

# Peyto Exploration & Development Corp.

## President's Monthly Report

April 2011

From the desk of Darren Gee, President & CEO

Alberta's Enmax Energy has been advertising on the radio that they are moving away from conventional coal sources of power generation to natural gas fired and renewable sources. Now we all know the renewable sources like wind and solar will only represent a minute fraction of their portfolio and will also need natural gas fired generation as backup. But it is an interesting move in a province that has more than its fair share of all types of hydrocarbons to choose from; wood, coal, oil and natural gas that can all be burned for power and heat. It's also a telling point on just how cheap natural gas has become because if there wasn't a significant economic driver for doing it, they likely wouldn't be.

Expand that to the global community and toss in a healthy dose of Nuclear and Environmental fear, recently heightened by the tragedy in Japan, and natural gas fired electricity becomes a no-brainer. Even US President Obama was recently singing natural gas' praises. The real question now becomes one of timing of fuel switching. If done slowly, it's likely that supply growth can keep up. If done quickly, it may very well drive prices up very fast. Either way, at Peyto, we're trying to have our long life supply ready to go.

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

2010/11 Capital Summary (millions\$ CND)\*

	Q1 '10	Q2 '10	Q3 '10	Oct	Nov	Dec	Q4	2010	Jan	Feb	Mar	Q1 '11
Land & Seismic	0	0	5	1	0	12	13	18.5	-1	2		
Drilling	31	18	34	19	23	15	57	140.5	15	16		
Completions	16	10	13	4	10	12	26	65.3	12	11		
Tie ins	8	4	10	3	3	3	9	30.3	2	2		
Facilities	2	6	5	2	2	2	6	19	3	3		
Drilling Credit Used	-3	-2	-4	-1	-1	2	0	-7.6	0	0		
Sub Total	55	37	63	28	37	45.0	111	266	29	34		
Rem. Drilling Credit	-5	0	2	0	0	0	-1	-4.1	0	0		
Total	50	37	64	28	37	45	110	262	29	34		

\*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.

### Production

2010/11 Production ('000 boe/d)\*

	Q1 '10	Q2 '10	Q3 '10	Oct	Nov	Dec	Q4 '10	Jan	Feb	Mar	Q1 '11
Sundance	16.5	18.5	20.1	22.9	24.4	26.4	24.6	27.1	28.1	28.8	28.0
Kakwa	2.8	2.7	2.6	2.5	2.6	2.6	2.6	2.5	2.5	2.9	2.6
Other	1.3	1.1	1.0	1.0	1.0	1.2	1.1	1.1	1.1	1.1	1.1
Total	20.6	22.3	23.8	26.4	28.0	30.2	28.2	30.7	31.7	32.8	31.7

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### Paying Up For Running Room

Large, resource play, land grabs have been going on for the past few years, as E&P companies attempt to position

themselves in the right plays that have a large volume of repeatable drilling opportunities at a supply cost that works with today's commodity prices. The market has taken note, rewarding those same companies with premium share prices on the premise there is bigger growth potential in all that land. But one has to wonder if that has ever really borne fruit. Have these big land positions ever translated into production growth and cashflow growth? And further, have those big land grabs, and subsequent dollars spent exploring and developing them, ever been converted into real returns for shareholders? Perhaps, at the end of the day, it's not about who has the land, but who has the right land. And for shareholders, perhaps more importantly, it's about who can convert them; turning cash at their disposal into returns and profitable growth.

The industry snapshot in Figure 1 illustrates the comparison between the market multiple (EV/CF) based on Q4 2010 and the cashflow multiple required to match the P+P NPV 10 (debt adjusted, per share). In other words, which companies are trading at their NAV or at a premium to NAV?

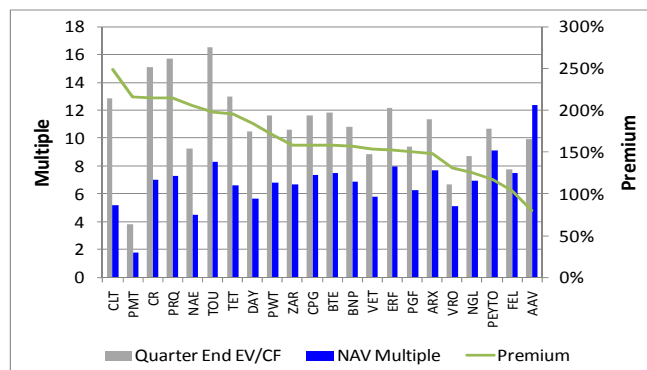


Figure 1

As you can see there are several notable exceptions. So how does that compare to the amount of undeveloped land carried by these same companies?

