

Peyto Exploration & Development Corp.

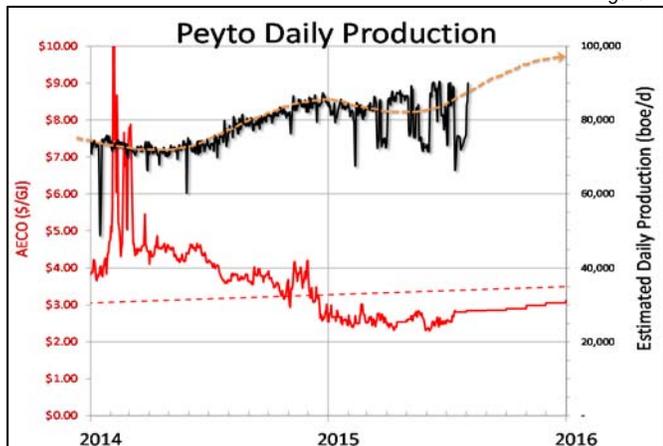
President's Monthly Report

August 2015

From the desk of Darren Gee, President & CEO

While the Trans Canada NGTL (Alberta) system continues to be plagued with operational challenges – the most recent being a compressor failure at their Clearwater facility - which delays production additions from our drilling program, Peyto's actual execution so far, of our 2015 capital program, has been better than expected. Cost savings and eventual production gains have contributed more to improving rates of returns than any delay in on-stream timing has cost us.

Figure 1



Source: Peyto

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*

2014/15 Capital Summary (millions\$ CAD)*

| | Q1 | Q2 | Q3 | Q4 | 2014 | Jan | Feb | Mar | Q1 | Apr | May | Jun | Q2 |
|----------------|------------|------------|------------|------------|------------|-----------|-----------|-----------|------------|-----------|-----------|-----------|------------|
| Acq. | 0 | 0 | 0 | 0 | 0.3 | 2 | 0 | 1 | 3 | 0 | 0 | 0 | 0 |
| Land & Seismic | 7 | 8 | 0 | 6 | 21.3 | 0 | 0 | 4 | 4 | 1 | 0 | 1 | 1 |
| Drilling | 80 | 68 | 83 | 81 | 310.8 | 26 | 18 | 25 | 70 | 19 | 16 | 25 | 59 |
| Completions | 36 | 48 | 46 | 54 | 183.1 | 16 | 13 | 14 | 43 | 11 | 8 | 14 | 33 |
| Tie ins | 16 | 10 | 11 | 14 | 51.3 | 2 | 2 | 3 | 7 | 3 | 3 | 5 | 11 |
| Facilities | 40 | 16 | 40 | 26 | 122.2 | 5 | 6 | 1 | 12 | 2 | 2 | 9 | 12 |
| Total | 179 | 151 | 180 | 180 | 690 | 52 | 39 | 47 | 138 | 35 | 28 | 54 | 117 |

