

Peyto Exploration & Development Corp.

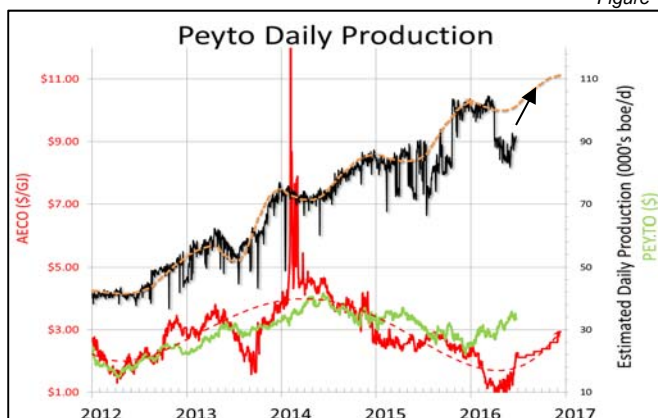
President's Monthly Report

July 2016

From the desk of Darren Gee, President & CEO

Just like that, AECO natural gas prices have shot up over \$2/GJ. In response, we have started opening up the valves to bring on production all the new drilling we've been stock-piling this year. It will likely take a couple of weeks but we should be back up to full capability sooner than previously forecast, while all the hedges we put in place for this coming winter might just be moot. The latest fixed price swaps we've done for this winter are priced at \$3/GJ, while our average winter hedges have just drifted out of the money. Not a bad problem to have.

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)*

	2014	Q1	Q2	Q3	Q4	2015	Jan	Feb	Mar	Q1	Apr	May
Acq.	0.3	3	0	-6	0	-3	0	10	18	28	0	0
Land & Seismic	21.3	4	1	4	2	12	3	0	1	4	1	0
Drilling	310.8	70	59	88	71	287	24	23	16	63	8	7
Completions	183.1	43	33	44	54	173	9	13	11	33	2	0
Tie ins	51.3	7	11	15	16	49	4	4	4	12	0	1
Facilities	122.2	12	12	32	20	76	16	13	9	37	3	2
Total	690	138	117	177	163	594	56	62	57	176	14	10

Production*

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

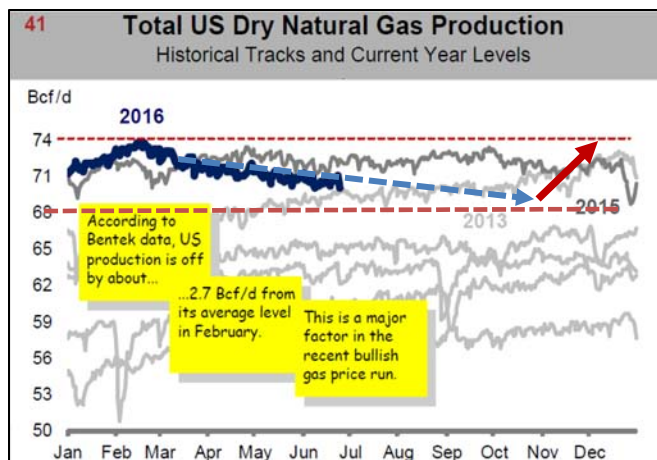
	Q1 15	Q2 15	Q3 15	Q4 15	2015	Jan	Feb	Mar	Q1 16	Apr	May	June	Q2 16
Sundance	56.5	57.1	58.2	62.9	58.7	61.3	61.2	60.1	60.9	54.9	54.0	54.1	54.3
Ansell	16.8	15.4	12.6	21.2	16.5	24.1	23.7	25.8	24.6	20.5	19.1	20.1	19.9
Brazeau	4.3	6.4	6.8	8.9	6.6	11.3	12.7	12.6	12.2	11.2	9.5	11.4	10.7
Kakwa	2.2	2.1	1.9	2.1	2.1	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Other	1.7	1.6	1.5	1.7	1.6	1.7	1.8	1.5	1.7	0.6	1.2	1.7	1.2
Total	81.6	82.6	81.1	96.8	85.5	100.5	101.6	102.2	101.4	89.4	86.0	89.5	88.3
Deferral										17.1	19.9	15.1	17.4

*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.

