



PEYTO

Exploration & Development Corp.

ANNUAL INFORMATION FORM

2010

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GLOSSARY OF TERMS

"**2003 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among PEDC, Peyto Acquisition Corp. and the Trust which was completed on July 1, 2003 and pursuant to which former holders of common shares of PEDC received Trust Units, and PEDC became an indirect subsidiary of the Trust;

"**2003 Trust Structure**" means the Trust's organizational structure following the completion of the 2003 Arrangement, whereby the Trust owned all the POT Securities directly and POT owned all PEDC securities directly;

"**2008 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among the Trust, its subsidiaries and Unitholders which was completed on January 1, 2008 pursuant to which the Internal Reorganization was completed;

"**2010 Arrangement**" means the arrangement under the provisions of section 193 of the ABCA among the Trust, POT, Peyto AdminCo, Peyto Partnership, PEDC, Peyto Exploration (2011) Ltd. and Unitholders which commenced on December 31, 2010 and was completed on January 1, 2011, and resulted in the reorganization of the Trust into a public, dividend paying, oil and gas development company that acquired all of the assets and assumed all of the liabilities of the Trust;

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B-9, as amended, including the regulations promulgated thereunder;

"**Common Shares**" means the common shares in the capital of Peyto;

"**Direct Royalties**" means royalty interests in petroleum and natural gas rights acquired by Peyto from time to time;

"**InSite**" means InSite Petroleum Consultants Ltd., independent oil and gas reservoir engineers of Calgary, Alberta;

"**InSite Report**" means the independent engineering evaluation of the Trust's oil, NGL and natural gas interests prepared by InSite dated February 15, 2011 and effective December 31, 2010, a summary of which is contained herein;

"**Internal Reorganization**" means the reorganization of the Trust's subsidiaries effective January 1, 2008, whereby all the oil and natural gas assets and liabilities of the PEDC entities were transferred to the Peyto Partnership;

"**NRF**" means the new royalty framework announced by the Alberta Government on October 25, 2007;

"**Oil and Natural Gas Properties**" or "**Properties**" means the working, royalty or other interests of Peyto, on a consolidated basis, from time to time in any petroleum and natural gas rights, tangibles and miscellaneous interests, including the properties in which Peyto, on a consolidated basis, has an interest as at the date hereof, and properties which may be acquired by Peyto, on a consolidated basis, at a future date, and including the Direct Royalties acquired by Peyto from time to time;

"**PEDC**" means Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA and a predecessor to Peyto;

"**Peyto**", the "**Corporation**" "**we**", "**us**" or "**our**" means Peyto Exploration & Development Corp., a corporation amalgamated under the ABCA on January 1, 2011 pursuant to the 2010 Arrangement, and where the context requires, also means our predecessor issuer, the Trust, and its controlled entities on a consolidated basis prior to the completion of the 2010 Arrangement;

"**Peyto AdminCo**" means Peyto Energy Administration Corp., a corporation incorporated under the ABCA;

"**Peyto Partnership**" or "**Partnership**" means Peyto Energy Limited Partnership, a limited partnership formed pursuant to the laws of the Province of Alberta;

"**POT**" means Peyto Operating Trust, a trust established under the laws of Alberta pursuant to the amended and restated trust indenture dated January 1, 2008 between Valiant Trust Company, the Trust and Peyto AdminCo;

"**POT Notes**" means the unsecured, subordinated promissory notes issuable by POT to the Trust in connection with the POT Transaction;

"**POT Securities**" means, collectively, the POT Notes and POT Units;

"**POT Transaction**" means the series of transactions that resulted in the 2003 Trust Structure;

"**POT Unit**" means a trust unit of POT;

"**Shareholders**" means holders of Common Shares;

"**Trust**" means Peyto Energy Trust, a trust established under the laws of Alberta and predecessor to Peyto. All references to the "Trust", unless the context otherwise requires, are references to Peyto Energy Trust, its predecessors, and its subsidiaries prior to completion of the 2010 Arrangement;

"**Trust Units**" means previously outstanding trust units of the Trust, each unit representing an equal undivided beneficial interest therein;

"**TSX**" means the Toronto Stock Exchange;

"**United States**" or "**U.S.**" means the United States of America; and

"**Unitholders**" means the former holders of the Trust Units.

Unless otherwise specified, information in this Annual Information Form is as at the end of the Corporation's most recently completed financial year, being December 31, 2010.

Words importing the singular number only include the plural, and vice versa, and words importing any gender include all genders.

All dollar amounts set forth in this Annual Information Form are in Canadian dollars, except where otherwise indicated.

ABBREVIATIONS

Oil and Natural Gas Liquids

bbls	barrels
Mbbls	thousand barrels
MMbbls	million barrels
NGLs	natural gas liquids
stb	stock tank barrels of oil
Mstb	thousand stock tank barrels of oil
MMboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls/d	barrels of oil per day

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
Bcf	billion cubic feet
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
m ³	cubic metres
MMbtu	million British Thermal Units
GJ	Gigajoule

Other

BOE or boe	means barrel of oil equivalent, using the conversion factor of 6 mcf of natural gas being equivalent to one bbl of oil. BOEs may be misleading, particularly if used in isolation. A BOE conversion ratio of 6 Mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
WTI	means West Texas Intermediate.
°API	means the measure of the density or gravity of liquid petroleum products derived from a specific gravity.
psi	means pounds per square inch.

CONVERSION

The following table sets forth certain conversions between Standard Imperial Units and the International System of Units (or metric units).

<u>To Convert From</u>	<u>To</u>	<u>Multiply By</u>
Mcf	cubic metres	28.174
cubic metres	cubic feet	35.494
bbls	cubic metres	0.159
cubic metres	bbls	6.289
feet	metres	0.305
metres	feet	3.281
miles	kilometres	1.609
kilometres	miles	0.621
acres	hectares	0.405
hectares	acres	2.471
gigajoules	mmbtu	0.950

NOTICE TO READER

YOU SHOULD NOT RELY ON FORWARD-LOOKING STATEMENTS BECAUSE THEY ARE INHERENTLY UNCERTAIN.

Certain statements contained in this Annual Information Form constitute forward-looking statements. These statements relate to future events or Peyto's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Peyto believes the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this Annual Information Form.

Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although Peyto believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because Peyto can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Peyto operates; the timely receipt of any required regulatory approvals; the ability of Peyto to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which Peyto has an interest in to operate the field in a safe, efficient and effective manner; the ability of Peyto to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisitions, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Peyto to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Peyto operates; and the ability of Peyto to successfully market its oil and natural gas products.

In particular, this Annual Information Form contains forward-looking statements pertaining to the following:

- the performance characteristics of the oil and natural gas assets of Peyto;
- oil and natural gas production levels;
- market prices for oil and natural gas;
- the size of Peyto's oil and natural gas reserves;
- projections of market prices and costs and the related sensitivities of dividends;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to reserves through exploration and development and, if applicable, acquisitions;
- treatment under governmental regulatory regimes;
- capital expenditures programs;
- the existence, operation and strategy of Peyto's commodity price risk management program;
- the approximate and maximum amount of forward sales and hedging to be employed by Peyto;
- the impact of Canadian federal and provincial governmental regulation on Peyto; and
- the goal to grow or sustain production and reserves through prudent exploration, management and acquisitions.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this Annual Information Form:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- risks and uncertainties associated with Peyto's oil and natural gas exploration and development program;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling and processing problems;

- fluctuations in foreign exchange or interest rates and stock market volatility;
- uncertainties associated with changes in legislation, including, but not limited to, changes in income tax laws and to oil and natural gas royalty frameworks; and
- the other factors discussed under "*Risk Factors*".

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on current estimates and assumptions, that the resources and reserves described can be profitably produced in the future. The foregoing lists of factors are not exhaustive. The forward-looking statements contained in this Annual Information Form are expressly qualified by this cautionary statement. Peyto does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by securities law.

PEYTO EXPLORATION & DEVELOPMENT CORP.

General

Peyto is a growth oriented, dividend paying, public oil and gas exploration and development company which owns and assumed, directly or indirectly, all of the assets and liabilities, respectively, of the Trust pursuant to the 2010 Arrangement. Peyto is actively engaged in the exploration for, and the acquisition, development and production of, oil and natural gas primarily in the Province of Alberta. The head and principal office of Peyto is located at Suite 1500, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1.

The Common Shares trade on the TSX under the symbol "PEY".

Inter-Corporate Relationships

Following completion of the 2010 Arrangement, Peyto does not have any subsidiaries.

GENERAL DEVELOPMENT OF THE BUSINESS

General

Peyto is a Calgary, Alberta based energy company engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada since it was founded in 1998. Peyto's strategy is to enhance Shareholder value through the exploration, discovery and low cost development of oil and natural gas in the Western Canadian sedimentary basin. Peyto's portfolio of assets includes exploration, exploitation and development opportunities located primarily in the Deep Basin of Alberta. Management's current philosophy is to fund Peyto's growth and ongoing activities from a mix of internally generated cash flow, bank financing and equity financings.

