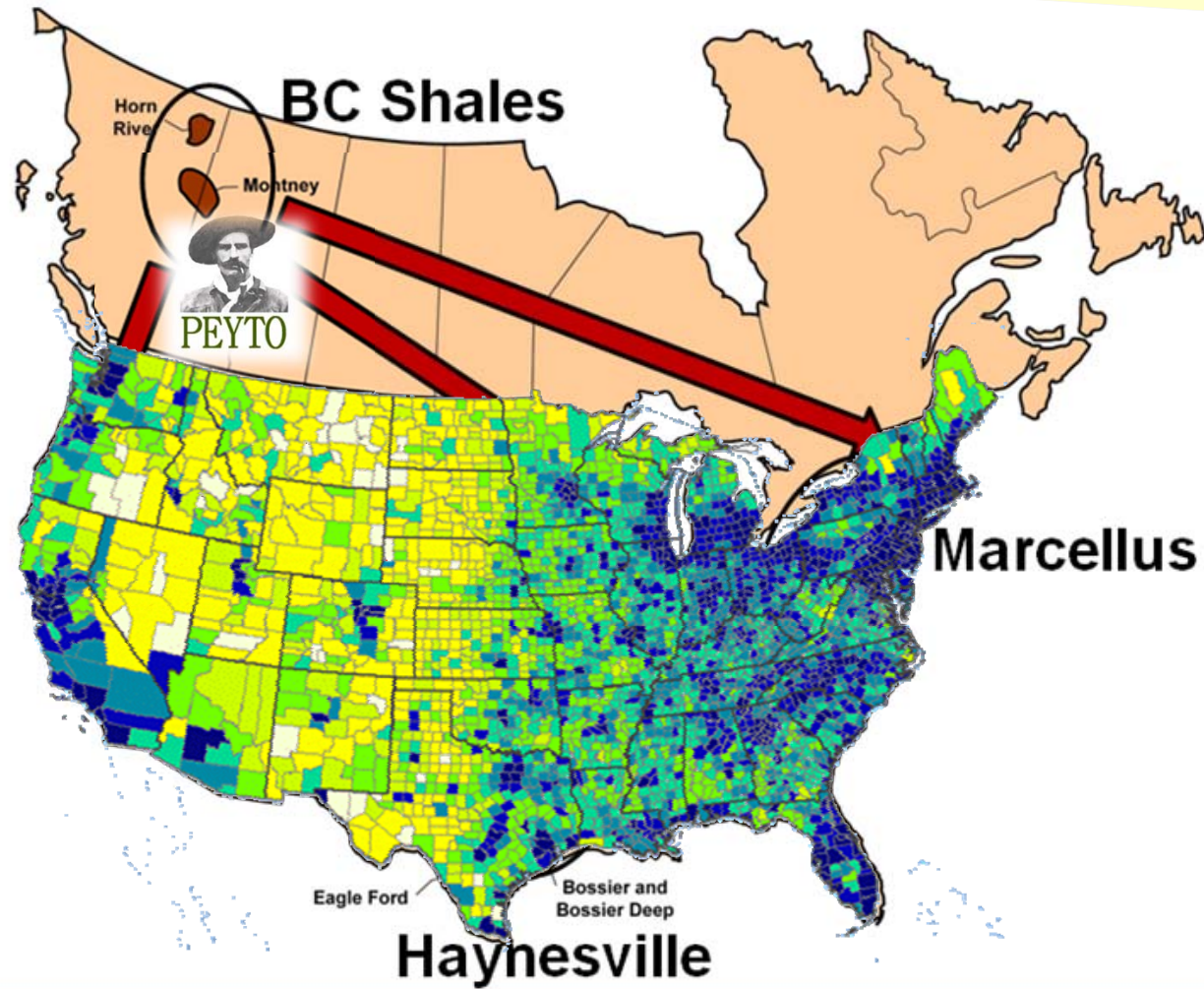
*Includes: ARX,BIR,BNP,BXE,ERF,TET,TOU (>20,000 boe/d, >55% gas, >\$1B Market Cap)

1. ERF 2010 N/A

Peyto's Profitable Business

Competitive In The North American Marketplace

"We have to be competitive not only in Canada but across North America."



Source: IHS CERA

Peyto's Profitable Business

*Profitability By Basin – 5 yr. Average**

"Regardless of the basin, over the longer period Peyto's profitability stands above the rest."

100% Deep Basin - PEY 80% Marcellus – Cabot* 75% Rockies – Ultra* 70% Haynesville – Exco**

PD FD&A \$/mcf	(\$2.21)	(\$3.08)	(\$3.47)	(\$2.89)
Cash Costs \$/mcf	(\$1.37)	(\$2.05)	(\$1.50)	(\$2.40)
Sales Price \$/mcf	<u>\$5.40</u>	<u>\$5.63</u>	<u>\$4.92</u>	<u>\$3.87</u>
Profit/(Loss)	\$1.82	\$0.50	(\$0.05)	(\$1.42)

*Average Revenue, PD FD&A and cash costs (LOE, Transp., gathering, processing, Royalty or Ad Valorem, G&A and interest) per mcf for last 5 years from 10k reports.