Downside to Pad Drilling

Pad drilling, and its economic benefits, has become the norm in the development of gas resource plays these days. So much so, that some believe the recent decline in US natural gas production will take more time to arrest than others think. That's because building incremental gas production utilizing pad drilling can delay on-stream times by up to 9 months before all the wells on a pad can be drilled, completed and equipped for production. So if US gas production continues to decline on its current trajectory (see Fig. 2), by November there could be as much as a 6 BCF/d gap between production and consumption levels required for next winter. And since US demand hasn't shrunk from the 74-75 BCF/d level, if a supply response then takes a while due to pad drilling delays, gas prices, in the short term, will naturally go up.

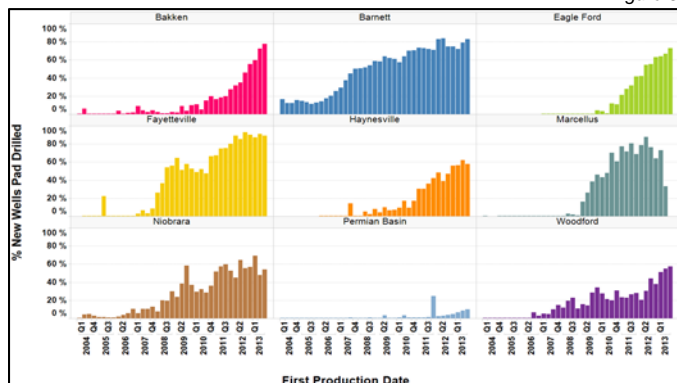
Figure 2



Source: ARC Financial

The only research I could find (Fig. 3) on the frequency of pad drilling was dated in 2013 but it showed that most US shale plays are, or at least were, dominated with pad drilling.

Figure 3



Source: <http://info.drillinginfo.com/launch-pad-rise-pad-drilling/>

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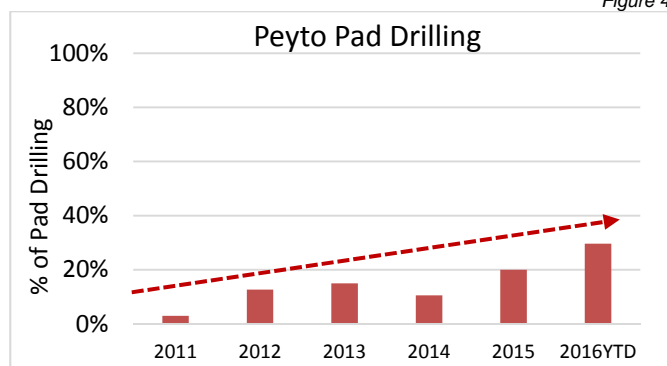
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The only one that wasn't was the Permian in Texas. That would suggest that in most US shale gas plays, in order to maintain their cost efficiency, they will indeed take longer to ramp up production than before.

At Peyto, our frequency of true pad drilling has increased as well, although not nearly to the extent of some of the US shale plays (Fig. 4), mostly to try and use as much of the existing surface infrastructure (roads, pipelines, facilities, etc.) as possible. This year, over 30% of our drilling will be on multi-well pad sites involving skidding the rig over (yields max savings).