2003 Reorganization to a Trust

The Trust was formed on May 22, 2003 and commenced operations on July 1, 2003 as a result of the completion of the 2003 Arrangement. Pursuant to the 2003 Arrangement, former holders of common shares of PEDC received Trust Units, and PEDC became an indirect subsidiary of the Trust.

2008 Internal Reorganization

On January 1, 2008, the Trust completed the 2008 Arrangement. As a result of the Internal Reorganization, all of the oil and gas assets of the Trust were held in the Peyto Partnership, Peyto AdminCo was the administrator of the Trust and POT and PEDC was the general partner of the Partnership prior to completion of the 2010 Arrangement. Certain subsidiaries of the Trust were amalgamated pursuant to the Internal Reorganization.

2010 Reorganization to a Corporation

On January 1, 2011, the Corporation completed the 2010 Arrangement pursuant to which Peyto, directly or indirectly, acquired all of the assets and assumed all of the liabilities, respectively, of the Trust. Prior to completion of the 2010 Arrangement, the Trust was a reporting issuer in all provinces of Canada and the Trust Units were listed for trading on the TSX. Following completion of the 2010 Arrangement, the Common Shares were listed for trading on the TSX concurrent with the delisting of the Trust Units, the Trust ceased to be a reporting issuer and Peyto became a reporting issuer as successor to the Trust in those jurisdictions in which the Trust was previously a reporting issuer.

Pursuant to the terms of the 2010 Arrangement, Unitholders received one Common Share for each one Trust Unit held. Unitholders received an aggregate of 131,875,382 Common Shares in exchange for all of the outstanding Trust Units.

Background of Peyto

The following is a summary of the business operations of Peyto for the periods shown.

2008

During 2008, the Trust drilled or participated in 53 gross (41 net) oil and natural gas wells. Capital expenditures for 2008 totalled \$139 million. The average production for the year was 19,996 boe/d, the exit rate was 19,882 boe/d.

2009

During 2009, the Trust drilled or participated in 29 gross (26.1 net) oil and natural gas wells. Five of the gross oil and natural gas wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2009 totalled \$72.7 million (net of \$11.3 million in drilling royalty credits). The average production for the year was 18,481 boe/d, the exit rate was 19,688 boe/d.

2010

During 2010, the Trust drilled or participated in 52 gross (48 net) oil and natural gas wells. Of the 52 gross wells, 49 wells (46 net) reached total depth as at December 31, 2010. 45 of the gross oil and natural gas wells were drilled horizontally using multi-stage fracturing technology. Capital expenditures for 2010 totalled \$261.5 million (net of \$11.7 million in drilling royalty credits). The average production for the year was 23,728 boe/d, the exit rate was 30,616 boe/d.

SIGNIFICANT ACQUISITIONS

There were no significant acquisitions completed by the Corporation during its most recently completed financial year for which disclosure is required under Part 8 of National Instrument 51-102.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Peyto Exploration & Development Corp.

Peyto is a growth oriented, dividend paying, public oil and gas exploration and development company which owns and assumed, directly or indirectly, all of the assets and liabilities, respectively, of the Trust pursuant to the 2010 Arrangement. The head and principal office of Peyto is located at Suite 1500, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1.

Principal Properties

See "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties*".

INDUSTRY CONDITIONS

Issuers operating in the oil and natural gas industry are subject to extensive regulation and control of operations (including land tenure, exploration, development, production, refining, transportation, and marketing) as a result of legislation enacted by various levels of government and with respect to the pricing and taxation of oil and natural gas through agreements among the governments of Canada and Alberta, all of which should be carefully considered by investors in the oil and gas industry. It is not expected that any of these regulations or controls will affect Peyto's operations in a manner materially different than they will affect other oil and natural gas issuers of similar size. All current legislation is a matter of public record and Peyto is unable to predict what additional legislation or amendments may be enacted. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry.

Pricing and Marketing

Oil

The producers of oil are entitled to negotiate sales contracts directly with oil purchasers, with the result that the market determines the price of oil. Oil prices are primarily based on worldwide supply and demand. The specific price depends in part on oil

quality, prices of competing fuels, distance to market, the value of refined products, the supply/demand balance, and contractual terms of sale. Oil exporters are also entitled to enter into export contracts with terms not exceeding one year in the case of light crude oil and two years in the case of heavy crude oil, provided that an order approving such export has been obtained from the National Energy Board of Canada (the "NEB"). Any oil export to be made pursuant to a contract of longer duration (to a maximum of 25 years) requires an exporter to obtain an export licence from the NEB and the issuance of such a licence requires a public hearing and the approval of the Governor in Council.

Natural Gas

The price of the vast majority of natural gas produced in western Canada is now determined through highly liquid market hubs such as the Alberta "NIT" (Nova Inventory Transfer) hub rather than through direct negotiation between buyers and sellers. Natural gas exported from Canada is subject to regulation by the NEB and the Government of Canada. Exporters are free to negotiate prices and other terms with purchasers, provided that the export contracts must continue to meet certain other criteria prescribed by the NEB and the Government of Canada. Natural gas (other than propane, butane and ethane) exports for a term of less than two years or for a term of two to 20 years (in quantities of not more than 30,000 m³/day) must be made pursuant to an NEB order. Any natural gas export to be made pursuant to a contract of longer duration (to a maximum of 25 years) or for a larger quantity requires an exporter to obtain an export licence from the NEB and the issuance of such a licence requires a public hearing and the approval of the Governor in Council.

The government of Alberta also regulates the volume of natural gas that may be removed from the province for consumption elsewhere based on such factors as reserve availability, transportation arrangements, and market considerations.

Pipeline Capacity

As a result of pipeline expansions over the past several years, there is ample pipeline capacity to accommodate current production levels of oil and natural gas in western Canada and pipeline capacity does not generally limit the ability to produce and market such production.

The North American Free Trade Agreement

The North American Free Trade Agreement ("NAFTA") among the governments of Canada, the United States and Mexico became effective on January 1, 1994. NAFTA carries forward most of the material energy terms that are contained in the Canada United States Free Trade Agreement. In the context of energy resources, Canada continues to remain free to determine whether exports of energy resources to the United States or Mexico will be allowed, provided that any export restrictions do not: (i) reduce the proportion of energy resources exported relative to the total supply of goods of the party maintaining the restriction as compared to the proportion prevailing in the most recent 36 month period; (ii) impose an export price higher than the domestic price (subject to an exception with respect to certain measures which only restrict the volume of exports); and (iii) disrupt normal channels of supply. All three signatory countries are prohibited from imposing a minimum or maximum export price requirement in any circumstance where any other form of quantitative restriction is prohibited. The signatory countries are also prohibited from imposing a minimum or maximum import price requirement except as permitted in enforcement of countervailing and anti-dumping orders and undertakings.

NAFTA prohibits discriminatory border restrictions and export taxes. NAFTA also requires energy regulators to ensure the orderly and equitable implementation of any regulatory changes and to ensure that the application of those changes will cause minimal disruption to contractual arrangements and avoid undue interference with pricing, marketing and distribution arrangements, all of which are important for Canadian oil and natural gas exports.

Royalties and Incentives

General

In addition to federal regulation, each province has legislation and regulations which govern royalties, production rates and other matters. The royalty regime in a given province is a significant factor in the profitability of crude oil, natural gas liquids, sulphur and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiation between the mineral freehold owner and the lessee, although production from such lands is subject to certain provincial taxes and royalties. Royalties from production on Crown lands are determined by governmental regulation and are generally calculated as a percentage of the value of gross production. The rate of royalties payable generally depends in part on prescribed reference

prices, well productivity, geographical location, field discovery date, method of recovery and the type or quality of the petroleum product produced. Other royalties and royalty-like interests are, from time to time, carved out of the working interest owner's interest through non-public transactions. These are often referred to as overriding royalties, gross overriding royalties, net profits interests, or net carried interests.

Occasionally the governments of the western Canadian provinces create incentive programs for exploration and development. Such programs often provide for royalty rate reductions, royalty holidays or royalty tax credits and are generally introduced when commodity prices are low to encourage exploration and development activity by improving earnings and cash flow within the industry.

Alberta

Producers of oil and natural gas from Crown lands in Alberta are required to pay annual rental payments, currently at a rate of \$3.50 per hectare, and make monthly royalty payments in respect of oil and natural gas produced.

On October 25, 2007, the Government of Alberta released a report entitled "The New Royalty Framework" ("**NRF**") containing the Government's proposals for Alberta's new royalty regime which were subsequently implemented by the *Mines and Minerals (New Royalty Framework) Amendment Act, 2008*. The NRF took effect on January 1, 2009. On March 11, 2010, the Government of Alberta announced changes to Alberta's royalty system intended to increase Alberta's competitiveness in the upstream oil and natural gas sectors, which changes included a decrease in the maximum royalty rates for conventional oil and natural gas production effective for the January 2011 production month. Royalty curves incorporating the changes announced on March 11, 2010 were released on May 27, 2010. Alberta royalties in effect after December 31, 2010 are known as the "Alberta Royalty Framework" ("**ARF**").

