

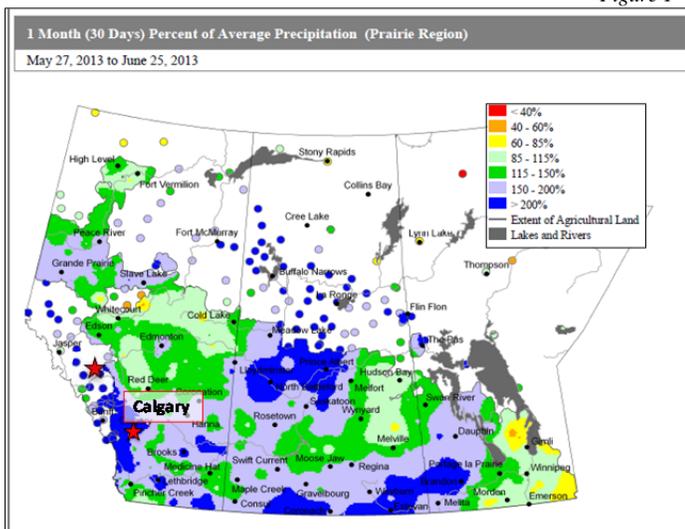
Peyto Exploration & Development Corp. President's Monthly Report

July 2013

From the desk of Darren Gee, President & CEO

To say that the Canadian Prairies had a wet June is the understatement of the century. In fact, the spring rains and subsequent flooding of Southern Alberta from Banff to Medicine Hat was the worst in over 100 years -- since Calgary was little more than a Fort situated on a flood plain (our hearts go out to those affected). As for out in the Edson area, where the bulk of Peyto's operations are, there hasn't been any flooding but it hasn't been much better. Figure 1 shows the percentage of normal rainfall with many areas, like all the mountains/foothills outside of Calgary, at >200% of normal.

Figure 1



Source: www.agr.gc.ca

Needless to say, our ability to execute our capital plans were doused for the majority of the month and we're starting our summer drilling program behind schedule, with both operations and production additions.

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*

2012/13 Capital Summary (millions\$ CDN)*

	2011	Q1	Q2	Q3	Q4	2012	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
ONR Acq./other acq.				205	-21	184				0				
Land & Seismic	28	3	1	2	6	12	0	1	1	2	3	2		
Drilling	178	52	23	59	78	211	24	23	28	76	9	3		
Completions	104	31	14	35	47	127	9	16	16	41	9	0		
Tie ins	32	8	5	11	22	46	6	11	16	33	2	1		
Facilities	40	4	3	6	25	37	9	5	4	17	6	6		
Total	379	99	46	317	157	618	49	56	65	169	29	13		

* 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*

2012/13 Production ('000 boe/d)*

	Q1 12	Q2 12	Q3 12	Q4 12	2012	Jan	Feb	Mar	Q1 13	Apr	May	June	Q2 13
Sundance	35.4	34.3	35.7	36.0	35.4	36.4	40.7	42.1	39.7	43.2	41.7	40.0	41.6
Kakwa	3.8	4.2	3.6	3.1	3.7	3.2	3.1	3.6	3.3	3.2	2.9	2.9	3.0
Ansell	-	-	2.9	6.8	2.4	9.2	9.0	8.3	8.8	10.2	11.3	10.5	10.7
Other	2.0	2.8	3.6	3.6	3.0	3.2	3.2	3.6	3.3	3.4	2.8	2.6	2.9
Total	41.2	41.3	45.9	49.5	44.5	52.0	56.0	57.6	55.2	60.0	58.7	56.0	58.2

* 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.

Funds Flows (as opposed to river flows).

I was recently on the road speaking with investors from across the globe (West coast, East coast, and Europe) and one of the recurring questions was about our decision to increase our monthly dividend. Many felt, and correctly so, that the Peyto team was doing such a good job generating returns on shareholders' capital, that they should continue doing so with every last available cent. So rather than pay out more dividend, that money should go to increasing the capital program. That also assumes (again, correctly so), that we don't need that capital to pay down debt, since our debt levels are very manageable and the cost very reasonable.

While in theory we agree with investors about re-investment, there is a practical limit to how much capital can be efficiently invested each year. Or more precisely, the pace at which capital can be efficiently invested. We have all seen examples, both in the past and more recently, of companies that have grown capital programs quickly, in order to grow production quickly, but at the expense of profitability. At Peyto, we are simply not interested in unprofitable growth.

So one of the questions we wrestle with, when considering the flow of funds to either dividends or capital programs, is can we continue to scale up the size and pace of the capital program without losing efficiency and profitability?