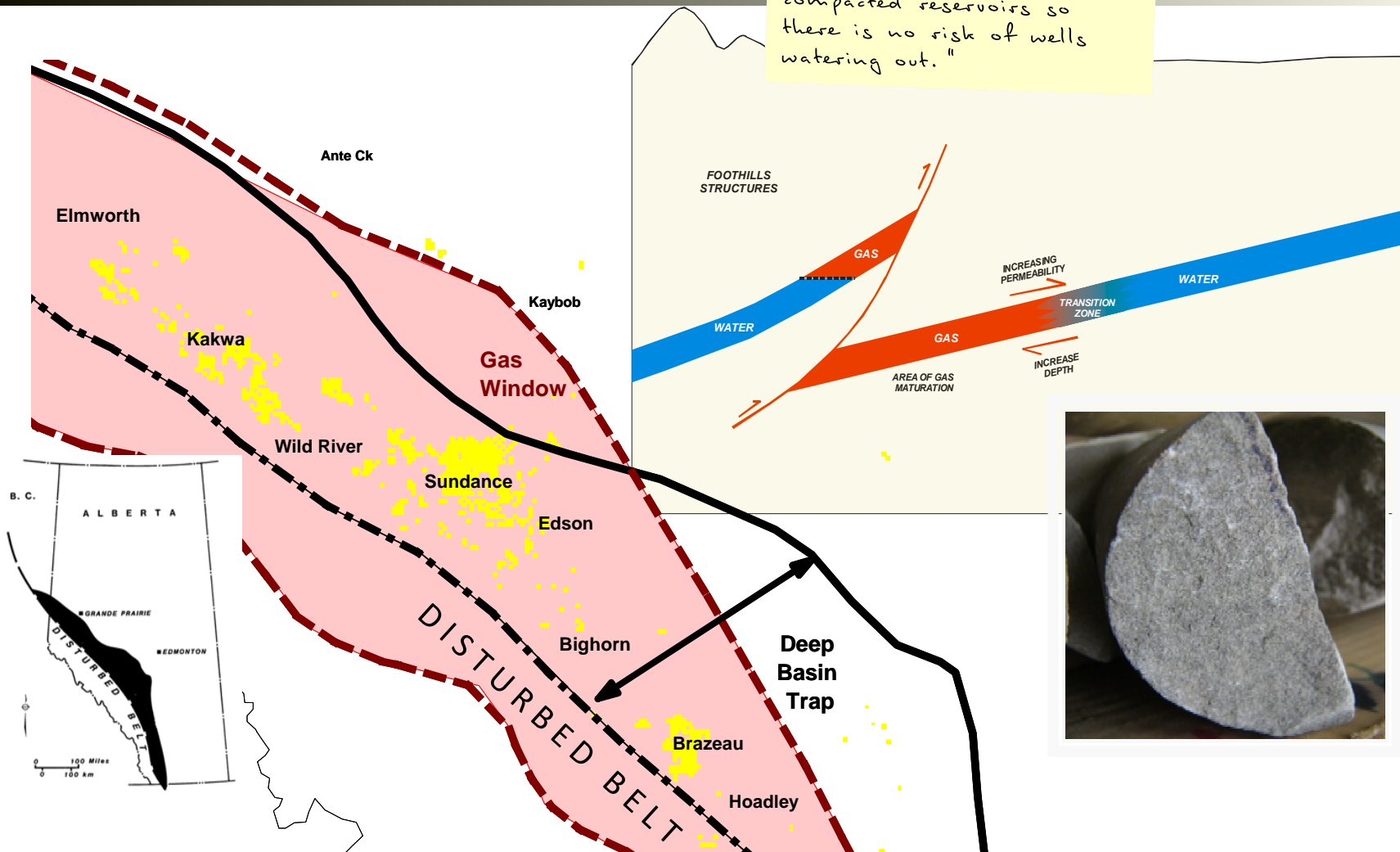
**Provided by BMO

Peyto's Assets

Deep Basin Permeability Segregation



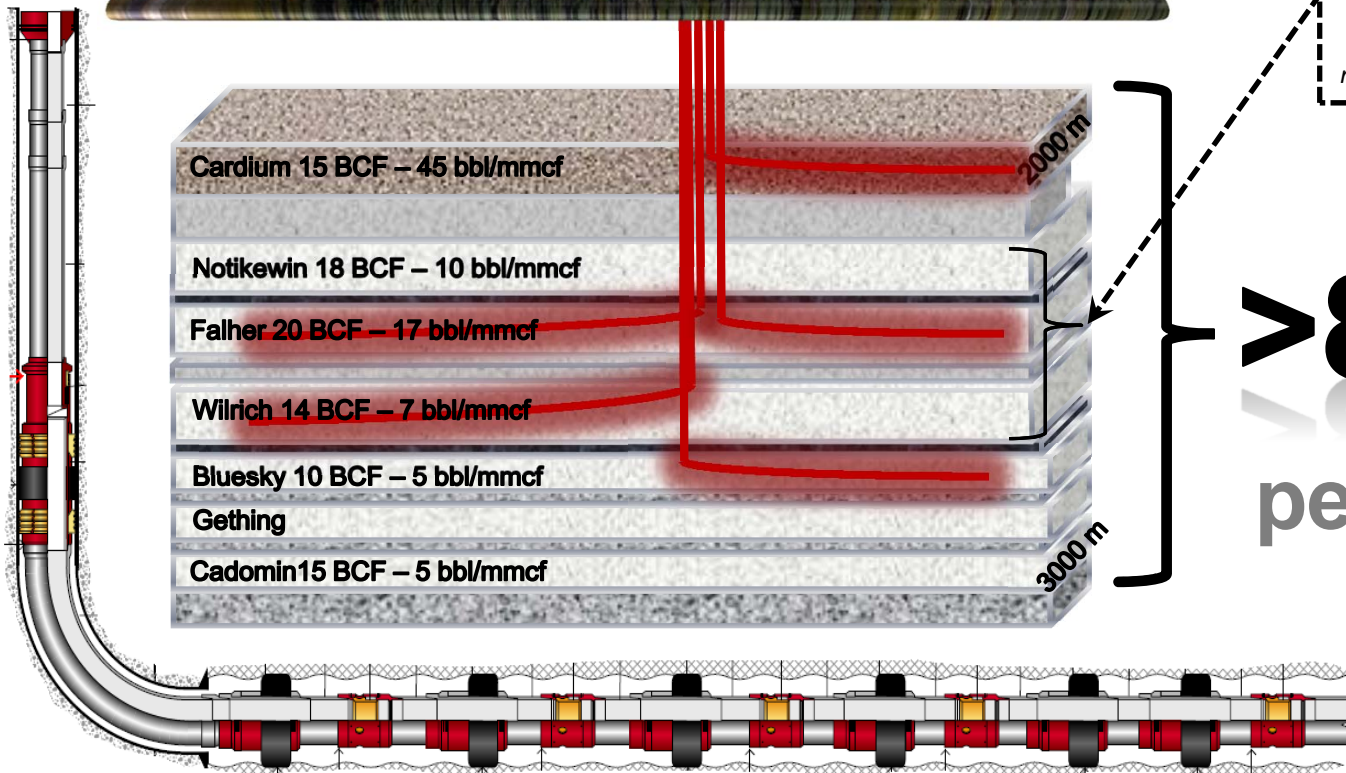
"The Deep Basin is a permeability trap, because the fluids in the updip position can't travel through these fine grained, tightly compacted reservoirs so there is no risk of wells watering out."



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."



Detailed Petrophysical work on the Spirit River sands revealed >30% more reserves per section

Up to **> 80 BCF** per section*

*NGL recoveries can increase by 15+ bbl/mmcft with deeper cutting processing facilities
Reserves are 2P recoverable in a section at 85% RF