With respect to conventional oil, the NRF eliminated the classification system used by the previous royalty structure which classified oil based on the date of discovery of the pool. Under the ARF, royalty rates for conventional oil are set by a single sliding rate formula which is applied monthly and incorporates separate variables to account for production rates and market prices. Royalty rates for conventional oil under the NRF ranged from 0-50%, an increase from the previous maximum rates of 30-35% depending on the vintage of the oil, and rate caps were set at \$120 per barrel. Effective January 1, 2011, the maximum royalty payable under the ARF was reduced to 40%. The royalty curve for conventional oil announced on May 27, 2010 amends the price component of the conventional oil royalty formula to moderate the increase in the royalty rate at prices higher than \$535/m³ compared to the previous royalty curve.

Royalty rates for natural gas under the ARF are similarly determined using a single sliding rate formula incorporating separate variables to account for production rates and market prices. Royalty rates for natural gas under the NRF ranged from 5-50%, an increase from the previous maximum rates of 5-35%, and rate caps were set at \$16.59/GJ. Effective January 1, 2011, the maximum royalty payable under the ARF was reduced to 36%. The royalty curve for natural gas announced on May 27, 2010 amends the price component of the natural gas royalty formula to moderate the increase in the royalty rate at prices higher than \$5.25/GJ compared to the previous royalty curve.

Oil sands projects are also subject to the ARF. Prior to payout, the royalty is payable on gross revenues of an oil sands project. Gross revenue royalty rates range between 1-9% depending on the market price of oil, determined using the average monthly price, expressed in Canadian dollars, for WTI crude oil and Cushing, Oklahoma: rates are 1% when the market price of oil is less than or equal to \$55 per barrel and increase for every dollar of market price of oil increase to a maximum of 9% when oil is priced at \$120 or higher. After payout, the royalty payable is the greater of the gross revenue royalty based on the gross revenue royalty rate of 1-9% and the net revenue royalty based on the net revenue royalty rate. Net revenue royalty rates start at 25% and increase for every dollar of market price of oil increase above \$55 up to 40% when oil is priced at \$120 or higher. An oil sands project reaches payout when its cumulative revenue exceeds its cumulative costs. Costs include specified allowed capital and operating costs related to the project plus a specified return allowance. As part of the implementation of the NRF, the Government of Alberta renegotiated existing contracts with certain oil sands producers that were not compatible with the NRF or the ARF.

Producers of oil and natural gas from freehold lands in Alberta are required to pay annual freehold production taxes. The level of the freehold production tax is based on the volume of monthly production and a specified rate of tax for both oil and gas.

In April 2005, the Government of Alberta implemented the Innovative Energy Technologies Program (the "**IETP**"), which has the stated objectives of increasing recovery from oil and gas deposits, finding technical solutions to the gas over bitumen issue, improving the recovery of bitumen by in-situ and mining techniques and improving the recovery of natural gas from coal seams.

The IETP is backed by a \$200 million funding commitment over a five-year period beginning April 1, 2005 and provides royalty adjustments to specific pilot and demonstration projects that utilize new or innovative technologies to increase recovery from existing reserves.

On April 10, 2008, the Government of Alberta introduced two new royalty programs to be implemented along with the NRF and intended to encourage the development of deeper, higher cost oil and gas reserves. A five-year program for conventional oil exploration wells over 2,000 metres provides qualifying wells with up to a \$1 million or 12 months of royalty relief, whichever comes first, and a five-year program for natural gas wells deeper than 2,500 metres provides a sliding scale royalty credit based on depth of up to \$3,750 per metre. On May 27, 2010, the natural gas deep drilling program was amended, retroactive to May 1, 2010, by reducing the minimum qualifying depth to 2,000 metres, removing a supplemental benefit of \$875,000 for wells exceeding 4,000 metres that are spudded subsequent to that date, and including wells drilled into pools drilled prior to 1985, among other changes.

On November 19, 2008, in response to the drop in commodity prices experienced during the second half of 2008, the Government of Alberta announced the introduction of a five-year program of transitional royalty rates with the intent of promoting new drilling. The 5-year transition option is designed to provide lower royalties at certain price levels in the initial years of a well's life when production rates are expected to be the highest. Under this new program, companies drilling new natural gas or conventional deep oil wells (between 1,000 and 3,500 m) are given a one-time option, on a well-by-well basis, to adopt either the new transitional royalty rates or those outlined in the NRF. Pursuant to the changes made to Alberta's royalty structure announced on March 11, 2010, producers were only able to elect to adopt the transitional royalty rates prior to January 1, 2011 and producers that had already elected to adopt such rates as of that date were permitted to switch to Alberta's conventional royalty structure up until February 15, 2011. On January 1, 2014, all producers operating under the transitional royalty rates will automatically become subject to the ARF. The revised royalty curves for conventional oil and natural gas will not be applied to production from wells operating under the transitional royalty rates.

On March 3, 2009, the Government of Alberta announced a three-point incentive program in order to stimulate new and continued economic activity in Alberta. The program introduced a drilling royalty credit for new conventional oil and natural gas wells and a new well royalty incentive program, both applying to conventional oil or natural gas wells drilled between April 1, 2009 and March 31, 2010. The drilling royalty credit provides up to a \$200 per metre royalty credit for new wells and is primarily expected to benefit smaller producers since the maximum credit available will be determined using the company's production level in 2008 and its drilling activity between April 1, 2009 and March 31, 2010, favouring smaller producers with lower activity levels. The new well incentive program initially applied to wells that began producing conventional oil or natural gas between April 1, 2009 and March 31, 2010 and provided for a maximum 5% royalty rate for the first 12 months of production on a maximum of 50,000 barrels of oil or 500 MMcf of natural gas. In June, 2009, the Government of Alberta announced the extension of these two incentive programs for one year to March 31, 2011. On March 11, 2010, the Government of Alberta announced that the incentive program rate of 5% for the first 12 months of production would be made permanent, with the same volume limitations.

In addition to the foregoing, on May 27, 2010, in conjunction with the release of the new royalty curves, the Government of Alberta announced a number of new initiatives intended to accelerate technological development and facilitate the development of unconventional resources (the "**Emerging Resource and Technologies Initiative**"). Specifically:

- Coalbed methane wells will receive a maximum royalty rate of 5% for 36 producing months on up to 750 MMcf of production, retroactive to wells that began producing on or after May 1, 2010;
- Shale gas wells will receive a maximum royalty rate of 5% for 36 producing months with no limitation on production volume, retroactive to wells that began producing on or after May 1, 2010;
- Horizontal gas wells will receive a maximum royalty rate of 5% for 18 producing months on up to 500 MMcf of production, retroactive to wells that commenced drilling on or after May 1, 2010;
- Horizontal oil wells and horizontal non-project oil sands wells will receive a maximum royalty rate of 5% with volume and production month limits set according to the depth of the well (including the horizontal distance), retroactive to wells that commenced drilling on or after May 1, 2010.

The Emerging Resource and Technologies Initiative will be reviewed in 2014, and the Government of Alberta has committed to providing industry with three years notice at that time if it decides to discontinue the program.

Land Tenure

Crude oil and natural gas located in the western provinces is owned predominantly by the respective provincial governments. Provincial governments grant rights to explore for and produce oil and natural gas pursuant to leases, licences, and permits for varying terms, and on conditions set forth in provincial legislation including requirements to perform specific work or make payments. Oil and natural gas located in such provinces can also be privately owned and rights to explore for and produce such oil and natural gas are granted by lease on such terms and conditions as may be negotiated.

The province of Alberta has implemented legislation providing for the reversion to the Crown of mineral rights to deep, non-productive geological formations at the conclusion of the primary term of a lease or license.

In Alberta, the NRF includes a policy of "shallow rights reversion" which provides for the reversion to the Crown of mineral rights to shallow, non-productive geological formations for all leases and licenses. For leases and licenses issued subsequent to January 1, 2009, shallow rights reversion will be applied at the conclusion of the primary term of the lease or license. Holders of leases or licences that have been continued indefinitely prior to January 1, 2009 will receive a notice regarding the reversion of the shallow rights, which will be implemented three years from the date of the notice. The order in which these agreements will receive the reversion notice will depend on their vintage and location, with the older leases and licenses receiving reversion notices first beginning in January 2011. Leases and licences that were granted prior to January 1, 2009 but continued after that date will not be subject to shallow rights reversion until they reach the end of their primary term and are continued (at which time deep rights reversion will be applied); thereafter, the holders of such agreements will be served with shallow rights reversion notices based on vintage and location similar to leases and licences that were already continued as of January 1, 2009.

Environmental Regulation

The oil and natural gas industry is currently subject to environmental regulations pursuant to a variety of provincial and federal legislation, all of which is subject to governmental review and revision from time to time. Such legislation provides for restrictions and prohibitions on the release or emission of various substances produced in association with certain oil and gas industry operations, such as sulphur dioxide and nitrous oxide. In addition, such legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of provincial authorities. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, and the imposition of material fines and penalties.

