

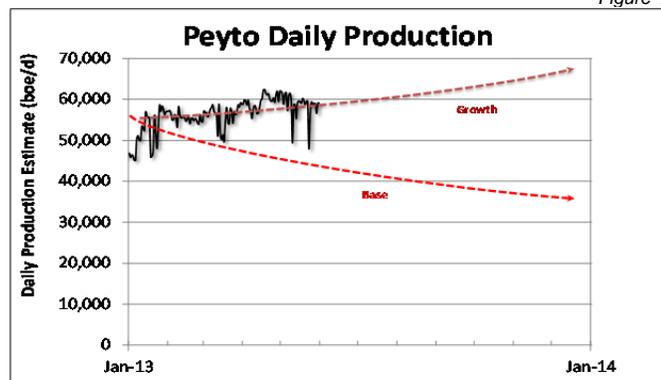
Peyto Exploration & Development Corp. President's Monthly Report

June 2013

From the desk of Darren Gee, President & CEO

Spring thunderstorms have put a dent in our new production growth, as lightening strikes and burned up power poles knocked down power to several of our gas plants. It resulted in approx. 2,500 boe/d of production being shut in over a 2 week period in May. These power outages cause unscheduled downtime at our plants which has the ripple effect of knocking down wells in the field. This then requires extra effort on the part of our field staff to get everything back up and running. This is part of the reason that generating your own power from natural gas has some appeal. Unfortunately, we're not quite to the point of disconnecting ourselves from the "grid"...yet. The spring rains have also prevented us from getting all 10 rigs going, but this too is temporary.

Figure 1



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\$ CND)*

	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			
Drilling	178	52	23	59	78	211	24	23	28	76	9			
Completions	104	31	14	35	47	127	9	16	16	41	9			
Tie ins	32	8	5	11	22	46	6	11	16	33	2			
Facilities	40	4	3	6	25	37	9	5	4	17	6			
Total	379	99	46	317	157	618	49	56	65	169	29			

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		
Kakwa	3.8	4.2	3.6	3.1	3.7	3.2	3.1	3.6	3.3	3.2	2.9		
Ansell	-	-	2.9	6.8	2.4	9.2	9.0	8.3	8.8	10.2	11.3		
Other	2.0	2.8	3.6	3.6	3.0	3.2	3.2	3.6	3.3	3.4	2.8		
Total	41.2	41.3	45.9	49.5	44.5	52.0	56.0	57.6	55.2	60.0	58.7		

*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.

RLI versus NAV

These days, it's all about resource plays. Shale gas resource plays, tight gas resources plays, LTO or light, tight oil resource plays, even oil sands resource plays. And everybody seems to have them, or at least claims to have them.

Us too. Peyto is a pure play, unconventional tight gas resource company. That's all we've ever done. So when you want to see the attributes of an unconventional, tight gas resource play, you need look no further than Peyto's corporate numbers. Reserve Life Index (RLI) is a good example of that. Peyto has always had one of the longest reserve lives of any E&P in the industry, especially when you look at it on a Proved Developed Producing (PDP) basis. (Really, that's how you should always look at it, so that you're comparing current production levels to currently producing reserves. Not current production to future potential reserves, because future reserves will have future production associated with them).

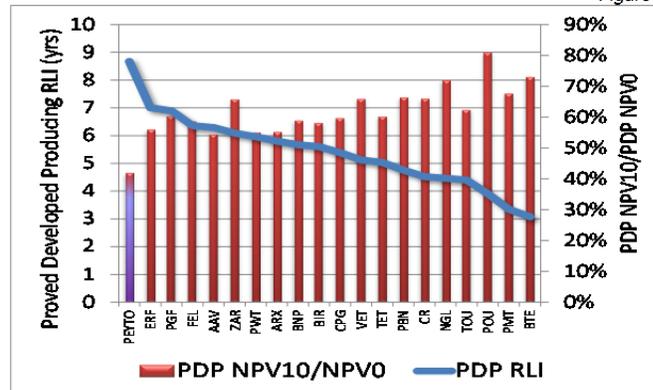
When you look at the net present value (NPV) of Peyto's producing reserves, which is the sum of all future estimated cashflows from those reserves, at various levels of discounting, that long producing life is evident, as higher discount rates (5%, 8%, 10%, etc.) wipe out more and more NPV. That is why it's important for developers of long life assets to have low cost of capital or discount rates (but that's a topic for another time). See Table 1 as illustration.

Table 1

Peyto	RLI (yrs)	BT NPV0 (\$MM)	BT NPV5 (\$MM)	BT NPV10 (\$MM)
PDP	9	\$ 4,767	\$ 2,806	\$ 1,998
TP	15	\$ 7,531	\$ 4,166	\$ 2,722
P+P	22	\$ 11,022	\$ 5,732	\$ 3,580

Alternatively, short reserve life assets are not as sensitive to higher levels of discounting because they are produced sooner.