Arguably, over the last few years we've successfully achieved that goal, with organic capital programs increasing from \$73MM in 2009 to \$450MM last year (\$618MM incl acq.), all while maintaining a capital efficiency of \$17,500/boe/d and achieving a PDP F&D cost of close to \$12/boe (see Figure 2). Including the acquisition of Open Range, the capital efficiency and PDP FD&A last year was \$20,600/boe/d and \$13.32/boe (\$2.22/mcfe).

We have to be a little bit careful, however, with suggesting that good capital efficiency and FD&A numbers mean good profitability. In Peyto's case, by developing the same Deep Basin resources, in the same areas, that is a pretty good

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assumption, but we ultimately have to back that up with an Internal Rate of Return analysis (IRR).

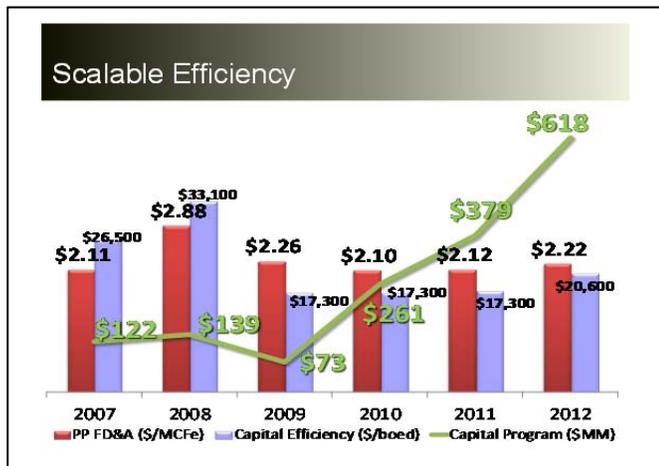


Figure 2

So when we think about the competition for capital between dividends and capital investment, profitability of that next dollar of invested capital is of paramount importance. Just a few of the factors that influence that profitability include:

- Access to incremental oilfield services and at what cost.
- Peyto's internal manpower capabilities.
- Incremental facility processing capacity to accommodate the resultant production growth.

For instance, can we secure another of those built-for-purpose rigs, with an experienced crew, to drill the next well as efficiently as the last? Maybe not, as we already have 10 of them out of an estimated 75 or so in the industry that are perfect for what we do. More are coming, but it takes time to build them and train the crews.

Can we handle more activity internally, with our lean and mean Calgary staff of 42 full time employees? We can selectively add more people, but we wouldn't want to staff up so fast as to change the Peyto culture. Or to lose our focus on achieving the maximum profitability from each and every well we drill.

Can we build out additional processing capacity for the incremental production that extra capital will create? Already, we're adding another 80 mmcf/d of facility capacity with 2 new plants and a major expansion. Can more capacity be built in time? There is no point in drilling the wells if they can't produce.

When we considered all of these factors in isolation and in combination, we came to the conclusion that, yes, we can increase capital programs going forward, but perhaps not at

the same rate of increase as we've seen over the last few years. At the same time, as a result of our production growth over the last couple of years, combined with the recovery in natural gas prices, we are seeing cashflows and earnings now growing at a faster rate, which can support greater dividends. Therefore, a dividend increase is warranted.

Ultimately the competition for capital is a healthy one that regulates the pace of growth to ensure it is profitable growth. And the balance of funds flow between cashflow/equity/debt coming in and capital/dividends going out is such that cost of capital is at a minimum, ensuring shareholder returns are at a maximum.

Activity Update and Commodity Prices

Despite the fact that Peyto is currently the number 3 driller in the province (4th in W. Canada), we still have only brought on production one well (50% working interest) since April 23.

Figure 3

Top Active Drillers In Canada

Operator	Active Rigs	0 - 950M	951 - 1850M	1851 - 2450M	2451 - 3050M	3051 - 3700M	3701 - 4600M	4601+M
Cenovus Energy Inc.	15	1	5	3	3	1	0	0
Canadian Natural Resources Limited	15	4	2	1	4	1	3	0
Husky Energy Inc.	14	5	3	2	4	0	0	0
Peyto Exploration & Development Corp.	10	0	0	0	0	1	7	2
Encana Corporation	10	0	0	0	0	0	2	8
Crescent Point Energy Corp.	9	0	5	2	0	0	0	0
Royal Dutch Shell plc	9	0	0	0	0	0	1	7
Baytex Energy Corp.	7	1	0	4	0	0	0	0
Bonavista Energy Corporation	6	0	1	0	0	1	3	1
Pengrowth Energy Corporation	6	0	1	0	0	2	2	0
Tourmaline Oil Corp.	6	0	0	0	0	0	2	4

Both pad drilling and wet weather have created the largest gap between wells coming on stream that we've experienced over the last couple of years. That, combined with some unplanned outages with power and transportation providers, has lead to a drop in production lately which will soon be reversed when we start tying in the backlog of more than 15 drilled wells we have waiting.

Figure 4