Peyto's Assets

Geographically Focused Core Areas

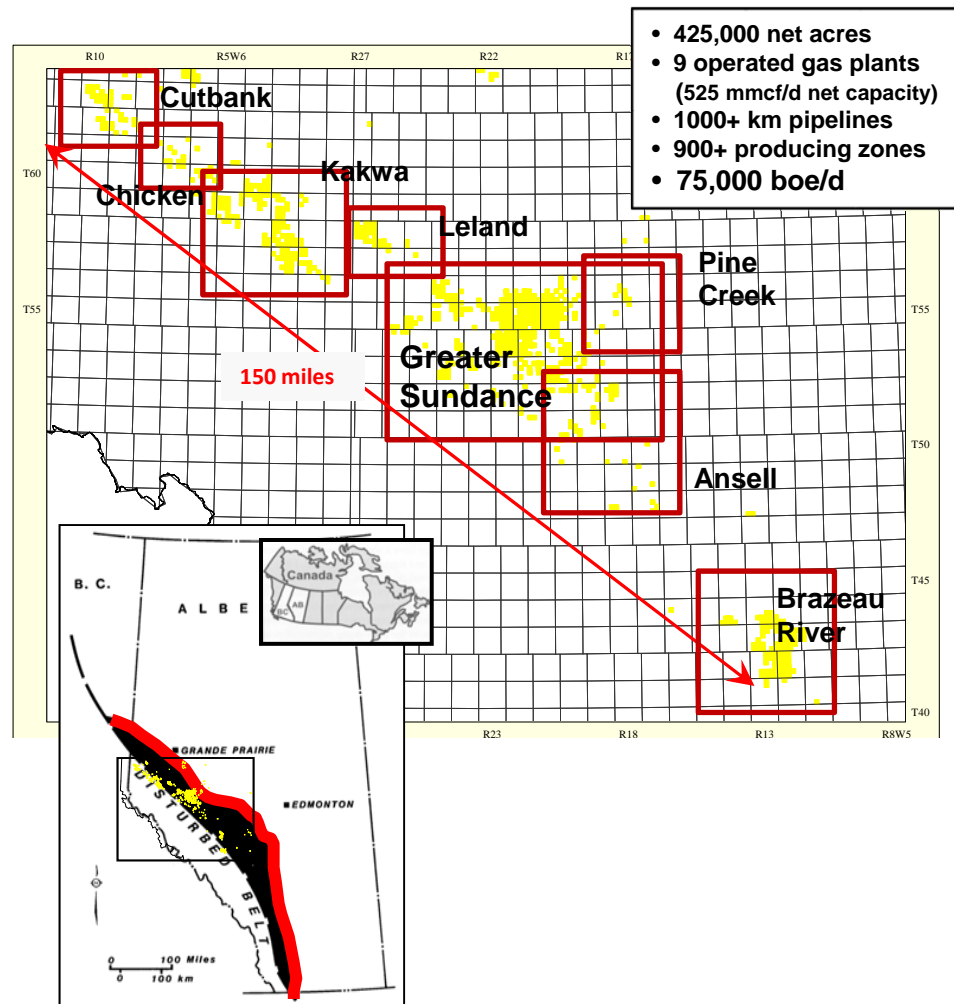
"Peyto operates 99% of its production and processes 97% of that production through its nine owned and operated gas plants. Concentration and control are how you achieve low costs."



97%
Processed by Peyto

99%
Operated by Peyto

97%
Interest in 9 Processing Facilities

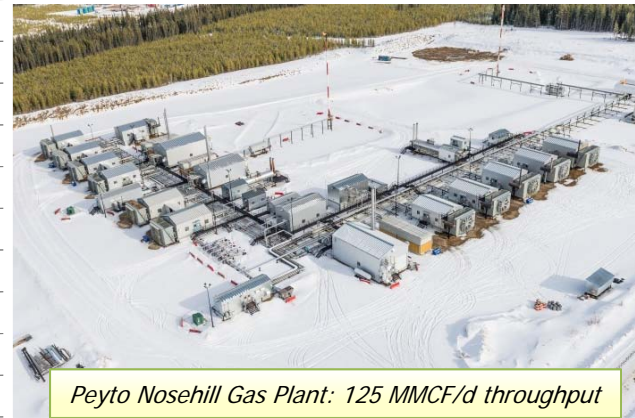
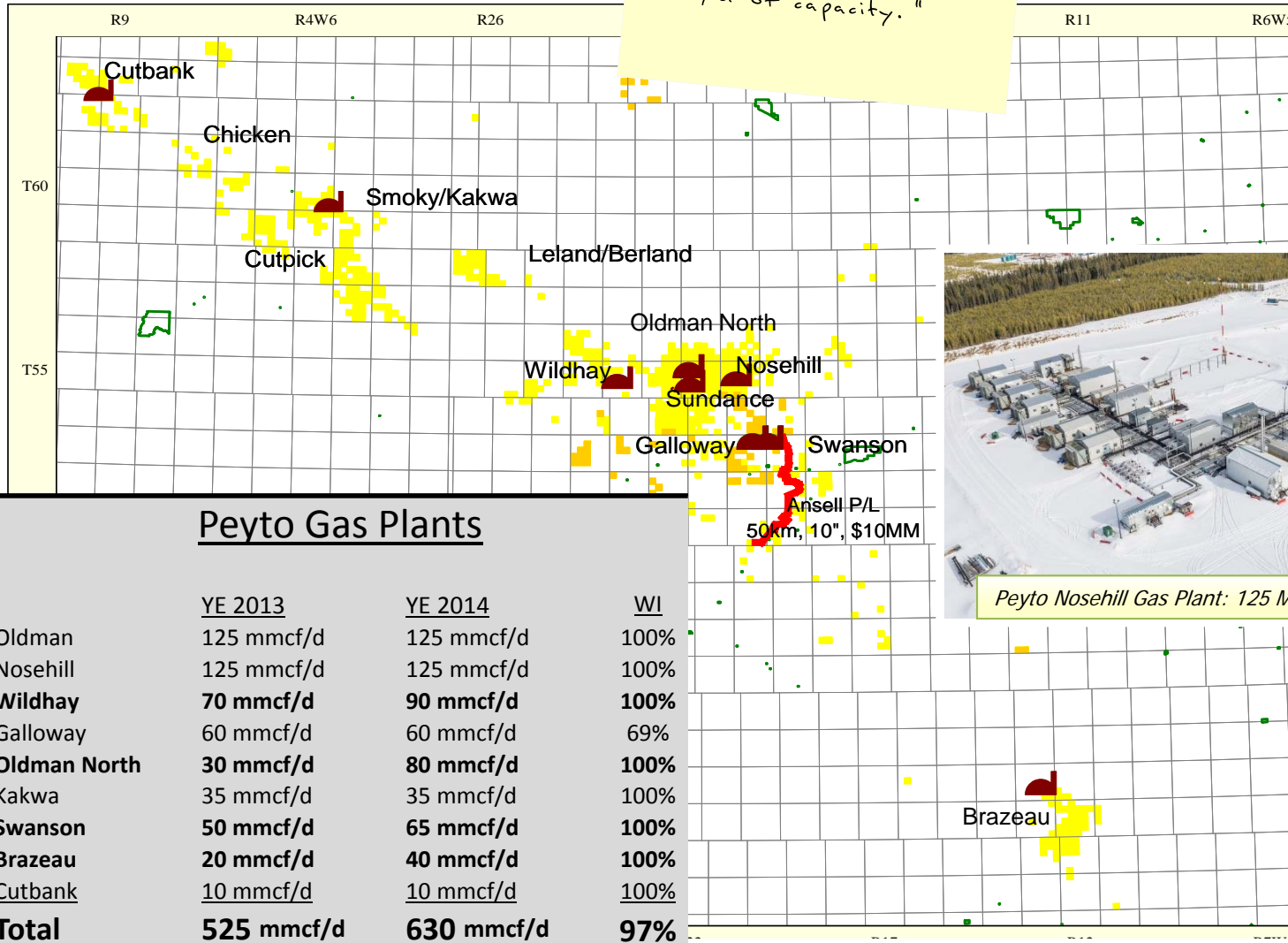


Peyto's Assets

Facility Ownership And Control



"2014 budget includes expansion work at 4 of Peyto's gas plants. In total, that will be 9 plants with over 0.6 BCF/d of capacity."