Unfortunately, companies are not required to report both developed and undeveloped land numbers. But enough do disclose it that we can see a fairly close correlation between high percentages of undeveloped land and premium share prices. Figure 2 shows the premium to NAV as compared to the % of undeveloped lands.

This begs the question "is all that land really worth anything?" And is it the right land? Because in reality, it doesn't take much of the "right" land to equal a lot of shareholder value.

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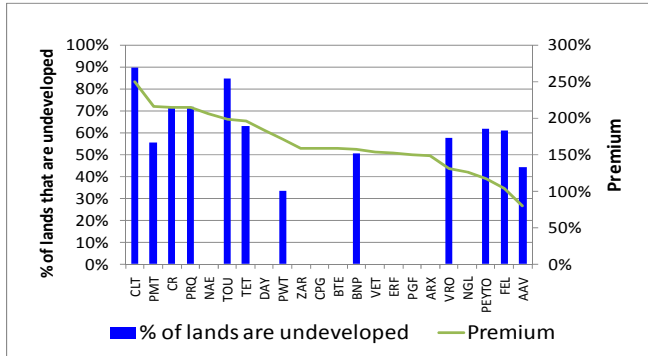


Figure 2

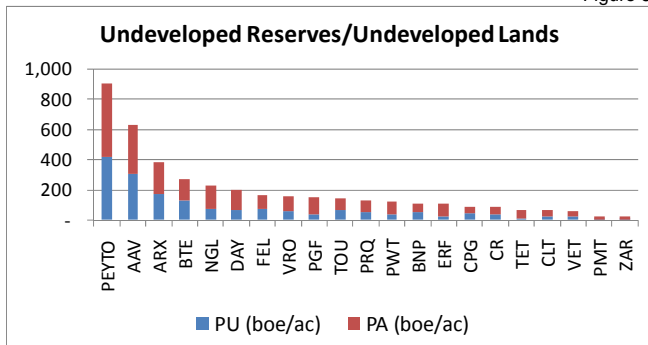
Take Peyto's land base for instance. At year end 2010, Peyto had 266,891 net acres of mineral leases. If you break apart Peyto's land by prospective zone; say Cardium, Notikewin, Falher, and Wilrich, then the land number increases to 507,867 net acres. But when you add up all the drainage area associated with both the developed and undeveloped reserves at year end, you only get to 113,537 net acres or 22% of the land base. Those numbers are summarized in Table 1.

Table 1

Peyto Lands (net acres)	266,891		Volumes	Drainage acres	% of zone total
Cardium Lands	228,153	Developed	1.2 TCFe	68,350	13%
Notikewin Lands	95,682	Undeveloped	0.7 TCFe	45,187	9%
Falher Lands	92,208		1.9 TCFe	113,537	22%
Wilrich Lands	91,824				
<b>Total of all zones</b>	<b>507,867</b>				

So in Peyto's case, a small amount of the "right" land goes a long way. Others, in contrast, may have a large amount of the wrong land that is worthless to shareholders. That fact becomes obvious when you compare the ratio of undeveloped reserves to undeveloped land as shown in Figure 3. It seems for many, a lot of the land is just moose pasture.

Figure 3



One last consideration for shareholders is a company's ability to fund the undeveloped potential that does exist in the undeveloped land? It's one thing for investors to have to pay up front for the upside, with it baked into the share price, but the company should then at least be able to fund it internally or within its financial capacity. If they have no way to fund it, then likely, the shareholders will have to pay for that upside all over again with more and more dilution. Why would you pay for it twice?

The following graph (Figure 4) shows the percentage of the Proved Producing value (NPV<sub>10</sub>, or cashflow in today's dollars) required to fund all the Future Development Capital in order to develop the recognized upside. In other words, using your existing asset base and its cashflow to fund the upside development. In some cases, that base producing value will never be enough to fund all the potential upside and shareholders are going to be asked to dig into their pockets to pay for it, again. So why would you pay up for it in the first place?

