

Peyto Exploration & Development Corp.

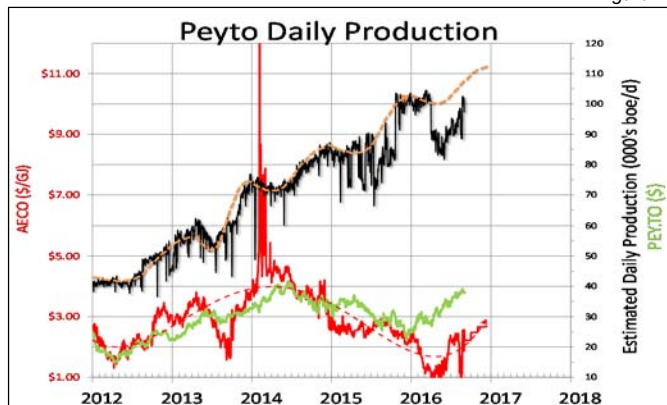
President's Monthly Report

September 2016

From the desk of Darren Gee, President & CEO

AECO natural gas prices are finally back, solidly over that \$2/GJ mark (despite a couple of ridiculous days below \$0.75 a week ago), which has enabled us to bring our deferred production online. The last week of August we were finally back above 100,000 boe/d after fighting with the mud over the last couple of months. Although I expect the price may be volatile for a few more weeks yet, it looks like we're back on our previous trajectory to a solid exit for the year.

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) as well as any production deferrals.

Capital Investment*

2015/16 Capital Summary (millions\$ CND)*

	Q1 15	15	Q3 15	Q4 15	2015	Q1 16	Apr	May	Jun	Q2 16	Jul
Acq.	3	0	-6	0	-3	28	0	0	0	0	0
Land & Seismic	4	1	4	2	12	4	1	0	1	1	0
Drilling	70	59	88	71	287	63	8	7	15	30	20
Completions	43	33	44	54	173	33	2	0	5	8	5
Tie ins	7	11	15	16	49	12	0	1	1	3	4
Facilities	12	12	32	20	76	37	3	2	4	9	1
Total	138	117	177	163	594	176	14	10	26	50	30

Production*

2015/16 Production ('000 boe/d)*

	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Apr	May	June	Q2 16	Jul	Aug
Sundance	56.5	57.1	58.2	62.9	58.7	60.9	54.9	54.0	54.1	54.3	54.3	59.6
Ansell	16.8	15.4	12.6	21.2	16.5	24.6	20.5	19.1	20.1	19.9	20.5	20.5
Brazeau	4.3	6.4	6.8	8.9	6.6	12.2	11.2	9.5	11.4	10.7	14.2	12.8
Kakwa	2.2	2.1	1.9	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.1	2.0
Other	1.7	1.6	1.5	1.7	1.6	1.7	0.6	1.2	1.7	1.2	1.4	1.5
Total	81.6	82.6	81.1	96.8	85.5	101.4	89.4	86.0	89.5	88.3	92.5	96.4
Deferral							17.1	19.9	15.1	17.4	9.3	5.2

* 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.

True Climate Leadership

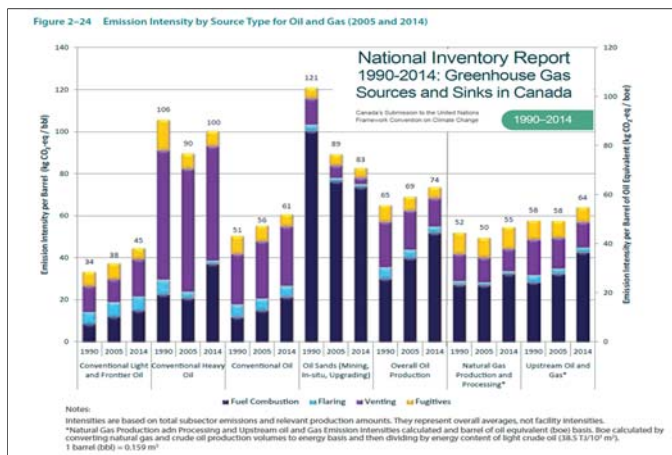
The BC government recently announced its Climate Leadership Plan which surprised many as it didn't include a carbon tax (or Hot Air Tax as some like to call it), electing instead to try and balance the environment with the economy. This falls on the heels of the Alberta Climate Leadership plan that **did** include a new carbon tax. Both of these plans are in advance of any federal agreement on carbon pricing to be levied across Canada. One report the federal government did issue, however, was its National inventory Report on Greenhouse Gas Sources and Sinks in Canada. The report looks at various industries and the changes in emissions from 1990 to 2014.

As expected Alberta stands out for their emission intensity due to an economy that is based on resource extraction and one that also relies on fossil fuels (mostly coal) for their electricity generation. Sadly, we don't get any credit for our vast boreal forests that absorb much of the carbon that we produce, but that's a whole other debate.

What is interesting about this report, however, is that there are some benchmarks that we can use to compare to our business in order to measure what kind of job we're doing at Peyto, relative to the other parts of our industry.