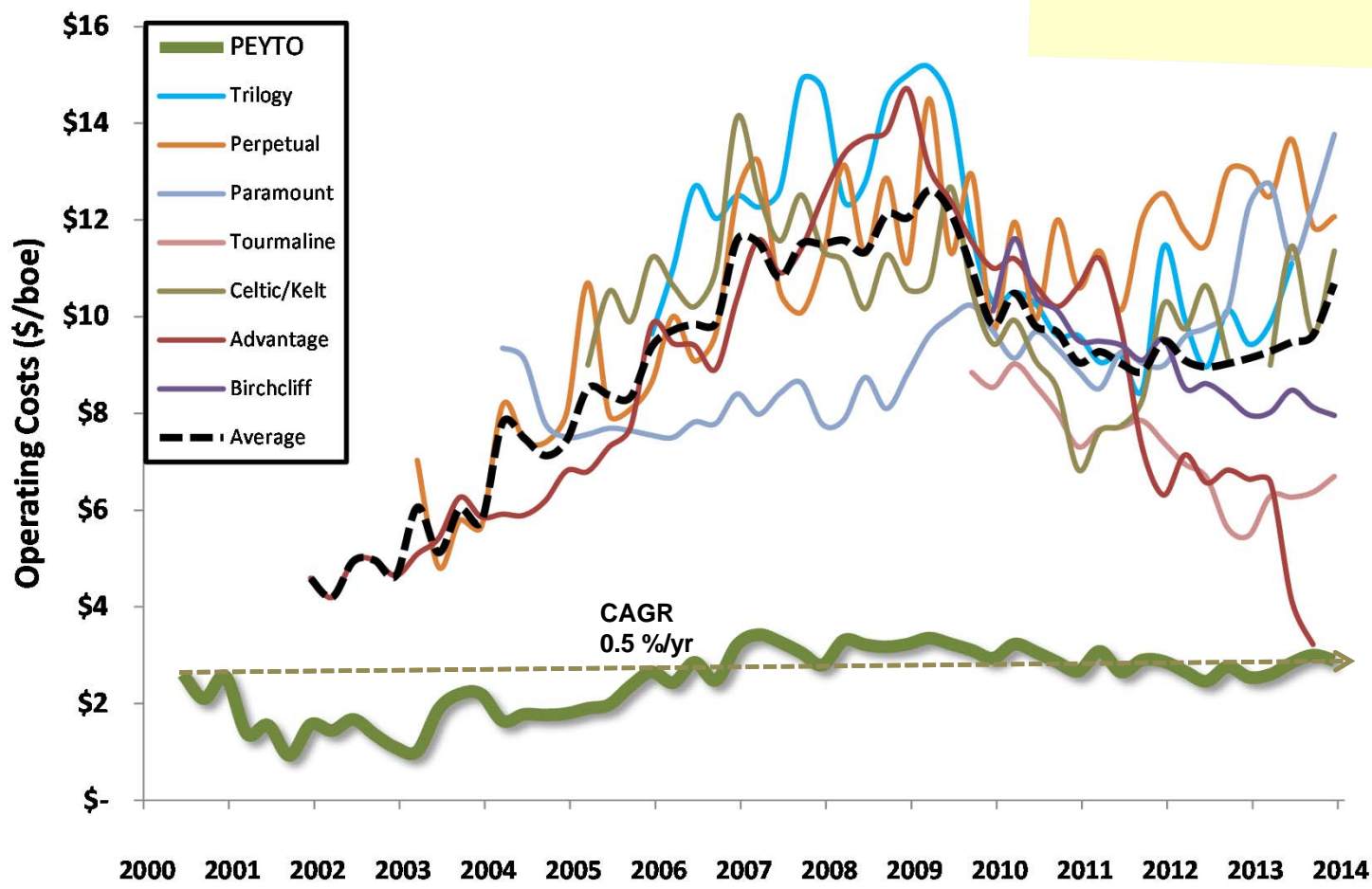
Peyto Gas Plants

	<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	90 mmcf/d	100%
4 Galloway	60 mmcf/d	60 mmcf/d	69%
5 Oldman North	30 mmcf/d	80 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	525 mmcf/d	630 mmcf/d	97%

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!"



- How?**
- We operate Full facilities
 - No water
 - No sour
 - Chemical recycle
 - Nat gas fuel
 - Continuous innovation

BOE factor - 6 mcf = 1 bbl of oil equivalent
 Operating costs include transportation. (Advantage op costs adjusted for \$0.25/mcf reported transportation costs)

Peyto's Unique Assets



Peyto's Assets

Self Sufficient Energy Inputs

"Innovation, like replacing diesel and electrical power throughout our operations with natural gas fired energy, allows Peyto to continue to push costs down."



**Gas Plant
Compression**



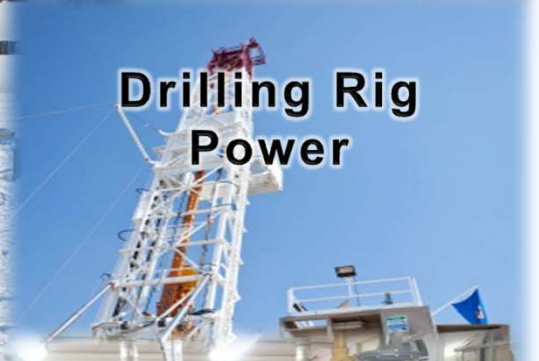
**Gas Plant
Refrigeration and
Control**



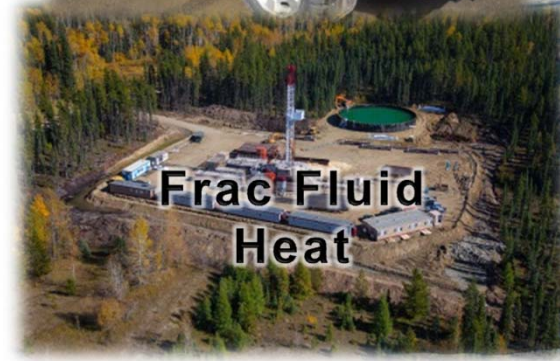
**Operating
Personnel
Vehicles**

\$5MM

Estimated Savings/yr.