In December, 2008, the Government of Alberta released a new land use policy for surface land in Alberta, the Alberta Land Use Framework (the "ALUF"). The ALUF sets out an approach to manage public and private land use and natural resource development in a manner that is consistent with the long-term economic, environmental and social goals of the province. It calls for the development of region-specific land use plans in order to manage the combined impacts of existing and future land use within a specific region and the incorporation of a cumulative effects management approach into such plans. The *Alberta Land Stewardship Act* (the "ALSA") was proclaimed in force in Alberta on October 1, 2009, providing the legislative authority for the Government of Alberta to implement the policies contained in the ALUF. Regional plans established pursuant to the ALSA are deemed to be legislative instruments equivalent to regulations and are binding on the Government of Alberta and provincial regulators, including those governing the oil and gas industry. In the event of a conflict or inconsistency between a regional plan and another regulation, regulatory instrument or statutory consent, the regional plan will prevail. Further, the ALSA requires local governments, provincial departments, agencies and administrative bodies or tribunals to review their regulatory instruments and make any appropriate changes to ensure that they comply with an adopted regional plan. The ALSA also contemplates the amendment or extinguishment of previously issued statutory consents such as regulatory permits, licenses, approvals and authorizations for the purpose of achieving or maintaining an objective or policy resulting from the implementation of a regional plan. Among the measures to support the goals of the regional plans contained in the ALSA are conservation easements, which can be granted for the protection, conservation and enhancement of land; and conservation directives, which are explicit declarations contained in a regional plan to set aside specified lands in order to protect, conserve, manage and enhance the environment. Although no regional plans have been established under the ALSA, the planning process is underway for the Lower Athabasca Region (which contains the majority of oil sands development) and the South Saskatchewan Region. While the potential impact of the regional plans established under the ALSA cannot yet be determined, it is clear that such regional plans may have a significant impact on land use in Alberta and may affect the oil and gas industry.

Climate Change Regulation

Federal

In December 2002, the Government of Canada ratified the Kyoto Protocol ("**Kyoto Protocol**"), which requires a reduction in greenhouse gas ("**GHG**") emissions by signatory countries between 2008 and 2012. The Kyoto Protocol officially came into force on February 16, 2005 and commits Canada to reduce its GHG emissions levels to 6% below 1990 "business-as-usual" levels by 2012.

On February 14, 2007, the House of Commons passed Bill C-288, *An Act to ensure Canada meets its global climate change obligations under the Kyoto Protocol*. The resulting *Kyoto Protocol Implementation Act* came into force on June 22, 2007. Its stated purpose is to "ensure that Canada takes effective and timely action to meet its obligations under the Kyoto Protocol and help address the problem of global climate change." It requires the federal Minister of the Environment to, among other things, produce an annual climate change plan detailing the measures to be taken to ensure Canada meets its obligations under the Kyoto Protocol. It also authorizes the establishment of regulations respecting matters such as emissions limits, monitoring, trading and enforcement.

On April 26, 2007, the Government of Canada released "Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution" (the "**Action Plan**") which set forth a plan for regulations to address both GHGs and air pollution. An update to the Action Plan, "Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions" was released on March 10, 2008 (the "**Updated Action Plan**"). The Updated Action Plan outlines emissions intensity-based targets which will be applied to regulated sectors on either a facility-specific, sector-wide or company-by-company basis. Facility-specific targets apply to the upstream oil and gas, oil sands, petroleum refining and natural gas pipeline sectors. Unless a minimum regulatory threshold applies, all facilities within a regulated sector will be subject to the emissions intensity targets.

The Updated Action Plan makes a distinction between "Existing Facilities" and "New Facilities". For Existing Facilities, the Updated Action Plan requires an emissions intensity reduction of 18% below 2006 levels by 2010 followed by a continuous annual emissions intensity improvement of 2%. "New Facilities" are defined as facilities beginning operations in 2004 and include both greenfield facilities and major facility expansions that (i) result in a 25% or greater increase in a facility's physical capacity, or (ii) involve significant changes to the processes of the facility. New Facilities will be given a 3-year grace period during which no emissions intensity reductions will be required. Targets requiring an annual 2% emissions intensity reduction will begin to apply in the fourth year of commercial operation of a New Facility. Further, emissions intensity targets for New Facilities will be based on a cleaner fuel standard to encourage continuous emissions intensity reductions over time. The method of applying this cleaner fuel standard has not yet been determined. In addition, the Updated Action Plan indicates that targets for the adoption of carbon capture and storage ("**CCS**") technologies will be developed for oil sands in-situ facilities, upgraders and coal-fired power generators that begin operations in 2012 or later. These targets will become operational in 2018, although the exact nature of the targets has not yet been determined.

Given the large number of small facilities within the upstream oil and gas and natural gas pipeline sectors, facilities within these sectors will only be subject to emissions intensity targets if they meet certain minimum emissions thresholds. That threshold will be (i) 50,000 tonnes of CO₂ equivalents per facility per year for natural gas pipelines; (ii) 3,000 tonnes of CO₂ equivalents per facility per year for the upstream oil and gas facility; and (iii) 10,000 boe/d/company. These regulatory thresholds are significantly lower than the regulatory threshold in force in Alberta, discussed below. In all other sectors governed by the Updated Action Plan, all facilities will be subject to regulation.

Four separate compliance mechanisms are provided for in the Updated Action Plan in respect of the above targets: Regulated entities will be able to use Technology Fund contributions to meet their emissions intensity targets. The contribution rate for Technology Fund contributions will increase over time, beginning at \$15 per tonne of CO₂ equivalent for the 2010 to 2012 period, rising to \$20 in 2013, and thereafter increasing at the nominal rate of GDP growth. Maximum contribution limits will also decline from 70% in 2010 to 0% in 2018. Monies raised through contributions to the Technology Fund will be used to invest in technology to reduce GHG emissions. Alternatively, regulated entities may be able to receive credits for investing in large-scale and transformative projects at the same contribution rate and under similar requirements as described above.

The offset system is intended to encourage emissions reductions from activities outside of the regulated sphere, allowing non-regulated entities to participate in and benefit from emissions reduction activities. In order to generate offset credits, project proponents must propose and receive approval for emissions reduction activities that will be verified before offset credits will be

issued to the project proponent. Those credits can then be sold to regulated entities for use in compliance or non-regulated purchasers that wish to either purchase the offset credits for cancellation or banking for future use or sale.

Under the Updated Action Plan, regulated entities will also be able to purchase credits created through the Clean Development Mechanism of the Kyoto Protocol which facilitates investment by developed nations in emissions-reduction projects in developing countries. The purchase of such Emissions Reduction Credits will be restricted to 10% of each firm's regulatory obligation, with the added restriction that credits generated through forest sink projects will not be available for use in complying with the Canadian regulations.

Finally, a one-time credit of up to 15 million tonnes worth of emissions credits will be awarded to regulated entities for emissions reduction activities undertaken between 1992 and 2006. These credits will be both tradable and bankable.

The United Nations Framework Convention on Climate Change is working towards establishing a successor to the Kyoto Protocol. From December 7 to 18, 2009, a meeting between government leaders and representatives from approximately 170 countries in Copenhagen, Denmark (the "**Copenhagen Conference**") resulted in the Copenhagen Accord, which reinforces the commitment to reducing GHG emissions contained in the Kyoto Protocol and promises funding to help developing countries mitigate and adapt to climate change. From November 29 to December 10, 2010, a meeting between representatives from approximately 190 countries in Cancun, Mexico resulted in the Cancun Agreements, in which developed countries committed to additional measures to help developing countries deal with climate change. Unlike the Kyoto Protocol, however, neither the Copenhagen Accord nor the Cancun Agreements establish binding GHG emissions reduction targets.

In response to the Copenhagen Accord, the Government of Canada indicated on January 29, 2010 that it will seek to achieve a 17% reduction in GHG emissions from 2005 levels by 2020. This goal is similar to the goal expressed in previous policy documents which were discussed above.

Although draft regulations for the implementation of the Updated Action Plan were intended to be published in the fall of 2008 and become binding on January 1, 2010, no such regulations have been proposed to date. Further, representatives of the Government of Canada have indicated that the proposals contained in the Updated Action Plan will be modified to ensure consistency with the direction ultimately taken by the United States with respect to GHG emissions regulation. As a result, it is unclear to what extent, if any, the proposals contained in the Updated Action Plan will be implemented.

On December 23, 2010, the United States Environmental Protection Agency indicated its intention to impose GHG emissions standards for fossil fuel-fired power plants by July, 2011 and for refineries by December, 2011.

Alberta

Alberta enacted the *Climate Change and Emissions Management Act* (the "**CCEMA**") on December 4, 2003, amending it through the *Climate Change and Emissions Management Amendment Act* which received royal assent on November 4, 2008. The CCEMA is based on an emissions intensity approach similar to the Updated Action Plan and aims for a 50% reduction from 1990 emissions relative to GDP by 2020.