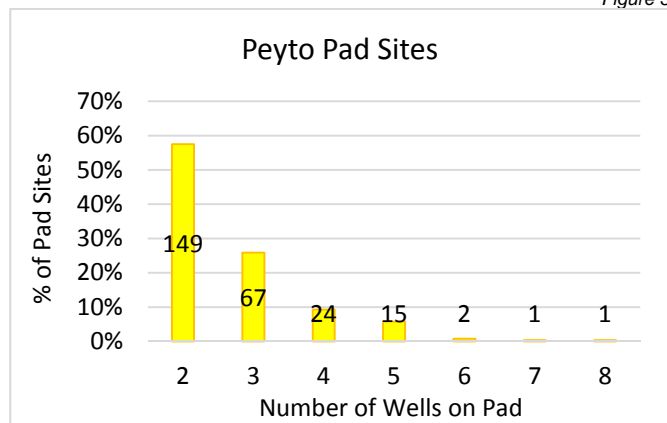
Figure 4



Source: Peyto

Of course not all pads are consecutive wells or have the same number of wells on them (see Fig. 5). To date, we have two pads that have seven or more wellbores, two that have six, 15 that have five, 24 that are four wells pads, 67 are three well pads and 149 sites that have two wells on them. The remaining 629 wellsites have single wellbores on them, as many of these are the original vertical wells we drilled.

Figure 5



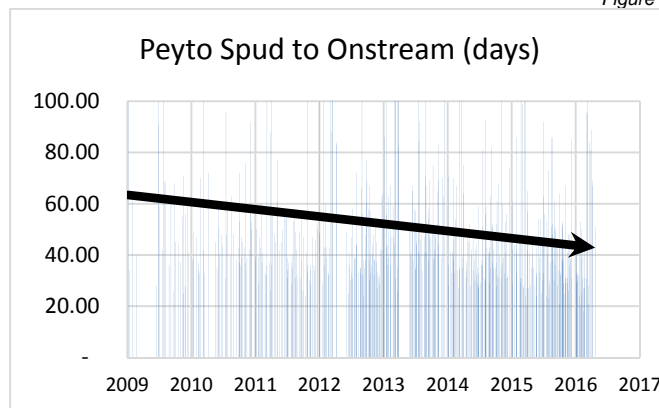
Source: Peyto

Every time we stack another well on an existing site, we can save up to \$300,000 in rig move, construction costs, completion synergies, wellsite equipment and pipelines. Not to

mention, every time we re-use the same site, we eliminate the need to clear up to 2 acres of new area. Usually our wellsites are on pre-existing cut block but sometimes it means clearing existing trees. Regardless, flattening out the dirt costs money, both now and at the end of the life of the well when we put it back to the way we found it.

Interestingly, even though we're saving on each multi-well site, our time from spud to bringing a well onstream has continued to shrink, opposite the majority of the industry. The recent trend is approximately 40 days (Fig. 6).

Figure 6

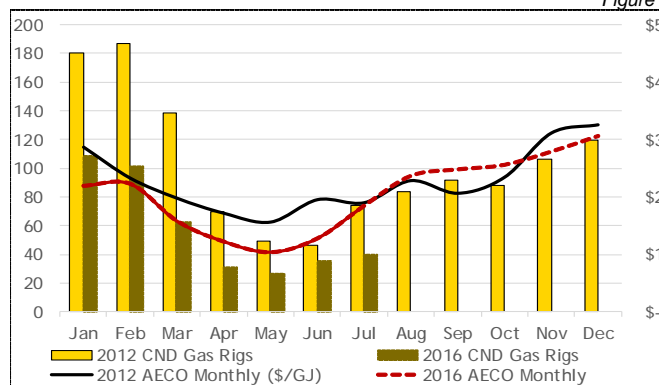


Source: HIS

So maybe that means we get to have our cake and eat it too, with cheaper development costs and pad efficiencies combined with quicker onstream times. I shouldn't be surprised, that's usually the Peyto way.

Activity Levels and Commodity Prices

Figure 7



Source: CIBC, Baker Hughes

We expected this year to be much like 2012, except the difference would be less liquids revenue and hedging to fund gas drilling efforts. It appears we're correct with gas prices mostly tracking but rig count down from 2012 levels (Fig. 7).