**Drilling Rig
Power**



**Frac Fluid
Heat**



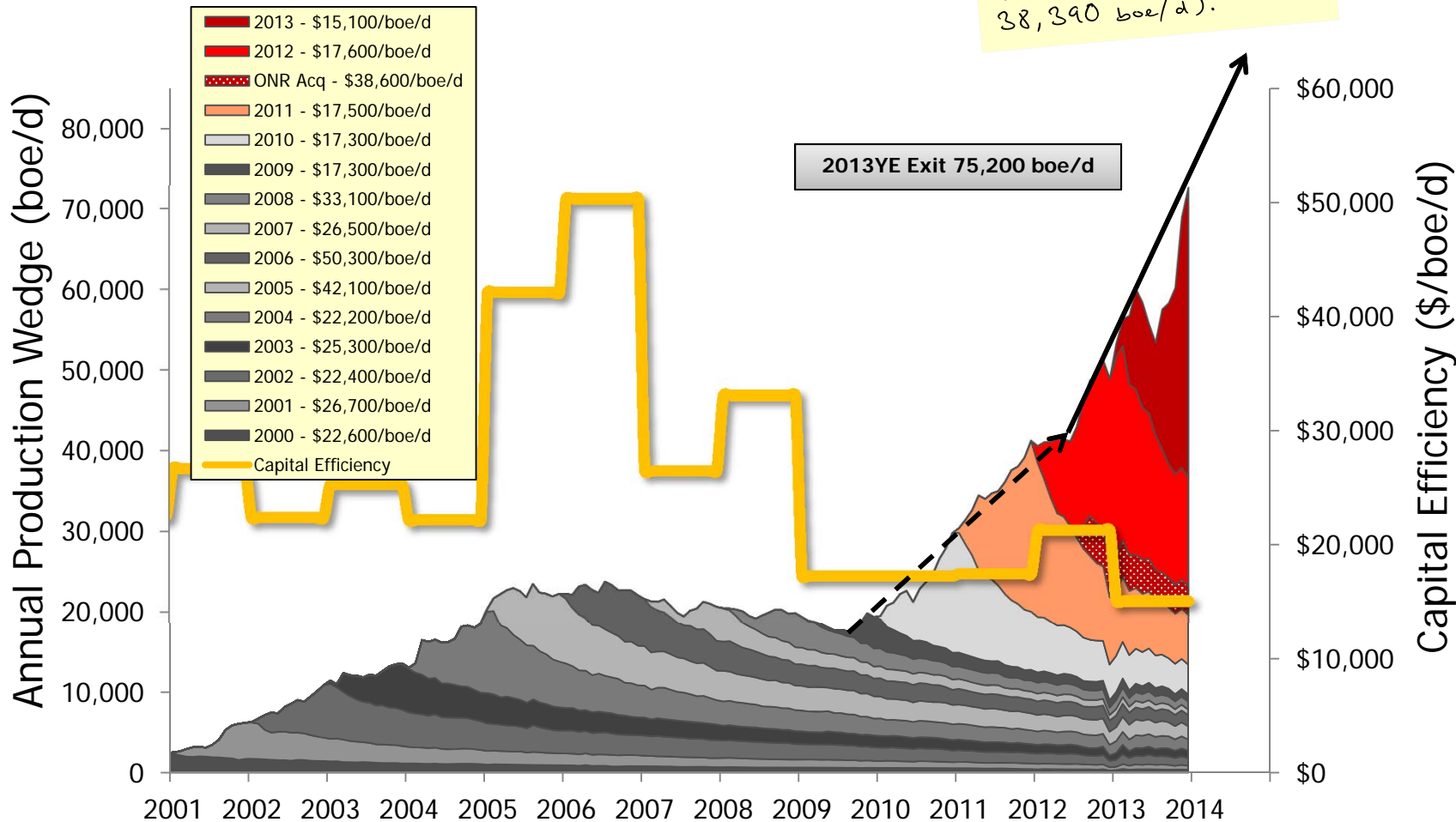
**Drilling Rig
Heat (Boilers)**

Diesel \$1.00/litre
Nat Gas \$3.00/Mcf (~\$0.10/litre)

Peyto's Business

Focus On Returns Drives Capital Discipline

"Improvements in capital efficiency have resulted in progressively larger capital programs and record wedges of new production (2013 additions totaled 38,390 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

Hypothetical Returns

"Unrisked, hypothetical returns, with only a portion of the capital costs, are useless for investors. Even with full cycle costs, there is still the issue of geological and execution risk."



What most companies show you...

Species		Cardium	Notikewin	Upper Falher	Middle Falher	Wilrich	Bluesky	Brazeau Falher	Brazeau Wilrich
Well Costs									
D&C (\$M)	(\$M)	\$3,500	\$4,300	\$4,100	\$4,200	\$4,300	\$4,200	\$4,600	\$4,800
Reserves	BCFe	2.2	3.0	3.4	2.9	3.3	3.2	3.5	3.3
IP30	Mcf/d	1,500	4,000	5,000	3,500	3,500	3,500	5,000	3,500
GLR	Bbl/mmcF	40	10	23	13	5	13	10	5
IRR (half cycle)	%	39%	46%	82%	36%	36%	67%	51%	30%
Payout	(yrs)	2.3	2.0	1.3	2.6	2.7	1.6	1.9	3.1
NPV10	(\$M)	\$3,019	\$4,095	\$5,954	\$3,434	\$3,835	\$5,566	\$4,702	\$3,327

/44% avg

** Based on Insite Sept. 30, 2013 Prices*

What they could show you...

All Costs	(\$M)	\$4,650	\$5,450	\$5,250	\$5,350	\$5,450	\$5,350	\$5,750	\$5,950
IRR (Full Cycle)	%	22%	28%	48%	22%	23%	43%	32%	20%
NPV10	(\$M)	\$1,861	\$2,930	\$4,810	\$2,275	\$2,676	\$4,407	\$3,543	\$2,168