Alberta facilities emitting more than 100,000 tonnes of GHGs a year are subject to compliance with the CCEMA. Similar to the Updated Action Plan, the CCEMA and the associated *Specified Gas Emitters Regulation* make a distinction between "Established Facilities" and "New Facilities". Established Facilities are defined as facilities that completed their first year of commercial operation prior to January 1, 2000 or that have completed eight or more years of commercial operation. Established Facilities are required to reduce their emissions intensity to 88% of their baseline for 2008 and subsequent years, with their baseline being established by the average of the ratio of the total annual emissions to production for the years 2003 to 2005. New Facilities are defined as facilities that completed their first year of commercial operation on December 31, 2000, or a subsequent year, and have completed less than eight years of commercial operation, or are designated as New Facilities in accordance with the *Specified Gas Emitters Regulation*. New Facilities are required to reduce their emissions intensity by 2% from baseline in the fourth year of commercial operation, 4% of baseline in the fifth year, 6% of baseline in the sixth year, 8% of baseline in the seventh year, and 10% of baseline in the eighth year. Unlike the Updated Action Plan, the CCEMA does not contain any provision for continuous annual improvements in emissions intensity reductions beyond those stated above.

The CCEMA contains compliance mechanisms that are similar to the Updated Action Plan. Regulated emitters can meet their emissions intensity targets by contributing to the Climate Change and Emissions Management Fund (the "**Fund**") at a rate of \$15 per tonne of CO₂ equivalent. Unlike the Updated Action Plan, CCEMA contains no provisions for an increase to this contribution

rate. Emissions credits can be purchased from regulated emitters that have reduced their emissions below the 100,000 tonne threshold or non-regulated emitters that have generated emissions offsets through activities that result in emissions reductions in accordance with established protocols published by the Government of Alberta. Unlike the Updated Action Plan, the CCEMA does not contemplate a linkage to external compliance mechanisms such as the Kyoto Protocol's Clean Development Mechanism.

On December 2, 2010, the Government of Alberta passed the *Carbon Capture and Storage Statutes Amendment Act, 2010*, which deemed the pore space underlying all land in Alberta to be, and to have always been, the property of the Crown and provided for the assumption of long-term liability for carbon sequestration projects by the Crown, subject to the satisfaction of certain conditions.

STATEMENT OF RESERVES DATA AND OTHER OIL AND GAS INFORMATION

The statement of reserves data and other oil and gas information set forth below (the "**Statement**") is dated February 15, 2011. The effective date of the Statement is December 31, 2010 and the preparation date of the Statement is February 15, 2011. The Report of Management and Directors on Reserves Data and Other Information on Form 51-101F3 and the Report on Reserves Data by InSite on Form 51-101F2 are attached as Schedules A and B, respectively, to this Annual Information Form.

Disclosure of Reserves Data

The reserves data set forth below (the "**Reserves Data**") is based upon an evaluation by InSite with an effective date of December 31, 2010 contained in the InSite Report. The Reserves Data summarizes the oil, liquids and natural gas reserves of Peyto and the net present values of future net revenue for these reserves using constant prices and costs and forecast prices and costs. The Reserves Data conforms with the requirements of National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities ("**NI 51-101**") and is in accordance with the COGE Handbook. Additional information not required by NI 51-101 has been presented to provide continuity and additional information which we believe is important to the readers of this information. Peyto engaged InSite to provide an evaluation of proved and proved plus probable reserves and no attempt was made to evaluate possible reserves.

All of Peyto's reserves are in Canada and, specifically, in the provinces of Alberta and British Columbia.

Some values set forth below may not add due to rounding.

It should not be assumed that the estimates of future net revenues presented in the tables below represent the fair market value of the reserves. There is no assurance that the forecast prices and costs assumptions will be attained and variances could be material.

Reserves Data (Forecast Prices and Costs)

SUMMARY OF OIL AND GAS RESERVES AND NET PRESENT VALUES OF FUTURE NET REVENUE AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS

Reserves Category	RESERVES									
	Light and Medium Oil		Heavy Oil		Solution Gas		Natural Gas		Natural Gas Liquids	
	Gross (Mbbl)	Net (Mbbl)	Gross (Mbbl)	Net (Mbbl)	Gross (MMcf)	Net (MMcf)	Gross (MMcf)	Net (MMcf)	Gross (Mbbl)	Net (Mbbl)
Proved										
Developed Producing	121.2	109.7	0.4	0.4	602.1	550.7	567,362.2	514,787.1	15,836.9	10,114.3
Developed Non-Producing	-	-	-	-	-	-	11,585.4	10,121.9	304.7	188.2
Undeveloped	-	-	-	-	-	-	349,505.0	323,576.3	8,595.1	6,194.6
Total Proved	<u>121.2</u>	<u>109.7</u>	<u>0.4</u>	<u>0.4</u>	<u>602.1</u>	<u>550.7</u>	<u>928,452.6</u>	<u>848,485.3</u>	<u>24,736.8</u>	<u>16,497.1</u>
Probable	<u>26.1</u>	<u>22.8</u>	<u>0.1</u>	<u>0.1</u>	<u>119.5</u>	<u>109.2</u>	<u>424,215.8</u>	<u>389,424.8</u>	<u>9,228.7</u>	<u>6,412.7</u>
Total Proved Plus Probable	<u>147.3</u>	<u>132.5</u>	<u>0.5</u>	<u>0.5</u>	<u>721.6</u>	<u>659.9</u>	<u>1,352,668.4</u>	<u>1,237,910.1</u>	<u>33,965.5</u>	<u>22,909.8</u>

NET PRESENT VALUES OF FUTURE NET REVENUE

Reserves Category	Before Income Taxes Discounted at (%/year)					After Income Taxes Discounted at (%/year)				
	0	5	10	15	20	0	5	10	15	20
	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)	(M\$)
Proved										
Developed Producing	4,502,786	2,363,414	1,581,877	1,200,628	977,720	3,600,629	1,964,966	1,356,820	1,054,701	874,988
Developed Non-Producing	92,274	37,141	18,457	10,801	7,115	69,189	27,782	13,746	7,996	5,230
Undeveloped	2,198,177	1,003,877	531,792	296,808	162,034	1,646,562	736,619	372,120	189,275	84,086
Total Proved	6,793,236	3,404,432	2,132,126	1,508,237	1,146,868	5,316,379	2,729,366	1,742,686	1,251,971	964,304
Probable										
Additional	3,145,882	1,333,672	710,622	426,826	272,873	2,356,271	987,512	513,883	297,611	180,478
Total Proved Plus Probable	9,939,118	4,738,104	2,842,748	1,935,063	1,419,741	7,672,650	3,716,878	2,256,569	1,549,582	1,144,782

TOTAL FUTURE NET REVENUE (UNDISCOUNTED) AS OF DECEMBER 31, 2010

Reserves Category	Revenue (M\$)	Royalties (M\$)	Operating Costs (M\$)	Development Costs (M\$)	Well Abandonment Costs (M\$)	Future Net Revenue Before Income Taxes		Future Net Revenue After Income Taxes
						(M\$)	(M\$)	(M\$)
Proved Reserves	10,643,577	1,362,061	1,649,188	740,690	98,403	6,793,236	1,476,857	5,316,379
Proved Plus Probable Reserves	15,544,905	1,946,166	2,218,657	1,310,133	130,832	9,939,118	2,266,468	7,672,650

FUTURE NET REVENUE BY PRODUCTION GROUP AS OF DECEMBER 31, 2010

Reserves Category	Production Group	Future Net Revenue Before Income Taxes (Discounted At 10%/Year)	
		(M\$)	(\$/bbl or \$/MCF)
Proved Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	5,055.1	24.66
	Heavy Oil (including solution gas and other by-products)	11.0	28.79
	Natural Gas (including by-products but excluding solution gas and by-products from oil wells)	1,988,152.4	12.59
Proved Plus Probable Reserves	Light and Medium Crude Oil (including solution gas and other by-products)	5,795.1	23.48
	Heavy Oil (including solution gas and other by-products)	14.4	28.18
	Natural Gas (including by-products but excluding solution gas from oil wells)	2,663,780.2	11.62

Note: Net revenue does not include other income (i.e. processing income).

Definitions and Other Notes

In the tables set forth above in "Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data" and elsewhere in this Annual Information Form the following definitions and other notes are applicable:

1. "Gross" means:
 - (a) in relation to Peyto's interest in production and reserves, its "Peyto gross reserves", which are Peyto's interest (operating and non-operating) share before deduction of royalties and without including any royalty interest of Peyto;
 - (b) in relation to wells, the total number of wells in which Peyto has an interest; and
 - (c) in relation to properties, the total area of properties in which Peyto has an interest.

2. "Net" means:

- (a) in relation to Peyto's interest in production and reserves, its "Peyto gross reserves", which are Peyto's interest (operating and non-operating) share after deduction of royalties obligations, plus Peyto's royalty interest in production or reserves;
- (b) in relation to wells, the number of wells obtained by aggregating Peyto's working interest in each of its gross wells; and
- (c) in relation to Peyto's interest in a property, the total area in which Peyto has an interest multiplied by the working interest owned by Peyto.

3. Definitions used for reserve categories are as follows:

The following definitions apply to both estimates of individual reserves entities and the aggregate of reserves for multiple entities.

