



# Peyto Exploration & Development Corp.

## President's Monthly Report

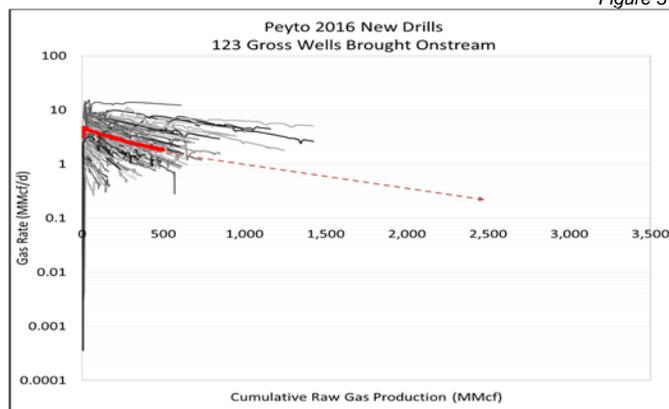
February 2017

From the desk of Darren Gee, President & CEO

The extreme pitfall, of course, is when you extrapolate these top-well, type economics over a larger un-risked total inventory, you arrive at a fictitious total NAV that will never agree with reported financial performance.

Contrast that with what we at Peyto can really do with \$10 million. In 2016, our **average** well, including both big successes, average wells and operational failures, cost \$3.0 million to drill, complete, equip and tie in (half cycle, like those \$10MM wells). So we can drill 3.3 wells for \$10 million. And according to figure 3 below, our average IP30 and EUR for 2016 are around 4.0 mmcf/d and 3.1 BCFe. So by comparison, our \$10 million well equivalent has an IP30 of 13 mmcf/d and an EUR of 10 BCFe. More importantly, combined with Peyto's industry leading cash costs, this capital is achieving an average IRR of approx. 25-30%, full cycle.

Figure 3



Source: Peyto

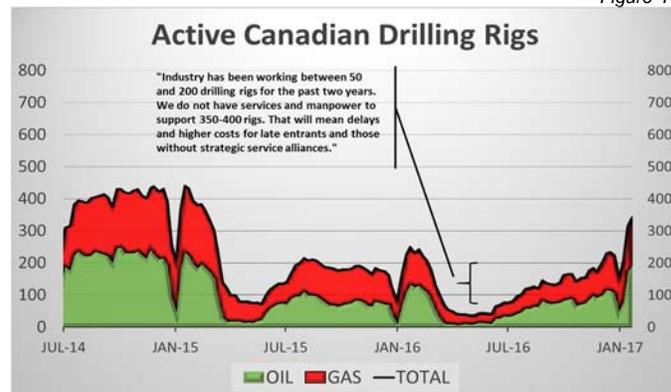
Some might argue that if it takes three wells to make one big well, and develop the same amount of resource, that's not as good. On the contrary, by attempting longer laterals, and more and bigger fracs it introduces more operational risk, more chance of failure, more cost runaways, more frac interference, etc. Besides, at the end of the day the goal is to generate the maximum profit (earnings) from every well drilled. If you generate no earnings, it's pretty hard to argue you generate any profit from your so-called big wells. So perhaps the best way to measure any well is to look at the earnings they generate over time. Which also means that a large inventory of wells that generate no earnings, isn't much of an inventory at all.

### Activity Levels and Commodity Prices

The number of active Canadian drilling rigs has sky rocketed lately, up to 350 from a low of just 36 last spring (figure 4). Unfortunately, support services like cementing and fracturing, which had been right-sized to an active rig fleet between 50 and 200 over the past two years, can't possibly keep up. This

has the potential to cause significant service cost inflation for those that do not have either fixed contracts or historical strategic alliances with their service providers. Thankfully, Peyto was a very active driller during the lows of the last couple years and established those alliances and contracts which will help mitigate this risk for the near future.

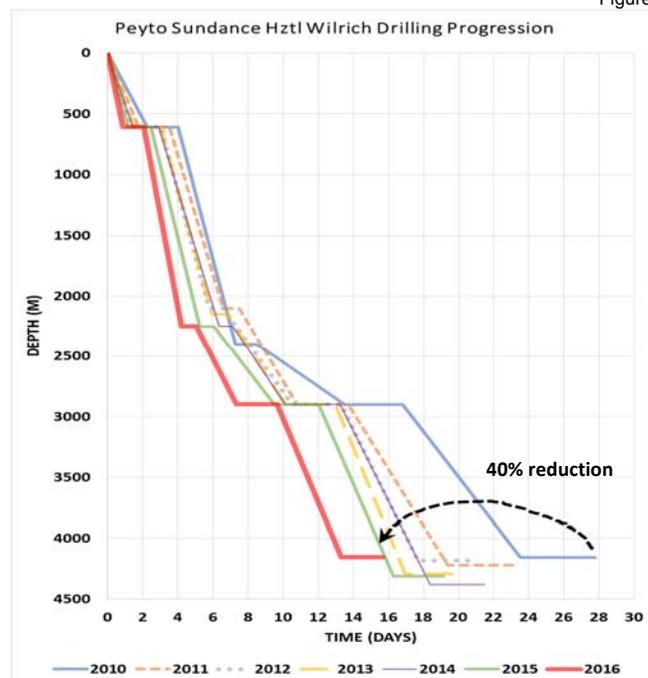
Figure 4



Source: Baker Hughes

We will be watching closely, however, to ensure we are not losing some of the operational gains we've made over the last 5 years with respect to drilling times. As you can see in Figure 5, we've shaved 40% off the drilling times from 2010 to 2016 and we want to hang on to those efficiencies and cost reductions.

Figure 5



Source: Peyto