/30% avg

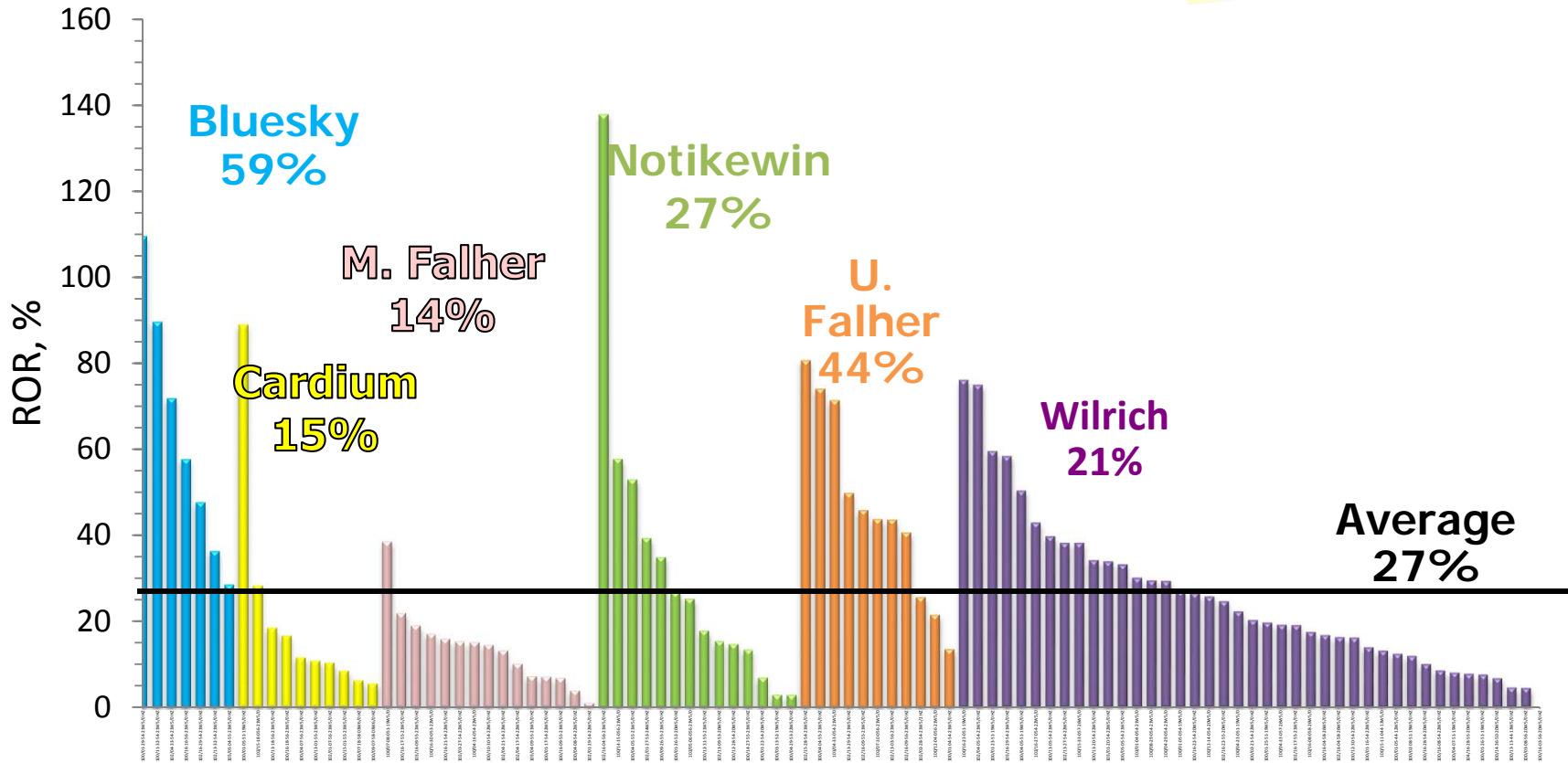
"All Costs" include drilling, completion, wellsite equipment, tie-in, facilities, land, seismic and acquisitions. For Peyto, that's an additional \$500,000 to \$1,000,000 depending on facility requirements.

Peyto's Returns

Full Cycle Real Returns (NOT Hypothetical)

"Peyto reports the actual capital spent, full cycle, and actual result achieved, including the ones that don't work out, so investors understand the real returns we are delivering."

What they should show you...



Includes provision of \$930k per well for Facilities, Land and Seismic
 Peyto's internal Full Cycle actual IRR on 99 Wells by Species using Insite Dec 31/13 Prices

Only 1 well out of 99 will not make back its capital

Peyto's Returns

High Returns On Your Capital And Equity



"Investors rarely get to participate in the wells themselves, making those economics somewhat meaningless. ROE and ROCE are the returns investors get, after deducting corporate costs."

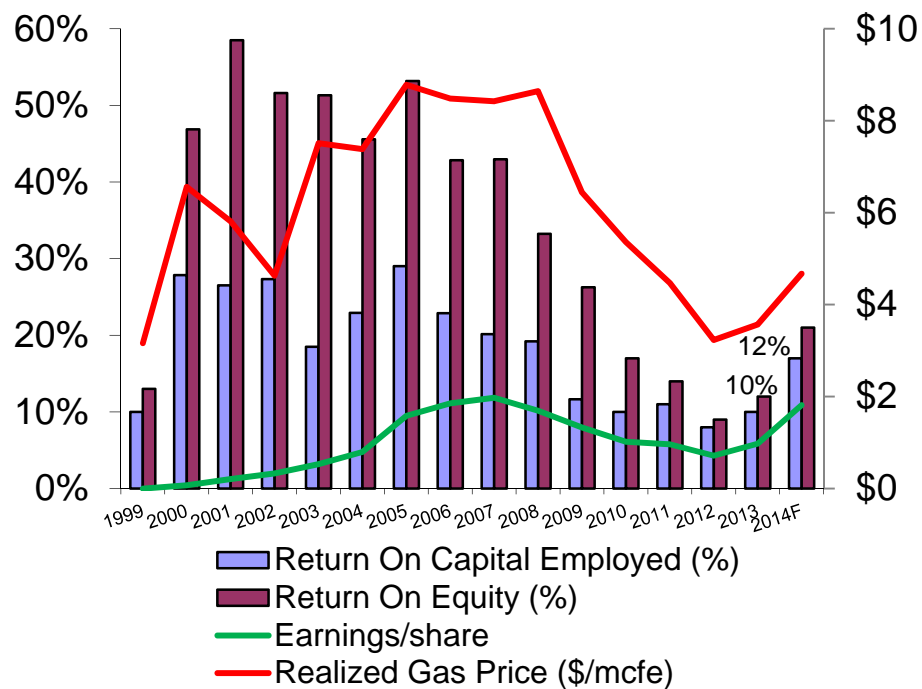
What you get...

34%

15 yr Average ROE

18%

15 yr Average ROCE



Return on Equity (ROE) is earnings for the period divided by average shareholders equity – reveals how much profit a company generates with the money shareholders have invested (15 yrs 1999-2013)

Return on Capital Employed (ROCE) is earnings before interest and tax for the period divided by total assets less current liabilities - indicates the efficiency and profitability of a company's capital investments

Peyto's Future



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)

Cash Costs
\$/mcfe

< (\$1.20)

Sales Price
\$/mcfe

> \$5.40

44% Profit

> \$2.20

Dividend
\$/mcfe

\$0.94*

*Q1 2014
dividend rate

- Pad drilling
- CNG powered rigs
- Longer laterals, more stages
- Continuous operations
- Natural gas heated water
- Summer drilling

- Chemical optimization
- Improving runtime
- Water handling/disposal
- Pad wellsite/automation
- Lock low interest rates

- Liquids rich fms
- Hedging
- \$4.00/GJ*135%

BOE factor - 6 mcfe = 1 bbl of oil equivalent

* 2014 goals are not budgeted expectations

2014 Outlook

Biggest Year Ever (again!)

"Our 2014 budget calls for more of the same. Horizontal drilling in the Deep Basin with infrastructure expansion to handle the new volumes."



