

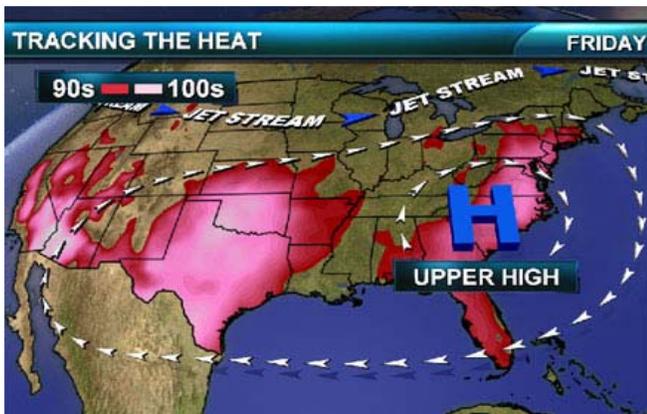
Peyto Exploration & Development Corp.

President's Monthly Report

August 2011

From the desk of Darren Gee, President & CEO

Being in the natural gas business in North America means being a part time weatherman; or at least paying very close attention to how the weather affects both the supply and consumption of natural gas on this continent. We've definitely had our fair share of mixed weather in 2011. From the cold, snowy winter, to a wet or fiery spring (depending on your locale), to a hot as blazes summer. Unfortunately, the hot as blazes summer missed me at the lake in the southern Okanagan these past few weeks, but it is definitely breaking records across much of the US and boosting natural gas consumption for electricity to run all those air conditioners.



We sure could use a bit of heat to dry the ground across the Canadian Prairies or even in our neck of the woods in front of the Alberta foothills. Too much rain and too many wind storms have started to cause a few too many delays to our completion schedule and that has put a little more gas "behind pipe" than we would like. Hopefully August will allow us to dry up and catch up.

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	Q4 '10	Q1 '11	Apr	May	Jun	Q2 '11
Land & Seismic	0	0	5	13	6	0	1	1	1
Drilling	31	18	34	57	51	13	10	9	32
Completions	16	10	13	26	33	8	4	5	18
Tie ins	8	4	10	9	7	2	1	1	5
Facilities	2	6	5	6	8	4	4	8	16
Drilling Credit Used	-3	-2	-4	0	0	-1	0	-2	-3
Sub Total	55	37	63	111	104	26	20	22	69
Rem. Drilling Credit	-5	0	2	-1	0	0	0	0	0
Total	50	37	64	110	104	26	20	22	69

* 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	Q4 '10	Q1 '11	Apr	May	June	Q2 '11	Jul	Aug	Sept
Sundance	16.5	18.5	20.1	24.6	28.0	29.9	29.9	31.0	30.2	31.2		
Kakasi	2.8	2.7	2.6	2.6	2.6	3.6	3.3	2.9	3.2	2.9		
Other	1.3	1.1	1.0	1.1	1.1	1.1	1.1	1.0	1.1	1.0		
Total	20.6	22.3	23.8	28.2	31.7	34.6	34.2	34.9	34.4	35.1		

* 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 "Fracking" Truth

Hydraulic fracturing is the process of initiating and extending a fracture in a layer of rock using fluid pumped at high pressure. The fluid is often mixed with sand or some similar material to hold the fracture open after the pressure is removed, thus allowing greater volumes of fluid to flow from the reservoir into the wellbore.

In October of 2009, when Peyto began using horizontal multi-stage fracture technology to develop its Deep Basin, tight gas, sandstone reservoirs, I wrote a monthly piece about how both of these two technologies, horizontal wells and multi-stage fracture stimulations, had evolved over time (<http://www.peyto.com/ia/pmr/20091005PMR.pdf>).

I wrote that "at Peyto, every well we drill (or have drilled) in our 12 year history) is hydraulically frac'd. That is because we focus exclusively on the tight gas sands in the Deep Basin. Over the years we have tried different fluids but have come to rely on water based gels as the most reliable and cost effective way to stimulate our reservoirs. Due to the depths and highly stressed reservoirs we're stimulating; we also rely on mostly man made ceramic proppants to hold our fractures open. Now, instead of large single fractures in vertical wellbores, we're placing multiple fracs along a horizontal wellbore and using one of several options to isolate or divert the various stages."

Since that time, there has been much ado about the use of fracture stimulations to unlock low quality reservoirs and fractured shale formations for gas production. The general public was unfamiliar with this longstanding technology, originally developed back in the '40s, and they have become suspicious of the potential environmental damage from reckless oilfield operators who are using it.

