

Peyto Exploration & Development Corp.

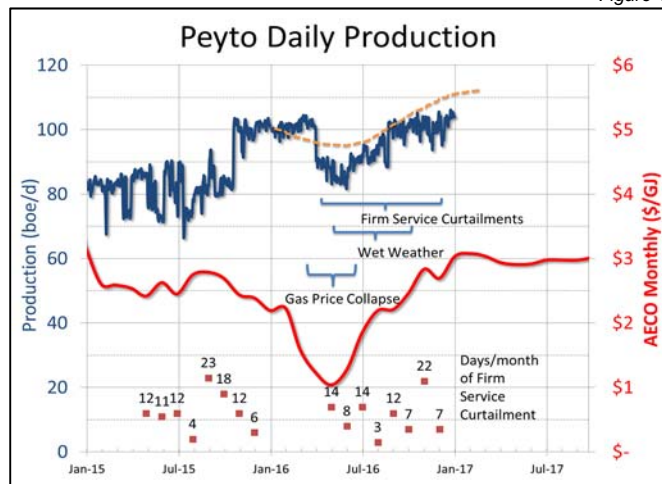
President's Monthly Report

January 2017

From the desk of Darren Gee, President & CEO

So that's the end of 2016. It will go down in my books as **The Year Interrupted**. Our well laid plans at the start of 2016 were interrupted by a collapse in the natural gas price, followed by a wet summer, regulatory delays, and then problems with take away capacity on TCPL. I suspect a couple of those obstacles may be the new normal, so we have now devised a plan to work around them as best we can going forward.

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	Q2 16	Jul	Aug	Sep	Q3 16	Oct	Nov
Acq.	3	0	-6	0	-3	28	0	0	4	1	5	0	0
Land & Seismic	4	1	4	2	12	4	1	0	0	1	1	1	3
Drilling	70	59	88	71	287	63	30	20	21	23	64	26	24
Completions	43	33	44	54	173	33	8	5	11	11	27	10	13
Tie ins	7	11	15	16	49	12	3	4	6	3	13	4	5
Facilities	12	12	32	20	76	37	9	1	1	1	4	2	4
Total	138	117	177	163	594	176	50	30	43	40	114	43	49

Production*

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

	Q1 15	Q2 15	Q3 15	Q4 15	2015	Q1 16	Q2 16	Q3 16	Oct	Nov	Dec	Q4 16	2016
Sundance	57	57	58	63	59	61	54	58	61	59	59	59	58
Ansell	17	15	13	21	17	25	20	21	22	21	22	22	22
Brazeau	4	6	7	9	7	12	11	14	16	17	19	17	14
Kakwa	2	2	2	2	2	2	2	2	2	2	2	2	2
Other	2	2	2	2	2	2	1	1	1	2	1	1	1
Total	82	83	81	97	86	101	88	96	102	100	103	102	97
Deferral							17	6					

*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.

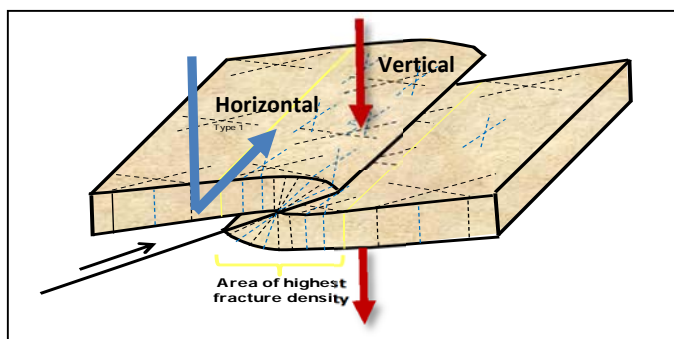
When Everything Old Is New Again

More than just a jazz tune from the 70's, what's old is now new might just be the theme for 2017. Our current drilling plan calls for more than 10% to be conducted using good ol' fashioned vertical wells, something we haven't done for many years now. Although really, it shouldn't matter what methods you deploy to generate your return, be they the old tried and true methods of yesterday or the new technologies of today. The point is that you make money with whatever techniques you use – the goal of any successful business.

Recall, the first decade of drilling for Peyto was using traditional vertical wells in the Deep Basin combined with traditional fracturing techniques to unlock the tight gas resources. Over that first decade or so (1999-2009) we drilled a total of 650 verticals wells with completions in 9 different sandstone formations from the Cardium at 2200 m true vertical depth (TVD) to the Cadomin at 3200 m TVD.