\$575M-
\$625M

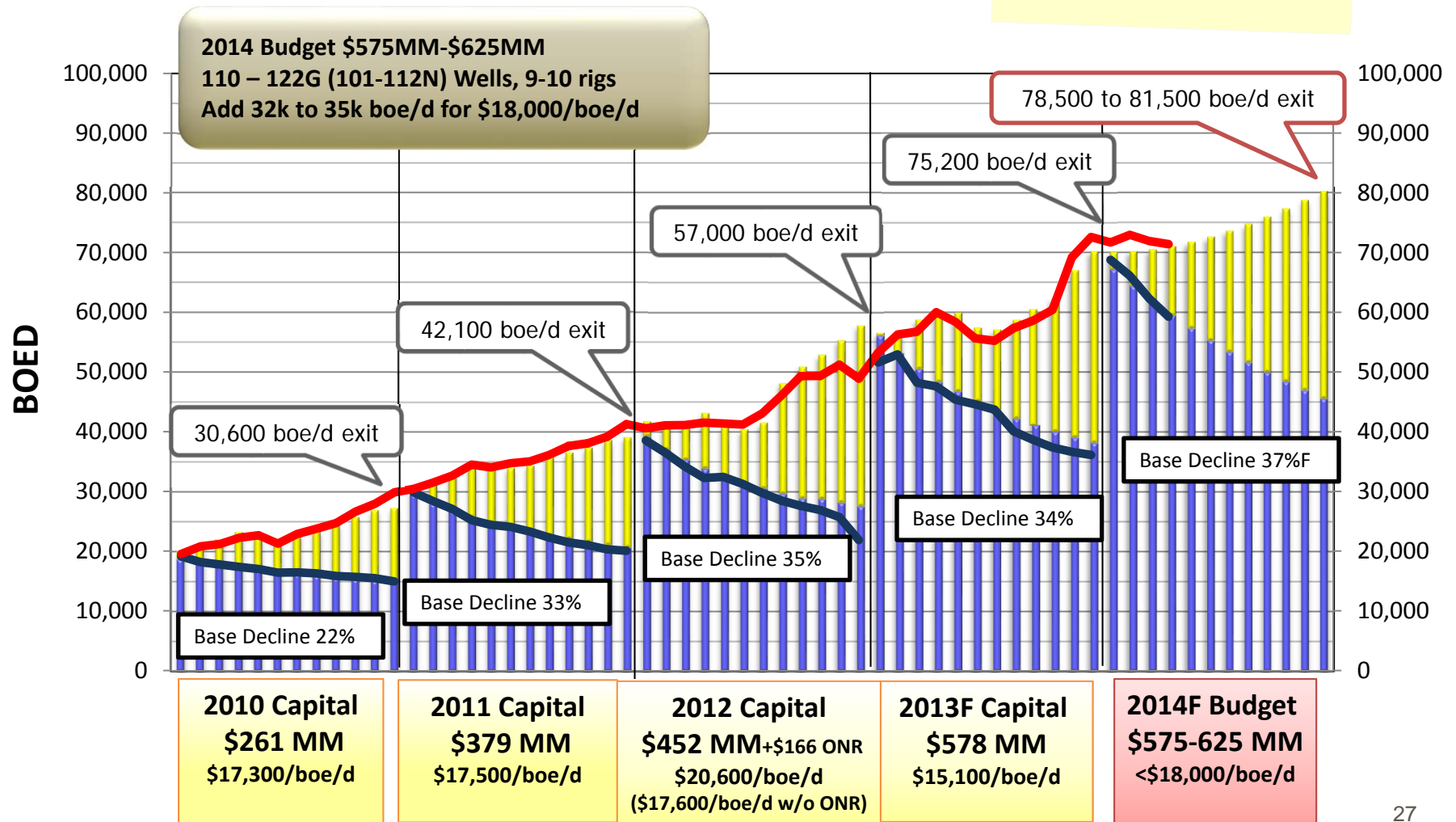
2014 Capital Program

- ✓ **Drill 110-122 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

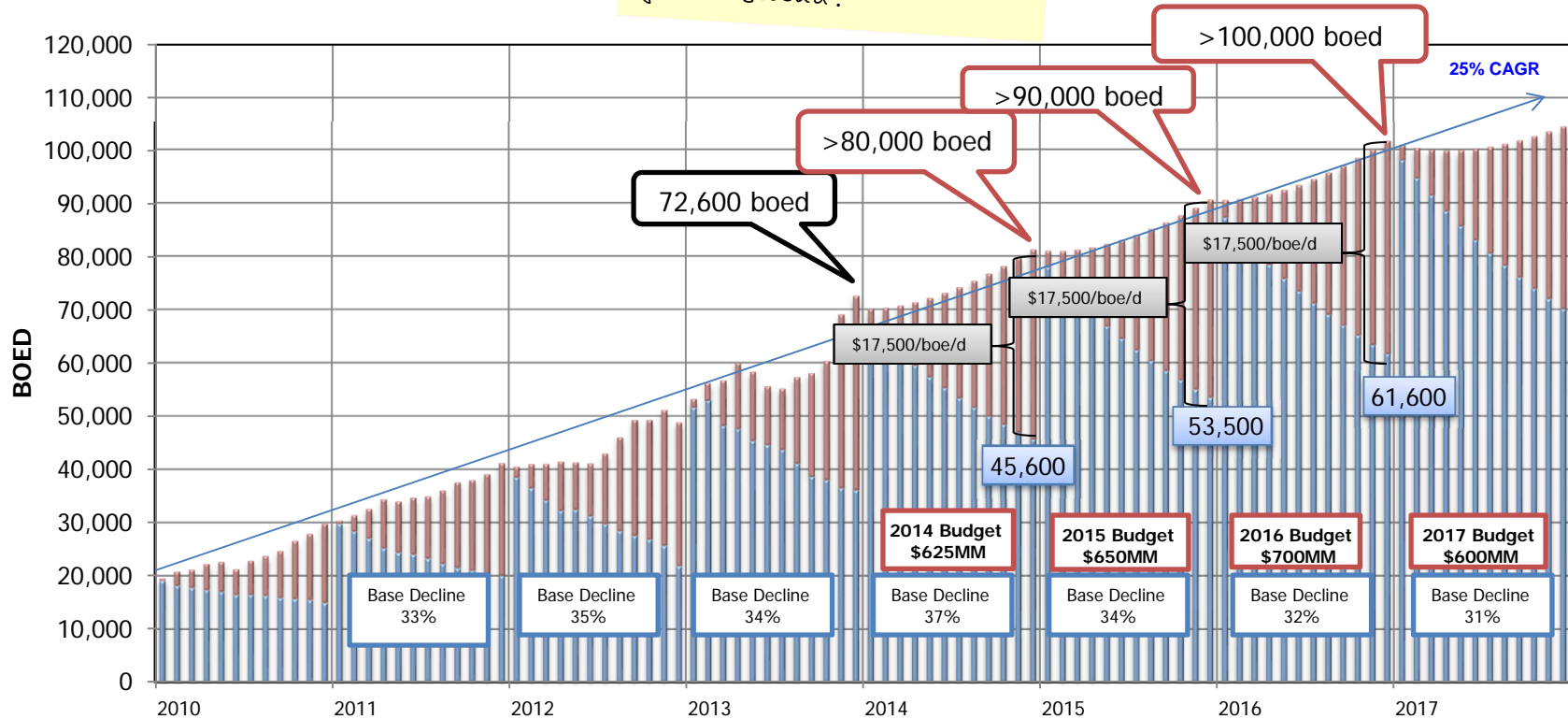
"Our 2014 budget of \$625MM assumes approx. 122 gross (112 net) wells can add ~35,000 boe/d of new production at our 4yr average of <\$18,000/boe/d."