Production*

2014/15 Production ('000 boe/d)*

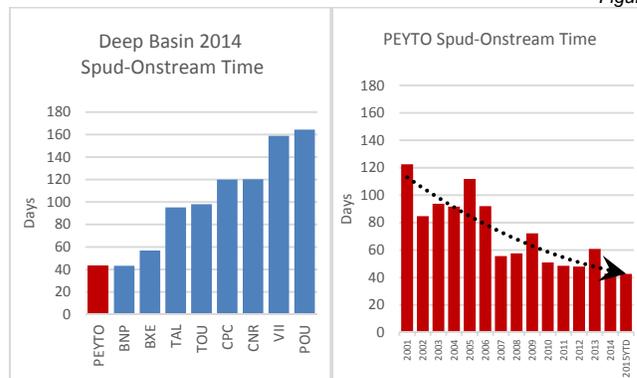
| | Q1 14 | Q2 14 | Q3 14 | Q4 14 | 2014 | Q1 15 | Apr | May | June | Q2 15 | Jul |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Sundance | 49.4 | 51.7 | 57.2 | 59.4 | 54.4 | 56.5 | 57.9 | 54.5 | 58.9 | 57.1 | 56.7 |
| Ansell | 15.7 | 14.2 | 14.3 | 16.5 | 15.2 | 16.8 | 17.1 | 14.6 | 14.5 | 15.4 | 12.3 |
| Brazeau | 1.6 | 1.3 | 1.2 | 3.2 | 1.8 | 4.3 | 6.9 | 6.3 | 6.1 | 6.4 | 5.4 |
| Kakwa | 2.4 | 2.4 | 2.4 | 2.3 | 2.4 | 2.2 | 2.2 | 2.2 | 2.0 | 2.1 | 2.1 |
| Other | 3.2 | 2.5 | 2.4 | 2.0 | 2.5 | 1.7 | 1.8 | 1.0 | 2.0 | 1.6 | 1.5 |
| Total | 72.3 | 72.1 | 77.5 | 83.3 | 76.3 | 81.6 | 85.9 | 78.6 | 83.5 | 82.6 | 78.0 |

*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.

The True Cost of Delay

Under normal conditions, we pride ourselves on converting capital to cashflow faster than almost anyone else in this industry (Figure 2A). Our historical "Spud to On-stream" timing is evidence of that and the fact that we're getting ever better at it. (Figure 2B)

Figure 2

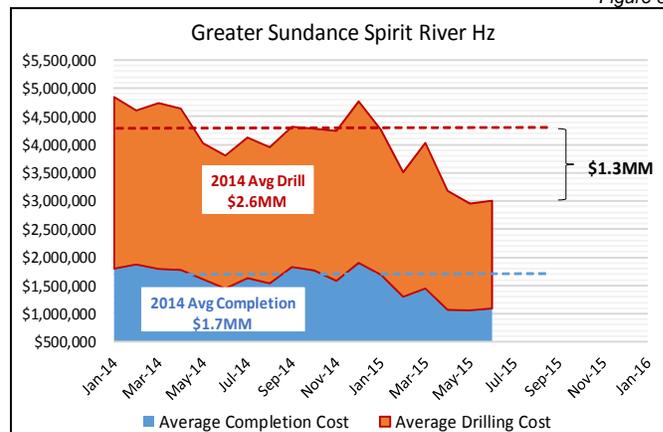


Source: IHS Accumap

So it's unsurprising that we get frustrated when we are delayed realizing the production and cashflow from our drilling efforts, which has been the case for much of this year with pipeline capacity constraints (see Figure 1). We'd be well over 90,000 boe/d right now otherwise.

But we need to remember our strategy at Peyto and that our sole focus is about maximizing the return on capital for shareholders – in other words generating profits. So these production delays, while frustrating, aren't really very material to the returns we're generating. The more important consideration is optimization of the capital investment and the ongoing reduction of costs. To that end, we are making great strides (Figure 3).

Figure 3



Source: Peyto

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To illustrate why that is more important, we can compare the economic effect of either delayed production or reduced capital on the same production profile to see which has the greater impact from a rate of return perspective (Table 1).

The full cycle rate of return of a typical Sundance Spirit River Horizontal well, with a 10 stage fracture stimulation, is shown in the table below, assuming the 2014 average drill and completion cost of \$2.6MM and \$1.7MM, respectively, average equip and tie in costs of \$450k, and land, seismic and facility costs of \$1.0MM per well. For simplicity, let's run it at a flat commodity price forecast of \$3/GJ AECO and \$60/bbl CND Edm Light, with Peyto's cost structure and today's Alberta royalty incentives.

We can then compare this result to drilling the well today but delaying the production start, for example by a whole year (not that it would be nearly that long), or reducing the capital by \$1.3MM (23% of \$5.75MM, or what we have seen to date) and we see that the reduced capital has a much greater impact on the IRR than the delayed production does.

