

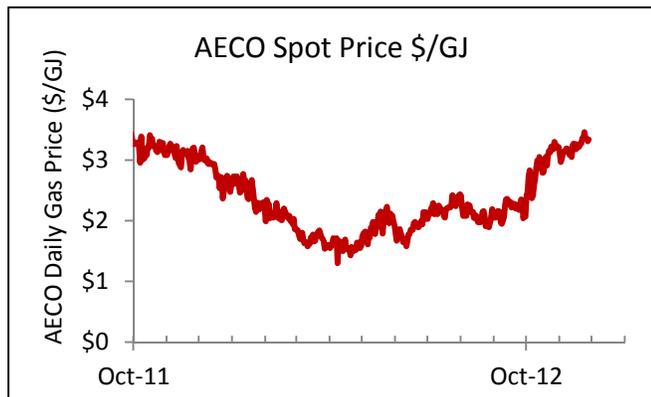
Peyto Exploration & Development Corp.

President's Monthly Report

December 2012

From the desk of Darren Gee, President & CEO

Winter seems to have come early to Western Canada, and with it increased natural gas prices. AECO gas price is even better than where it was this time last year (see below).



Our weather isn't the only thing to be "goin' cold". Our enhanced liquids extraction facility at our Oldman gas plant is about to come online next week which will take our process temperature much colder as well. This has the benefit of extracting most of the remaining Butane and Propane from our gas stream so that we can sell it for much higher prices.

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

2012 Capital Summary (millions\$ CND)*

	2010	2011	Q1	Apr	May	Jun	Q2	Jul	Aug	Sep	Q3	Oct	Nov	Dec	Q4	2012
ONR Acq./other acq.									205		205					
Land & Seismic	19	28	3	1	1	0	1	0	1	1	2	4				
Drilling	141	178	52	6	0	16	23	19	17	23	59	26				
Completions	65	104	31	4	0	10	14	9	14	12	35	11				
Tie ins	30	32	8	2	1	2	5	3	4	4	11	8				
Facilities	19	40	4	1	1	1	3	1	2	2	6	2				
Total	262	379	99	14	4	29	46	33	243	41	317	50				

*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

2011/2012 Production ('000 boe/d)*

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Jul	Aug	Sept	Q3 12	Oct	Nov	Dec	Q4 12
Sundance	28.0	30.2	32.3	35.1	35.4	34.3	35.5	35.6	36.1	35.7	36.6	37.5		
Kakwa	2.6	3.2	3.0	3.4	3.8	4.2	3.9	3.6	3.4	3.6	3.2	3.2		
Ansell								2.6	6.1	2.9	5.9	6.5		
Other	1.1	1.1	1.0	1.3	2.0	2.8	3.4	4.1	3.4	3.6	3.4	3.8		
Total	31.7	34.4	36.4	39.8	41.2	41.3	42.8	45.9	49.0	45.9	49.1	51.0		

*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.

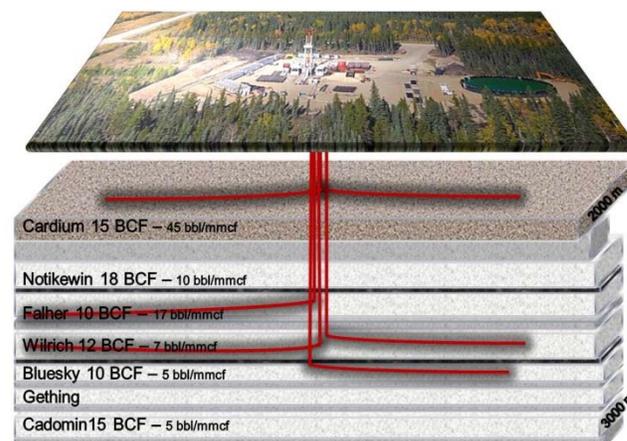
Peyto's iPad

I admit I'm an Apple user. That wasn't always the case. I used to have PCs at home, just like at the office. But now, probably like many of your homes, mine is filled with Apple products - iMacs, iPods, iPhones and iPads. The iPad is my favorite. It can do everything: email, books, music, movies, surf the web. All from the comfort of the couch. It amazes me sometimes how much utility you can cram into one small space.