Reports of ground water contamination, deformed fish, dead cattle, earthquakes, burnable tap water, among others have made their way to the headlines of newspapers, magazines and even documentaries like that of "Gasland." Especially in the US, where hydraulic fracturing is exempted from the Safe Drinking Water Act of the EPA, "fracking" has touched off a wave of concern.

Peyto Exploration & Development Corp.

President's Monthly Report

August 2011

From the desk of Darren Gee, President & CEO

At Peyto, we take the issues surrounding fracture stimulations very seriously because we rely on them to develop our natural gas resource plays. Likewise, we also take a very responsible approach to the sourcing, use, transportation and disposal of water which is used in our fracturing operations.

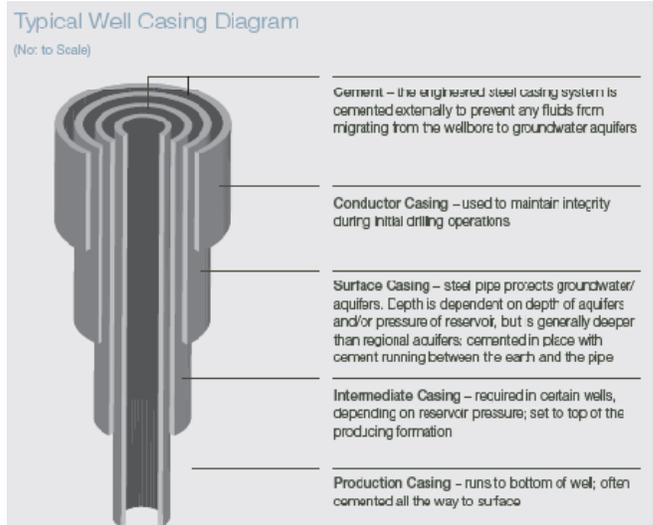
Not only does that mean employing safe and good oilfield practices in the drilling and completion operations, as well as complying with all provincial and federal regulations with respect to sustainable resource development, but also innovating to find processes that reduce our environmental footprint for every molecule of hydrocarbon we extract.

For instance, using horizontal wells to develop these reservoirs reduces the number of times we need to penetrate the ground and subsurface aquifers as well as reduces the surface footprint, as one horizontal well replaces up to four vertical wellbores. This reduces the risk of contamination.

And perhaps unlike many places making headlines in the US, Alberta has a longstanding oil and gas industry and over time has developed a world class regulatory body called the ERCB or Energy Resources Conservation Board that governs and enforces much of the oilfield's best practices. Peyto ensures that it meets or exceeds the requirements set forth by this and all other Provincial and Federal regulators with respect to its hydraulic fracturing operations and all of its other exploration and development activity.

When it comes to the technical specifics of our drilling and completion operations, Peyto uses concentric casing strings (long sections of steel pipe, Figure 1), securely cemented in place, to isolate the wellbore and production/fracturing operations from the various layers of dense rock through which the wellbore penetrates. These casing strings are pressure tested to ensure integrity and cemented to seal the casing to the formation and prevent any fluids from moving up or down the hole outside the casing. For the surface casing string, which seals across and protects any shallow aquifers of potable water, Alberta regulations require proof of this seal and a monitoring system is installed to ensure fluids (hydrocarbons or water) are not moving across this seal.

Typically, surface casing is set to approximately 1800' deep while the mapped aquifers in the area exist between 300' - 500' deep. Shallow drinking water aquifers, therefore, are protected because they exist far above the depth of the base of the surface casing and thousands of feet above the hydrocarbon producing zones.



*source: Encana

Not only are we being responsible in our protection of the fresh water systems in our areas of operations, it makes economic sense to do so because we use those same sources of fresh water. As I mentioned earlier, we frac with water based systems that require fresh water to make and we draw water from these same shallow aquifers that we endeavor to protect. Because we do so, we are constantly monitoring and analyzing the quality of the water, not only for our purposes but to ensure it remains uncontaminated for all others as well.

The water we draw is then stored in lined surface pits before being blended with chemicals and sand (manmade or natural) and pumped deep into the wellbore to fracture the gas bearing formations. Upon initial flowback, about 25-40% of the water is recovered and produced into flowback tanks, the rest of the water is slowly produced over the life of the well or remains permanently in the formation. This waste water contains traces of fracture fluid additives as well as any hydrocarbons that may have been picked up from the formation. This hazardous waste water is carefully trucked to certified disposal sites and disposed of in deep underground formations, often times even far below our producing formations. Although Peyto has yet to begin recycling the produced waste water, it is a process that we are currently evaluating.

There is not doubt that fracture stimulation technology is enabling operators to develop and produce hydrocarbons that were once unattainable. But that doesn't mean that it can't be done in a safe and responsible way that not only protects our environment but also perhaps our most precious of all resources; our water.