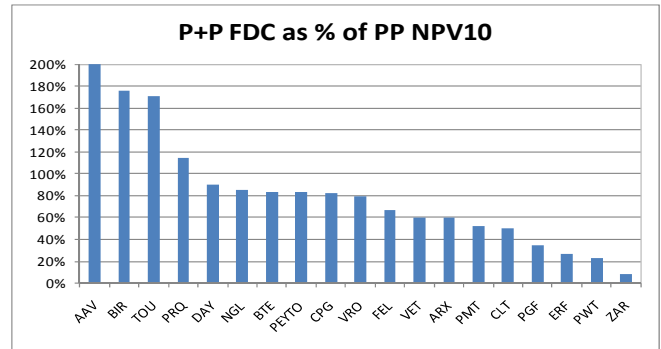


Figure 4

The conclusion is, that all the land, in all the right plays is still no guarantee that it translates into returns for shareholders. A track record of successful, profitable execution is still necessary. And even then, the existing assets need to have the capacity to fund it. Otherwise there isn't any value there for shareholders. So you shouldn't be paying up for it.

## Activity Levels and Commodity Prices

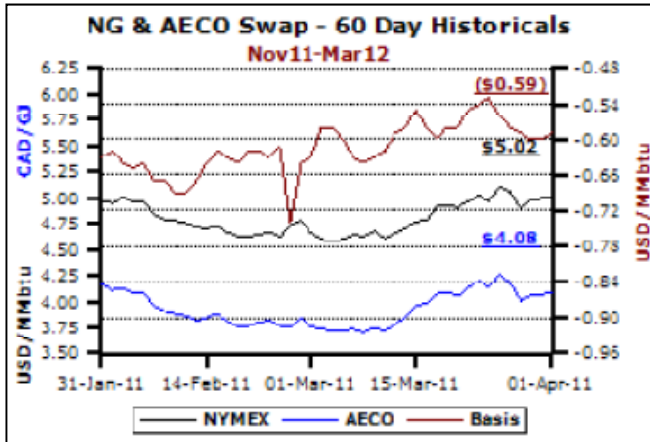
It always seems to be Mother Nature who throws the biggest curve balls when it comes to commodity prices. Industry participants can analyze trends ad nauseam and never be prepared for the volatility that one earthquake can create; or a volcano or some other catastrophic natural disaster. The devastation in Japan will undoubtedly have a significant and lasting effect on the world's energy supplies for some time.

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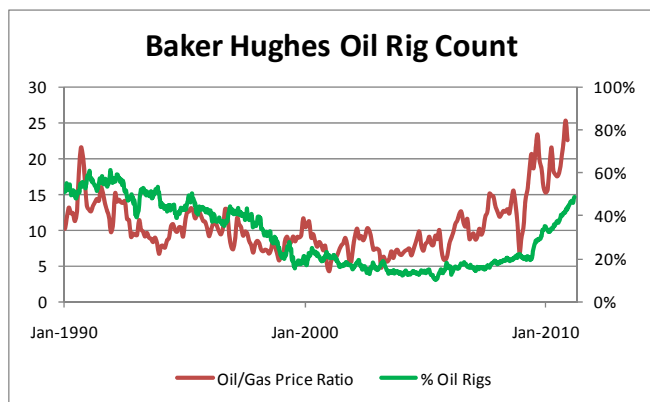
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Natural gas prices in Alberta and the US have recently strengthened on the expectation that even less LNG will be headed to North America (not that we were receiving much more than baseload anyway). And there will be greater pressure to begin exporting to an even hungrier world market.



As well, any thoughts that Nuclear energy might challenge Natural gas for electricity generation have been, at least temporarily, sidelined.

That's providing upward pressure on the demand side, while on the supply side the big difference between natural gas prices and oil prices is causing many producers to hunt for the black gold instead. The following graph shows the US rig count directed more towards oil than gas for the first time in about 20 years.



All of these moves are positive signs for natural gas prices going forward and positive for the value of Peyto's asset base.