At Peyto, we've been working on our own version of an iPad. An Intelligent Pad for drilling that also crams a lot of utility into a small space. One that has evolved out of innovation and necessity from the latest horizontal Multi-Stage Frac (MSF) well designs, in combination with our stacked resource plays in the Deep Basin.

In 2009, when we first started using horizontal drilling, we moved rigs around a lot. That was because we were testing out the technology in different areas and at different horizons to see if it really was more profitable than traditional vertical well designs. Now that we've proven that it is, we have started to deploy techniques to be more efficient with our development. One of those is multi-well pad drilling.

Pad drilling in resource plays just makes sense. Especially as companies move into development mode. Horizontal wells can reach up to 2 miles from the surface location to develop resources over a large distance. This also helps avoid any geographic constraints like rivers and parks. And when you can stack the resources, the efficiencies are further compounded as illustrated in the graphic below.



Take one of Peyto's future pad locations for instance. Ideally, we would only have to build one road through the forest, and one surface location (less environmental impact). We would

Suite 1500, 250 - 2nd St. SW
Calgary, AB T2P 0C1
Fax: 403 451 4100

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TSX Symbol: PEY

E-mail: info@peyto.com

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only have to dig one frac water pit or erect one frac tank (we have now purchased several of these to avoid rentals) and drill one set of water source wells to fill it, over and over again. In the winter, we could move in one of our mobile, coil natural-gas-powered heating units to keep the frac water from freezing rather than traditional diesel powered hot-oiler units. And of course, we would only have to move in a drilling rig once for many wells. Then we can proceed to drill multiple wells, in each of several horizons, without having to move all of that drilling equipment in between jobs. The same goes with completion equipment.

Normally, a drilling rig move costs around \$100k depending on how far we need to move. In addition, each surface locations costs \$150k to construct, assuming we don't have to build a long access road. If we do, the costs go up even more. When we bring in completion equipment, like frac spreads, coil tubing units and snubbing units, we only have to bring them in once for several wells completed back to back. Just those considerations alone mean we can save about \$350k by staying in one place.

There are some drawbacks of course. The most significant being the timing of production additions. If we have a drilling rig in the way, we can't get in to complete and tie-in a well until it's gone. That means it could be months before the first well in a multi well pad gets completed. In such circumstances, production growth gets "lumpy", with no new volume additions for a period of time, followed by several wells coming on, all at the same time. But when we consider the cost savings, relative to the time value of the delay in new production, the answer is pretty clear.

For instance, if we model two wells, drilled from two different surface locations, coming on production sequentially – drill, complete, tie-in, move, drill, complete, tie-in – and compare that to a pad drill – drill, drill, complete, complete, tie-in, tie-in, we see that more value is created with the pad drilling (Table 1). And that is just two wells as opposed to several.

Table 1

	Capex (\$k) (D/C/E/T)	BT NPV10 (\$k)	IRR (%)
Two wells in succession	\$9,792	\$6,955	34.3%
Two well pad	\$9,435	\$7,282	36.2%
Gain	-\$350	+\$327	+2.0%

While others may deem this as small savings and results in little increase in return (only 2%), I disagree. This is exactly the type of "chipping away" at costs that results in Peyto being one of the industry leaders in low costs.

Then we need to consider the efficiency gains in day to day operations. Obviously, you only need to run one pipeline to a multi well pad site, as opposed to many pipelines to individual well sites. And at each well site you need a separator building with telecommunications for remote monitoring. You also need a chemical tank for Methanol or wellbore cleaning chemicals. And you need to maintain this lease each year – gravel, weed control, plowing, grading, municipal taxes, etc. Whereas at multi well sites, you can start to combine some of this surface equipment. And not necessarily on a much larger surface area. See the picture below showing a Peyto single and multi well pad site.



The financial savings of multi well pad sites can be significant and really start to compound with stacked resource plays. Combine that with Peyto's innovation, efficiency and strict focus on cost control, and these will all translate into improved returns. Considering that Peyto is a company whose sole focus is on maximizing returns for shareholders, that's exactly what we want.

Activity Update and Commodity Prices

Canadian gas rigs inched over 100 this past week as gas price moved up, however, they are a far cry from 160 a year ago at the same natural gas prices. Is \$3.50/GJ not enough?