Figure 2



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President's Monthly Report

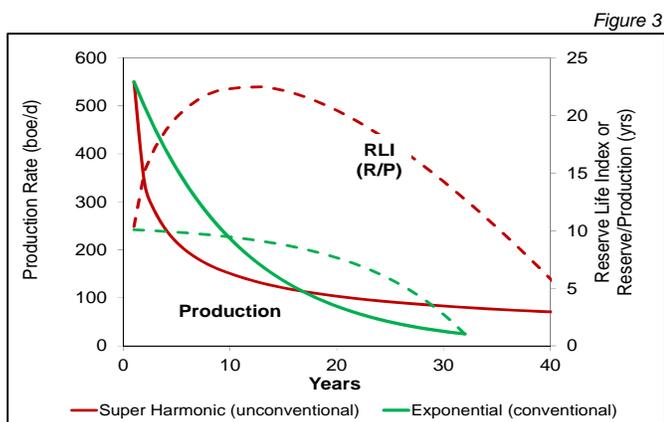
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Figure 2 shows the PDP RLI for a cross section of the industry. It also shows the ratio of PDP NPV10 to PDP NPV0, which illustrates how much future value is discounted away using a 10% discount rate versus an undiscounted case. In Peyto's case a 10% discount rate wipes out almost 60% of the undiscounted future value.

This correlation isn't necessarily earth shattering, as anyone who understands time value of money will tell you. But to me, what is interesting, is that many of the companies with short reserve lives (and therefore NPVs less sensitive to discount rates) profess to have assets in lower permeability, longer reserve life, resource plays, just like Peyto. So why doesn't it show up in their corporate reserves evaluation and RLI? Is it because those reserves are not material to the corporate total? Or are the majority of their producing reserves shorter life, either because they can water out at any time or are older more mature wells, later in their producing lives? Or is it because they have just not properly characterized the producing profiles of their resource plays as having steep initial declines followed by long, slow decline tails? Maybe it's because showing higher NPVs rather than longer reserve life is more important to them?

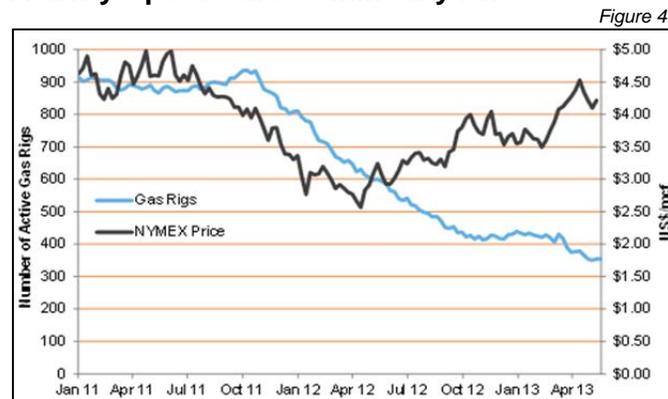
Figure 3 shows the producing profile and RLI, or remaining reserve to production ratio, for both a conventional (high permeability, shorter reserve life) well and an unconventional (low permeability, longer reserve life) well. The first has an exponential decline while the latter has a more harmonic decline profile. Recall, Peyto's entire Deep Basin reserve base is of the latter kind. The RLI's are quite different too. The conventional well has a corresponding RLI that decreases from the start of its life. While the unconventional well has a RLI that actually increases for some time before dropping.



What this analysis shows you, is that if a company has unconventional tight gas resource play style reserves, it should have a long PDP reserve life. If it doesn't have a long

RLI, then one of two things is happening. Either the forecasted production profiles are not representing actual declines, which makes the discounted NPVs look larger than they really are, or the company doesn't really have a large percentage of these types of reserves on production. Because you can't have both. Either way, investors should be wary about the accuracy of the discounted NPVs.

Activity Update and Commodity Prices



Source: Altacorp

Altacorp posted a commentary the other morning showing US gas directed rigs vs NYMEX price. It is interesting to see that despite the gas price recovery, US gas rigs haven't picked up. Either because the price isn't high enough to drag rigs away from the oil plays that exhibit better economics or because the US doesn't seem to need as many rigs to maintain current production levels. The answer is probably both.

There are still some reports of a significant backlog in completions in the Marcellus and reports of wells originally only being frac'd with one or two stages and so new production can be added without drilling new wells. Eventually this will run out and more drilling will be required.

Thankfully for us, the US NE is the only place where natural gas volumes are growing. And while that might hold US production at this current level, it doesn't do much to supply the Western side of the continent or offset declines there. This shows up in a canvas of North American regional natural gas prices. The Niagara region, which historically had the highest prices for natural gas, with the least local production and most consumption, now has the lowest prices in North America.

Out West, the US consumption is still strong but the local production has not been growing as rapidly, leaving room for Western Canadian imports to the US. Plus, Mexico has been drawing gas out of the SW US, reducing supply for California, who are now paying some of the highest regional prices in North America.