Reserve Categories

Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on

- (a) analysis of drilling, geological, geophysical and engineering data;
- (b) the use of established technology; and
- (c) specified economic conditions (see the discussion of "*Economic Assumptions*" below).

Reserves are classified according to the degree of certainty associated with the estimates:

- (a) Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves.
- (b) Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

"Economic Assumptions" will be the prices and costs used in the estimate, namely:

- (a) constant prices and costs as at the last day of Peyto's financial year; and
- (b) forecast prices and costs.

Development and Production Status

Each of the reserve categories (proved and probable) may be divided into developed and undeveloped categories:

- (a) Developed reserves are those reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (for example, when compared to the cost of drilling a well) to put the reserves on production. The developed category may be subdivided into producing and non-producing:
 - (i) Developed producing reserves are those reserves that are expected to be recovered from completion intervals open at the time of the estimate. These reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

- (ii) Developed non-producing reserves are those reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.
- (b) Undeveloped reserves are those reserves expected to be recovered from known accumulations where a significant expenditure (for example, when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the reserves classification (proved, probable) to which they are assigned.

In multi-well pools it may be appropriate to allocate total pool reserves between the developed and undeveloped categories or to subdivide the developed reserves for the pool between developed producing and developed non-producing. This allocation should be based on the estimator's assessment as to the reserves that will be recovered from specific wells, facilities and completion intervals in the pool and their respective development and production status.

Levels of Certainty for Reported Reserves

The qualitative certainty levels referred to in the definitions above are applicable to individual reserve entities (which refers to the lowest level at which reserves calculations are performed) and to reported reserves (which refers to the highest level sum of individual entity estimates for which reserves are presented). Reported reserves should target the following levels of certainty under a specific set of economic conditions:

- (a) at least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated proved reserves; and
- (b) at least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated proved plus probable reserves.

A qualitative measure of the certainty levels pertaining to estimates prepared for the various reserves categories is desirable to provide a clearer understanding of the associated risks and uncertainties. However, the majority of reserves estimates will be prepared using deterministic methods that do not provide a mathematically derived quantitative measure of probability. In principle, there should be no difference between estimates prepared using probabilistic or deterministic methods.

4. Forecast prices and costs

Future prices and costs that are:

- (a) generally acceptable as being a reasonable outlook of the future; and
- (b) if and only to the extent that, there are fixed or presently determinable future prices or costs to which Peyto is legally bound by a contractual or other obligation to supply a physical product, including those for an extension period of a contract that is likely to be extended, those prices or costs rather than the prices and costs referred to in paragraph (a).

The forecast summary table under "*Statement of Reserves Data and Other Oil and Gas Information – Pricing Assumptions*" identifies benchmark reference pricing that apply to Peyto.

5. Future income tax expenses estimate:

- (a) making appropriate allocations of estimated unclaimed costs and losses carried forward for tax purposes;
- (b) without deducting estimated future costs that are not deductible in computing taxable income;
- (c) taking into account estimated tax credits and allowances;
- (d) applying to the future pre-tax net cash flows relating to Peyto's oil and gas activities the appropriate year-end statutory rates, taking into account future tax rates already legislated.

6. **"Development costs"** means costs incurred to obtain access to reserves and to provide facilities for extracting, treating, gathering and storing the oil and gas from reserves. More specifically, development costs, including applicable operating costs of support equipment and facilities and other costs of development activities, are costs incurred to:
- (a) gain access to and prepare well locations for drilling, including surveying well locations for the purpose of determining specific development drilling sites, clearing ground draining, road building, and relocating public roads, gas lines and power lines, pumping equipment and wellhead assembly;
 - (b) drill and equip development wells, development type stratigraphic test wells and service wells, including the costs of platforms and of well equipment such as casing, tubing, pumping equipment and wellhead assembly;
 - (c) acquire, construct and install production facilities such as flow lines, separators, treaters, heaters, manifolds, measuring devices and production storage tanks, natural gas cycling and processing plants, and central utility and waste disposal systems; and
 - (d) provide improved recovery systems.
7. **"Development well"** means a well drilled inside the established limits of an oil and gas reservoir, or in close proximity to the edge of the reservoir, to the depth of a stratigraphic horizon known to be productive.
8. **"Exploration costs"** means costs incurred in identifying areas that may warrant examination and in examining specific areas that are considered to have prospects that may contain oil and gas reserves, including costs of drilling exploratory wells and exploratory type stratigraphic test wells. Exploration costs may be incurred both before acquiring the related property and after acquiring the property. Exploration costs, which include applicable operating costs of support equipment and facilities and other costs of exploration activities, are:
- (a) costs of topographical, geochemical, geological and geophysical studies, rights of access to properties to conduct those studies, and salaries and other expenses of geologists, geophysical crews and others conducting those studies;
 - (b) costs of carrying and retaining unproved properties, such as delay rentals, taxes (other than income and capital taxes) on properties, legal costs for title defence, and the maintenance of land and lease records;
 - (c) dry hole contributions and bottom hole contributions;
 - (d) costs of drilling and equipping exploratory wells; and
 - (e) costs of drilling exploratory type stratigraphic test wells.
9. **"Exploration well"** means a well that is not a development well, a service well or a stratigraphic test well.
10. **"Service well"** means a well drilled or completed for the purpose of supporting production in an existing field. Wells in this class are drilled for the following specific purposes: gas injection (natural gas, propane, butane or flue gas), water injection, steam injection, air injection, salt water disposal, water supply for injection, observation or injection for combustion.
11. Numbers may not add due to rounding.

The estimates of future net revenue presented in the tables above do not represent fair market value.

Pricing Assumptions

The following sets forth the benchmark reference prices, as at December 31, 2010, reflected in the Reserves Data. These price assumptions were provided to Peyto by InSite, Peyto's independent qualified reserves evaluator.

SUMMARY OF PRICING AND INFLATION RATE ASSUMPTIONS AS OF DECEMBER 31, 2010
FORECAST PRICES AND COSTS

Year	OIL				NATURAL GAS LIQUIDS					Inflation Rates ⁽¹⁾ %/Year	Exchange Rate ⁽²⁾ (\$US/\$Cdn)
	WTI Cushing Oklahoma (\$US/bbl)	Edmonton Par Price (\$Cdn/bbl)	Hardisty Heavy 12° API (\$Cdn/bbl)	Cromer Medium 29.3° API (\$Cdn/bbl)	Natural Gas Aeco Gas Price (\$Cdn/MMBtu)	Condensate (\$Cdn/BBL)	Butane (\$Cdn/BBL)	Propane (\$Cdn/BBL)	Ethane (\$Cdn/BBL)		
Forecast											
2011	88.00	87.30	70.30	81.19	4.14	91.66	69.84	52.38	12.51	2	0.98
2012	90.00	90.28	71.28	83.96	4.71	92.99	72.23	54.17	14.34	2	0.97
2013	92.00	93.83	72.83	87.27	5.29	96.65	75.07	56.30	16.21	2	0.96
2014	94.00	95.88	72.88	89.17	5.76	98.75	76.70	57.53	17.73	2	0.96
2015	96.00	97.92	74.60	91.06	6.27	100.86	78.34	58.75	19.36	2	0.96
2016	97.92	99.88	76.23	92.89	6.77	102.87	79.90	59.93	20.98	2	0.96
2017	99.88	101.88	77.90	94.74	7.02	104.93	81.50	61.13	21.76	2	0.96
2018	101.88	103.91	79.59	96.64	7.16	107.03	83.13	62.35	22.21	2	0.96
2019	103.91	105.99	81.33	98.57	7.30	109.17	84.79	63.59	22.66	2	0.96
2020	105.99	108.11	83.09	100.54	7.45	111.35	86.49	64.87	23.11	2	0.96
Thereafter	+2%	+2%	+2%	+2%	+2%	+2%	+2%	+2%	+2%	2	0.96

Notes:

- (1) Inflation rates for forecasting prices and costs.
- (2) Exchange rates used to generate the benchmark reference prices in this table.

Weighted average historical prices realized by Peyto for the year-ended December 31, 2010, were \$5.36/mcf for natural gas, \$65.31/bbl for crude oil and natural gas liquids.