Table 1

| \$3/mcf, \$60/bbl FLAT | 2014 Capital cost | 1yr delayed | 23% Capex Reduction | Combined 23% & 1yr delay |
|--|-------------------|-------------|---------------------|--------------------------|
| Peyto type well Sundance Spirit River Hz | 12% | 8% | 24% | 16% |
| Same well with industry avg Opex+transp | 0% | 0% | 7% | 0% |

Source: Peyto

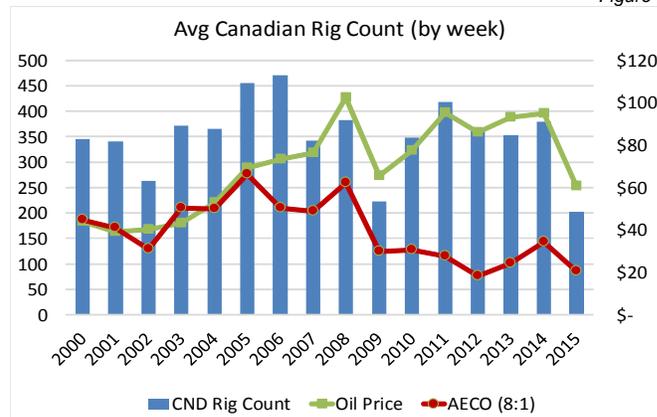
Interestingly, if we run the same analysis with 3 times our Op Costs (including transportation), which is about the industry average, the full cycle economics don't work either way. This tells us that the majority of gas drillers with their higher operating cost structures are not creating profitable return on their investments, even with today's reduced capital costs.

One of the primary considerations for us in the above exercise is that the lower capital costs are temporary and that we have to act today in order to crystalize them. If we thought those same costs were going to be available a year from now, then there wouldn't be as much improvement in return. We might as well just wait until we are more assured we can produce right away.

Considering the severity of the drop in oil prices and the subsequent reaction by the industry to cut capital spending, I believe the current capital costs in the industry are temporary, just like back in 2009 (see Figure 4). But that is a bit of a speculative call on our part.

Worst case scenario is that commodity prices, activity levels and costs stay down at this level for several years in which case we are still making a decent return but weren't as opportunistic timing our capital investment as we thought. Fine for us. Not so fine for the rest of the Canadian energy industry, with many producers and service providers unable to survive that long.

Figure 4

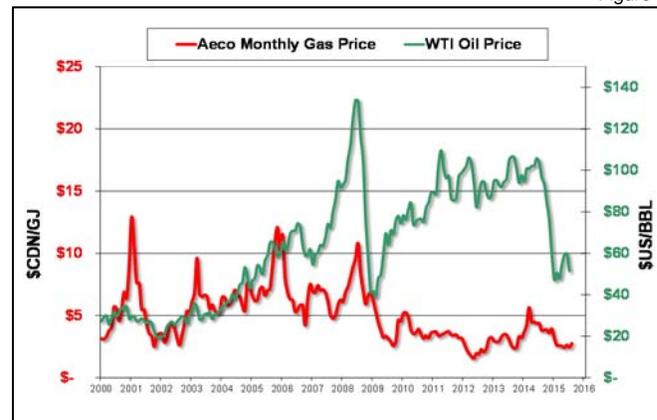


Source: Baker Hughes, EIA, Peyto

Activity Levels and Commodity Prices

Oil prices have recently taken another turn down, while natural gas prices have actually held in due to summer heat. Looking at the two relative to one another, this is the first time in over 6 years that natural gas is trading inside of 20 to 1.

Figure 5



Source: EIA, GasAlberta

Can you imagine a world in which both traded lock step again? Conceivably, if oil dropped to \$40 by the fall, which some are suggesting, and gas was to rally on continued demand growth relative to supply to even \$5, we'd be getting close to trading at 6:1 again. The energy world would be quite a different place if that happened.