Figure 1, illustrates the emissions intensity for the various subsectors of the oil and gas industry from conventional light oil, to heavy oil, to oil sands, and natural gas. The emissions intensities are further broken down by fuel burned, flaring, venting and fugitive emissions. The data is interesting with a few surprises. For instance, one wouldn't expect light oil to have the lowest emissions intensity, nor would you expect all subsectors but oilsands to have increasing emissions intensity, per boe or bbl, over the period from 1990 to 2014

Figure 2



Source: <http://www.ec.gc.ca/ges-ghg/>

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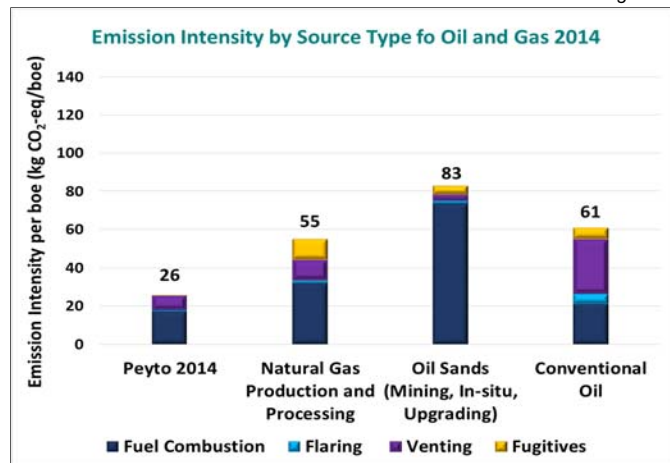
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Comparing Peyto's measured emissions intensity to those various subsectors is also interesting (Figure 2). First off, we come in with less than half of the intensity of the rest of the natural gas industry, especially in areas like Fuel Combustion and Fugitive Emissions, which will serve us well as the cost of emissions begins to mount. That's great, but I know what you're thinking - how are we doing that?

Figure 3



Source: Peyto, Environment Canada

As you would expect, there is no one answer but a multitude of choices, most often made because of the efficiency and economic benefits but with the added bonus of reduced emissions intensity.

Lower **Fuel Combustion** is achieved as a result of choosing to develop resources with higher reservoir pressures (less compression) and choosing to build new, lean burn compression and processing facilities that are located directly on top of those reservoirs. At the same time, we have the benefit of short sales laterals to the main high pressure pipeline system and very limited field compression which reduces additional fuel. Our reservoirs don't produce formation water that needs to be trucked and the majority of our natural gas liquids are all pipelined to fractionation facilities for processing.

We do very little **Flaring** of produced natural gas. In more remote locations it is common practice to flow back fracture fluids and associated gas prior to tie in. This can involve significant flared volumes. Since the majority of our resources are stacked vertically and under our existing facilities and gathering systems, we flow back our wells directly down our gathering lines, eliminating the need to flare or burn the gas. The other source of flare gas is at our gas plants. During any upsets in plant operations, for safety reasons and to quickly evacuate the plant equipment, the gas in the process lines is sent to be burned up a flare stack. Smaller, newer, and efficient processing facilities, like Peyto's, that are operated by

experienced and proficient field personnel have much higher run times with fewer upsets, resulting in less flared volumes. (besides, we are trying to sell this stuff, not burn it.)

Venting and fugitive emissions could possibly be interchanged. Both are emissions of methane into the atmosphere. I suppose venting is really by choice rather than fugitives which are by circumstance. Our venting has mostly to do with the chemical pumps and pressure and level controllers at our remote wellsites. Because we don't have power at each of our wellsites we use the natural gas pressure from the well to activate small pumps which circulate methanol and other chemicals around in the wellbore. As these pumps work, a small amount of pressure is released with each stroke. That equates to a small amount of natural gas released. For a single well, it's a tiny amount but for thousands of wells it starts to add up. This is one area, however, where we are working to make some significant strides. By working with pump manufacturers to develop and install new lower emission pumps, we can try to reduce this part of our emissions intensity.

The last category is **Fugitive Emissions**. These are small leaks in fittings, and connections of pipe at wellsites or facilities. The industry is estimated to have significant fugitive emissions, but at Peyto we know that we have very little. We have done detailed, onsite testing at many of our wellsites, as well as have methane gas detection installed at all of our facilities (done principally for safety reasons). All of our asset base was built by Peyto to our specifications, with brand new facilities and using higher pressure-rated, metal pipeline and fittings. Obviously, leaks are bad; both from a safety standpoint and from a revenue standpoint. So we try very hard not to lose our product to the atmosphere.

The result of all these choices, on how we build and operate our assets, is primarily reduced cost, increased revenues and increased efficiency which ultimately delivers increased profits and returns for our shareholders. But the added benefit is the superior environmental performance. If you want to know who's truly leading the industry in environmental stewardship, start with the lowest cost, most profitable companies in the industry first. That's where true climate leadership comes from.

Activity Levels and Commodity Prices

The future strip for natural gas isn't that much stronger than a couple months ago, and neither is oil, but there is obviously some renewed optimism in the industry because the rig count both north and south of the border is trending higher. Perhaps it's just a short lived flurry as companies spend the last of their budgets for the year and because of improved efficiency the money is going a bit further than expected. If so, it will be short lived. Or perhaps it is a sign of the inevitable. As the old saying goes, the best cure for low prices, is low prices.