Reconciliations of Changes in Reserves and Future Revenue

RECONCILIATION OF PEYTO GROSS (WORKING INTEREST) RESERVES BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

Factors	Light and Medium Oil			Heavy Oil			Natural Gas			Natural Gas Liquids		
	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)	Proved (MMcft)	Probable (MMcft)	Proved Plus Probable (MMcft)	Proved (Mbbbl)	Probable (Mbbbl)	Proved Plus Probable (Mbbbl)
December 31, 2009	125.1	30.5	155.6	0.4	0.2	0.6	753,401.4	260,040.5	1,013,441.9	23,164.9	7,662.2	30,827.1
Extensions	-	-	-	-	-	-	137,975.2	171,009.3	308,984.5	2,994.3	1,398.7	4,393.0
Improved Recovery	-	-	-	-	-	-	-	-	-	-	-	-
Technical Revision	11.8	(4.4)	7.4	-	-	-	27,460.9	11,695.2	39,156.1	(1,111.6)	8.7	(1,102.8)
Discoveries	-	-	-	-	-	-	52,197.3	(18,809.1)	33,388.2	897.5	176.4	1,073.8
Acquisitions	-	-	-	-	-	-	3,102.2	446.6	3,548.8	13.0	2.3	15.3
Dispositions	-	-	-	-	-	-	(541.1)	(47.2)	(588.3)	-	-	-
Economic Factors	-	-	-	-	-	-	0.0	0.0	0.0	-	(19.6)	(19.6)
Production	(15.7)	-	(15.7)	(0.1)	-	(0.1)	(44,541.2)	0.0	(44,541.2)	(1,221.3)	-	(1,221.3)
December 31, 2010	121.2	26.1	147.3	0.4	0.1	0.5	929,054.7	424,335.3	1,353,390.0	24,736.8	9,228.7	33,965.5

Note:

- (1) Numbers may not add due to rounding.

RECONCILIATION OF PEYTO NET RESERVES (NET OF ROYALTIES) BY PRINCIPAL PRODUCT TYPE FORECAST PRICES AND COSTS

Factors	Light and Medium Oil			Heavy Oil			Natural Gas			Natural Gas Liquids		
	Net Proved (Mbbl)	Net Probable (Mbbl)	Net Proved Plus Probable (Mbbl)	Net Proved (Mbbl)	Net Probable (Mbbl)	Net Proved Plus Probable (Mbbl)	Net Proved (MMcf)	Net Probable (MMcf)	Net Proved Plus Probable (MMcf)	Net Proved (Mbbl)	Net Probable (Mbbl)	Net Proved Plus Probable (Mbbl)
December 31, 2009	111.4	25.9	137.3	0.4	0.2	0.6	652,541.5	216,099.7	868,641.2	14,732.2	4,878.0	19,610.3
Extensions Improved	-	-	-	-	-	-	127,733.6	158,732.3	286,465.9	1,455.0	1,782.0	3,237.0
Recovery Technical	14.4	(3.1)	11.3	0.1	(0.1)	-	58,935.3	31,750.8	90,686.1	376.7	127.2	503.8
Revision Discoveries	-	-	-	-	-	-	47,799.4	(17,421.9)	30,377.5	806.0	(377.6)	428.4
Acquisitions	-	-	-	-	-	-	2,849.7	399.8	3,249.5	20.7	2.9	23.7
Dispositions	-	-	-	-	-	-	(504.3)	(44.0)	(548.2)	(4.5)	(0.5)	(5.0)
Economic Factors	-	-	-	-	-	-	-	-	-	-	-	-
Production	(16.1)	-	(16.1)	(0.1)	-	(0.1)	(40,327.2)	-	(40,327.2)	(889.2)	-	(889.2)
December 31, 2010	109.7	22.8	132.5	0.4	0.1	0.5	849,028.1	389,516.6	1,238,544.7	16,497.0	6,412.1	22,909.1

Note:

(1) Numbers may not add due to rounding.

Additional Information Relating to Reserves Data

Undeveloped Reserves

The following tables set forth the proved undeveloped reserves and the probable undeveloped reserves, each by product type, attributed to the Corporation in the most recent three financial years and, in the aggregate, before that time.

Proved Undeveloped Reserves

Peyto's proved undeveloped reserves are comprised mainly of wells that are budgeted and scheduled to be drilled in the next 5 years. Peyto also has proved undeveloped reserves behind pipe (mostly up-hole zones) which will be brought on production once the primary zones have been depleted. Where there is economical justification to accelerate production from secondary zones, Peyto will often proceed to re-complete the subject well bores or drill twin wells for secondary zones.

Year	Light and Medium Oil (Mbbl)		Heavy Oil (Mbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbl)	
	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾
Prior to 2005	-	-	-	-	41,422	61,452	1,256	2,030
2005	-	-	-	-	43,700	75,742	851	1,602
2006	-	-	-	-	29,233	77,513	600	1,730
2007	-	-	-	-	30,359	94,859	742	2,190
2008	-	-	-	-	29,974	105,977	526	2,284
2009	-	-	-	-	95,693	213,212	2,101	4,677
2010	-	-	-	-	120,072	323,576	1,489	6,195

Note:

(1) Cumulative at Year-End = Residual Cumulative of Previous Year plus 1st Attributed.

Probable Undeveloped Reserves

Peyto's probable additional reserves are comprised of performance wedges from producing wells (approximately 18%), step out drilling locations, and bypassed zones, which are deemed too probabilistic to be classified as proved. Peyto typically assigns

probable reserves to undrilled locations that are scheduled to be drilled in the next 60 months. Peyto has historically been highly successful converting these probable assignments to proven producing entities.

Year	Light and Medium Oil (Mbbbl)		Heavy Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)	
	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾	1 st Attributed	Cumulative at Year-End ⁽¹⁾
Prior to 2005	-	-	-	-	52,608	93,837	1,836	3,264
2005	-	-	-	-	74,635	116,195	1,488	2,718
2006	-	-	-	-	35,933	111,816	681	1,726
2007	-	-	-	-	14,526	94,843	330	2,016
2008	-	-	-	-	19,097	95,347	385	1,917
2009	-	-	-	-	32,894	126,390	844	2,701
2010	-	-	-	-	150,243	261,774	1,634	3,918

Note:

- (1) Cumulative at Year-End = Residual Cumulative of Previous Year plus 1st Attributed.

Significant Factors or Uncertainties

The process of evaluating reserves is inherently complex. It requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development activities and production performance becomes available and as economic conditions impacting oil and gas prices and costs change. The reserve estimates contained herein are based on current production forecasts, prices and economic conditions and other factors and assumptions that may affect the reserve estimates and the present worth of the future net revenue therefrom. These factors and assumptions include, among others: (i) historical production in the area compared with production rates from analogous producing areas; (ii) initial production rates; (iii) production decline rates; (iv) ultimate recovery of reserves; (v) success of future development activities; (vi) marketability of production; (vii) effects of government regulations; and (viii) other government levies imposed over the life of the reserves.

As circumstances change and additional data becomes available, reserve estimates also change. Estimates are reviewed and revised, either upward or downward, as warranted by the new information. Revisions are often required due to changes in well performance, prices, economic conditions and government restrictions. Revisions to reserve estimates can arise from changes in year-end prices, reservoir performance and geologic conditions or production. These revisions can be either positive or negative.

While we do not anticipate any significant economic factors or significant uncertainties will affect any particular components of the reserves data, the reserves can be affected significantly by fluctuations in product pricing, capital expenditures, operating costs, royalty regimes and well performance that are beyond our control. See "*Risk Factors*".

Future Development Costs

The following table sets forth development costs deducted in the estimation of Peyto's future net revenue attributable to the reserve categories noted below.

Year	Forecast Prices and Costs			
	Proved Reserves		Proved Plus Probable Reserves	
	0% (M\$)	10% (M\$)	0% (M\$)	10% (M\$)
2011	182,593	175,123	249,201	239,193
2012	228,161	198,721	299,671	261,518
2013	172,391	135,458	299,790	236,342
2014	87,454	62,655	253,671	181,737
Thereafter	70,091	43,646	207,800	123,343
Sub-Total	740,690	615,603	1,310,133	1,042,133
Future Drilling Royalty Credits	0	0	0	0
Total	740,690	615,603	1,310,133	1,042,133
Change from 2009	295,114	235,990	638,649	488,076

Peyto anticipates that funding for the future development costs will include internally generated cash flow, debt and equity financing.

**2010 Finding, Development and Acquisition Costs
Company Interest Reserves
(Forecast Prices and Costs)**

Finding, Development and Acquisition Costs Including Changes in Future Development Capital ("FDC")	Proved Reserves	Proved Plus Probable Reserves
Exploration and Development Capital Expenditures (\$M) ⁽¹⁾	255,760	255,760
Exploration and Development Change in FDC (\$M)	295,114	638,649
Exploration and Development Capital including Change in FDC (\$M) ⁽¹⁾	550,874	894,409
Exploration and Development Reserve Additions including Revisions (MBOE) ⁽²⁾	39,064	67,940
Finding and Development Cost (\$/BOE) ⁽²⁾	14.10	13.16
Net Acquisition Capital (\$M)	5,724	5,724
Net Acquisition Reserve Additions (MBOE) ⁽²⁾	440	509
Net Acquisition Cost (\$/BOE) ⁽²⁾	13.01	11.25
Total Capital Expenditures including Net Acquisitions (\$M) ⁽¹⁾	261,484	261,484
Total Changes in FDC (\$M)	295,114	638,649
Total Capital including Change in FDC (\$M) ⁽¹⁾	556,598	900,133
Reserve Additions including Revisions and Net Acquisitions (MBOE) ⁽²⁾	39,504	68,449
Finding, Development and Acquisition Cost including Change in FDC (\$/BOE) ⁽²⁾	14.09	13.15

Notes:

- (1) Capital expenditures are net of drilling royalty credits.
- (2) Natural gas has been converted to barrels of oil equivalent on the basis of 6 mcf of natural gas being equal to one barrel of oil.