Peyto's Future

Road To 100,000 boe/d

"Remember, all of this growth would be a byproduct of good returns. You can get short term growth without returns, but we don't want that. We focus on returns first, growth second!"



@ \$24/boe netback using \$4/GJ AECO									
Year	Annual Prod.	FFO	CAPEX	Dividend	Net Debt	Debt to FFO	# locations*		
2014	74,452	\$ 652	\$ 625	\$ 169	\$ 900	1.4	1.4	114	
2015	84,429	\$ 740	\$ 650	\$ 185	\$ 995	1.3	1.3	118	
2016	94,757	\$ 830	\$ 700	\$ 185	\$ 1,050	1.3	1.3	127	
2017	101,201	\$ 887	\$ 600	\$ 185	\$ 948	1.1	1.1	109	
		\$ 3,108	\$ 2,575	\$ 724				468	

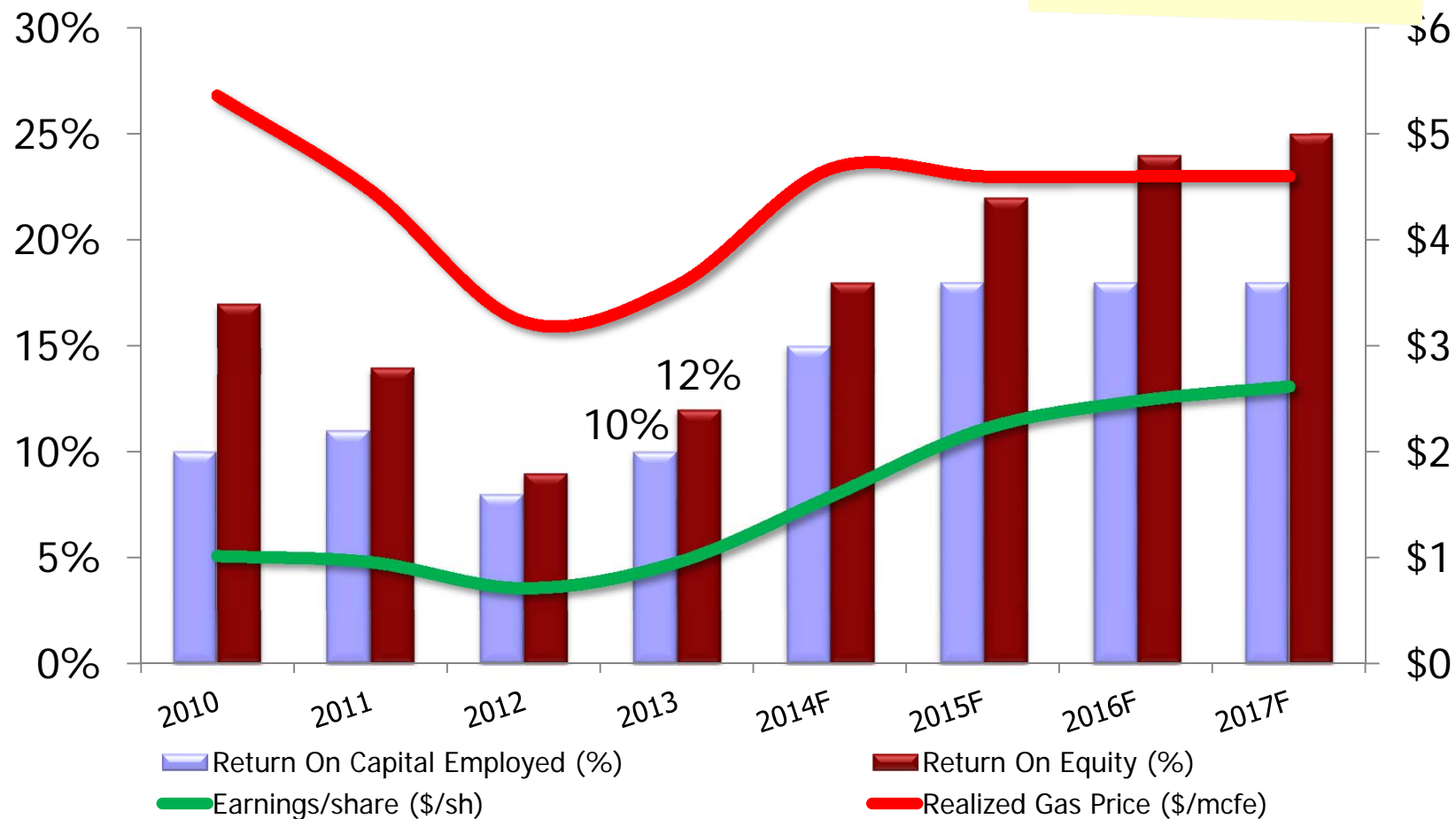
*Out of 1,700 currently 28

* 2014 and beyond provided for illustration only. Budgets and forecasts beyond 2014 have not been finalized and are subject to change due to a variety of factors including but not limited to prior year's results. FFO – Funds from Operations, see definition in Financial Reports. Future illustration derived from historical well performance and cost assumptions.

Peyto's Future

Growing Production=Growing Earnings

"Maintaining our profitability with growing production should yield growing earnings and growing returns which ultimately drive growing dividends."



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Peyto Profile



- ✦ TSX Listing: PEY
- ✦ Shares Outstanding: 153.7 million, 4.4% insiders (as of Feb. 5/14)
- ✦ Monthly Dividend: \$0.10/share (incr. from \$0.08 effective May/14)
- ✦ Current Production: ~450 MMCFe/d (75,000 boe/d)
- ✦ YE 2013 2P Reserves: 2.8 TCFe (468 mmoes)
- ✦ Net Debt:
 - \$100 million (senior unsecured notes, 7 yr, 4.39% CAD, Prudential IM)
 - \$ 50 million (senior unsecured notes, 10 yr, 4.88% CAD, Prudential IM)
 - \$120 million (senior unsecured notes, 7 yr, 4.5% CAD, syndicate)
 - *(Q1 2014) \$568 million (revolving bank debt, unaudited)
 - \$838 million*
- ✦ Bank Lines: \$1.27B total capacity (\$1.0B unsecured bank facility)
- ✦ Enterprise Value: \$7.0 billion (@\$40/share)

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

Peyto's Future

R U Ready To Saddle Up!