One of the plays responsible for a significant amount of the vertical drilling was the Faulted Cardium play, which involved a tight sandstone matrix feeding a system of natural fractures associated with a normal fault. This fault was visible using 3-D seismic and so bottom-hole targets were positioned to drill vertically, directly through the fault causing a repeat of the sand in the wellbore (Figure 2). Both sands in the wellbore were fracture stimulated enhancing the productivity and improving recovery around the wellbore. This configuration is much harder to develop with horizontal wells as you tend to leave one of the layers of sand untapped.

Figure 2



During Peyto's first five years of operations in the Greater Sundance Area of the Deep Basin, we drilled a total of 37 faulted Cardium wells and generated some very nice returns on shareholder's capital. Recall, the Cardium formation is the most liquids rich formation in the stack of Cretaceous sandstone resource plays (40-200 bbl/mmcf).

Now, down in our new Brazeau area, we're getting set to do it all over again. Looking at the first couple of faulted Cardium

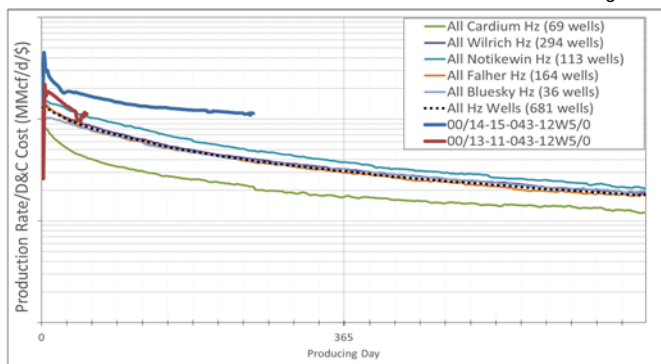
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wells (14-15 & 13-11) as an example, and normalizing for cost (in this case dividing productivity by drilling and completion costs to get a sense of the capital effect), we can see how they stack up against the other formations we've been developing with horizontal wells, also normalized for D&C cost (see Fig.3).

Figure 3

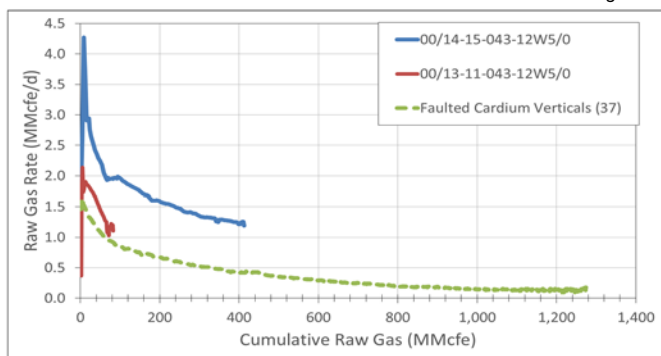


Source: Peyto

You can also see that out of all the zones drilled horizontally, the Notikewin has the highest productivity per dollar of capital, while the Cardium horizontal wells have the lowest. The Bluesky, Wilrich and Falher all tend to fall on the average. Meanwhile the two vertical faulted Cardium wells in Brazeau are above even the Notikewin. While it's still early days, it's clearly very encouraging.

When we go back and compare them to the original Cardium faulted wells that we drilled in the Greater Sundance Area, (granted they were drilled at a different time in the industry) we see that the most recent Brazeau Cardium wells stack up nicely (Figure 4). Again, this is very early days, with just two wells on production in Brazeau. But I would argue we have more experience than almost anyone in the industry picking out and executing on these kinds of opportunities, so we definitely know what it takes to be successful in this type of play.

Figure 4



Source: Peyto

With almost 100 locations currently identified and I suspect lots more to come, I am reminded of the immortal lyrics of Peter Allen's jazzy tune,

*"Don't throw the past away,
You might need it some rainy day,
Dreams can come true again
When everything old is new again."*

And it's always nice to start off the New Year with the excitement of anticipation that a new play brings.

Activity Levels and Commodity Prices

The ol' bones of the Canadian farmers are creaking right about now as winter starts to really set in across the prairies. With the current exchange rate as it is, not as many can escape to warmer climates south of the border. Not that there are many places to escape to anyway. The Farmer's Almanac predicts a rather frosty winter for most of North America which, if true, should be good for gas prices.

Figure 5



Source: www.farmersalmanac.com

Prior to the Christmas break, natural gas directed rig activity had picked up significantly, anticipating the gas price increase, with Canadian gas rigs peaking at 116, almost as many as the 132 in the US. It will take a lot more drilling than that though, to arrest the declining production in North America.