**Three Year Historical Finding, Development and Acquisition Costs
\$/BOE**

Year	Proved	Proved Plus Probable
2008	19.02	23.28
2009	10.41	8.80
2010	14.09	13.15
Three Year Average	14.51	15.08

The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. The use of boe's may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

Other Oil and Gas Information

Oil and Gas Properties

The following is a description of Peyto's principal oil and natural gas properties on production or under development as at December 31, 2010. The term "net", when used to describe Peyto's share of production, means the total of Peyto's working interest share before deduction of royalties owned by others. Reserve amounts are stated, before deduction of royalties, at December 31, 2010, based on escalating cost and price assumptions (gross) as evaluated in the InSite Report (see "*Statement of Reserves Data and Other Oil and Gas Information*"). Unless otherwise specified, gross and net acres and well count information are as at December 31, 2010. Information in respect of current production is average production, net to Peyto, for the month of March 2011, except where otherwise indicated. The estimate of reserves and future net revenue for individual properties may not reflect the same confidence level as estimates of reserves and future net revenue for all properties due to the effects of aggregation.

General

Peyto operates in three core areas, namely the Greater Sundance, Smoky/Kakwa and Cutbank areas of Alberta. Within the Greater Sundance area there are three sub-areas, Oldman, Nosehill and Wildhay, all of which have gas processing facilities that are interconnected. Total capital expenditures for 2010 were \$261.5 million (after drilling royalty credits).

Greater Sundance Area

The Greater Sundance area is located 50 kilometers west of Edson, Alberta, from Township 53–56 and Range 19-24 west of the fifth meridian. Peyto began its operations in this area in the spring of 1999. This area now encompasses the Sundance, Oldman, Wildhay and Nosehill fields and is generally referred to as the "Greater Sundance area".

Peyto has an average 74% working interest in 169,920 gross (126,090 net) acres of land and operates 99% of its production in the area.

The geology of the area is characterized by multi-zone potential for liquid-rich natural gas. Peyto currently produces gas from the Belly River, Cardium, Viking, Notikewin, Falher, Wilrich, Bluesky and Cadomin formations. The majority of Peyto's current production comes from the Cardium formation, which exists as a low permeability blanket sand.

During 2010, Peyto spent \$214.4 million in capital to drill, case, complete, equip and tie-in 35.4 new net wells in the Greater Sundance area. Included in this capital is Peyto's proportionate share of land and seismic acquisition costs as well as plant costs. Peyto is currently producing approximately 29,340 boe/d of natural gas and natural gas liquids from this area. The Greater Sundance area includes several properties that collectively account for:

- 82% of 2010 capital expenditures
- 85% of 2010 production volume
- 85% of proved and probable reserves at December 31, 2010
- 33% of undeveloped land holding at December 31, 2010

Peyto plans to spend approximately \$270 million of the 2011 capital program in this area. Peyto is planning to drill another 57-62 gross wells in the Greater Sundance area over the 2011 calendar year. The majority of these wells are anticipated to be Cardium, Notikewin, Wilrich and Fahler horizontal well producers.

The low permeability in the Cardium, Notikewin, Wilrich and Cadomin sands typically limits the drainage area for a well to less than 160 acres. The Alberta Energy and Utilities Board has approved reduced well spacing of 100–160 acres per well along the trend and in the Greater Sundance area. This allows Peyto to conduct additional low risk development infill drilling of 4-6 wells per section.

Peyto owns and operates three 100% working interest gas processing plants located in the Greater Sundance area. One of the plants is located in Oldman (55-21W5), the second one is located in Wildhay (55-23W5) and the third one is located in Nosehill (55-20W5). The majority of Peyto's production is processed through these plants, with 686 gross (582 net) producing zones. Gross natural gas production at the facilities is approximately 174 mmcf/d, with natural gas liquids production being approximately 3,450 bbls/d.

Smoky/Kakwa/Chime/Kiskiu

The Smoky/Kakwa/Chime/Kiskiu area is located 40 km northeast of Grande Cache, Alberta, from Township 57-61 and Range 2-6 west of the sixth meridian. Peyto began operations in this area in the winter of 2002/2003.

Peyto has an average 93% working interest in 49,440 gross (45,928 net) acres of land and operates 95% of its production in the area.

The geology of the area indicates multi-zone potential for liquid-rich natural gas. Peyto currently produces gas from the Belly River, Dunvegan and Cardium formations. The majority of Peyto's current production comes from the Cardium formation, which exists as a low permeability blanket sand.

In 2010, Peyto drilled and completed 6 wells (6 net) in Smoky/Kakwa/Chime/Kiskiu. Peyto is currently producing approximately 2,580 boe/d of natural gas and natural gas liquids from this area. The Smoky/Kakwa/Chime/Kiskiu area accounted for:

- 8% of 2010 capital expenditures
- 12% of 2010 production volume
- 8% of proved and probable reserves at December 31, 2010
- 22% of undeveloped land holding at December 31, 2010

Peyto plans to spend approximately \$21 million of the 2011 capital program in this area. Peyto is planning to drill another 4 wells in the Smoky/Kakwa/Chime/Kiskiu area over the 2011 calendar year. The majority of these wells are anticipated to be Cardium horizontal gas wells.

Peyto owns a 100% working interest in and operates its gas processing plant in Smoky/Kakwa. The majority of the production from the area is processed through this plant with 57 producing zones currently tied in. Gross production from this facility is approximately 13.3 mmcf/d of natural gas with approximately 744 bbls/d of natural gas liquids.

Cutbank

The Cutbank area is located 90 km southwest of Grande Prairie, Alberta, from Township 61-64 and Range 7-11 west of the sixth meridian. Peyto began operations in this area in early 2004.

Peyto has an average 95% working interest in 26,240 gross (24,875 net) acres of land and operates 100% of its production in the area.

The geology of the area indicates multi-zone potential for liquid-rich natural gas. Peyto currently produces gas from the Belly River, Cardium and Dunvegan formations. The majority of Peyto's current production comes from the Cardium formation, which exists as a low permeability blanket sand.

Prior to year-end 2010, Peyto had drilled 1 gross (1 net) horizontal Cardium gas well in Cutbank. Peyto is currently producing approximately 155 boe/d of natural gas and natural gas liquids from this area. The Cutbank area accounted for:

- 2% of 2010 capital expenditures
- 1% of 2010 production volume
- 2% of proved and probable reserves at December 31, 2010
- 11% of undeveloped land holding at December 31, 2010

Peyto plans to spend approximately \$10 million of the 2011 capital program in this area. Peyto is planning to drill 2 wells in the Cutbank area over the 2011 calendar year. These wells are anticipated to be Cardium and Dunvegan horizontal well producers.

Peyto owns a 100% working interest in and operates its gas processing plant in Cutbank. The majority of the production from the area is processed through this plant with 19 producing zones currently tied in. Gross production from this facility is approximately 1.3 mmcf/d of natural gas with approximately 18 bbls/d of natural gas liquids.

Miscellaneous

Peyto has a number of minor working interests in non-operated wells throughout Alberta. These properties account for less than 1% of Peyto's current production. The anticipated capital spending for these areas is minimal.

Oil And Gas Wells

The following table sets forth the number and status of wells in which Peyto had a working interest as at December 31, 2010.

	Oil Wells				Natural Gas Wells			
	Producing		Non-Producing		Producing		Non-Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta	54	6	5	0.4	633	512	30	21.8
British Columbia	16	-	30	-	1	-	5	-
Total	70	6	35	0.4	634	512	35	21.8

Land Holdings

The following table sets out Peyto's developed and undeveloped land holdings as at December 31, 2010.

	Developed Acres		Undeveloped Acres		Total Acres	
	Gross	Net	Gross	Net	Gross	Net
Alberta	141,503	102,361	205,922	164,087	347,425	266,448
British Columbia	4,793	265	4,094	178	8,887	444
Total	146,296	102,626	210,016	164,265	356,311	266,891

Note:

(1) Numbers may not add due to rounding.

Peyto expects that rights to explore, develop and exploit 6,106 net acres of its undeveloped land holdings will expire by December 31, 2011 unless the rights are proven eligible for continuation due to production and/or drilling.

Forward Contracts

Peyto is a party to certain off balance sheet derivative financial instruments, including fixed price contracts. Peyto enters into these contracts with well established counter-parties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices.

A summary of contracts outstanding, as at the date hereof, in respect of the hedging activities are as follows:

Natural Gas:

Period Hedged	Type	Daily Volume	Price (CAD)
November 1, 2009 to March 31, 2011	Fixed Price	5,000 GJ	\$6.20/GJ
November 1, 2009 to March 31, 2011	Fixed price	5,000 GJ	\$5.81/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.28/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.29/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.55/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$5.70/GJ
April 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$4.55/GJ
April 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$5.67/GJ
April 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$5.82/GJ
November 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$8.91/GJ
November 1, 2010 to March 31, 2011	Fixed Price	5,000 GJ	\$9.15/GJ
November 1, 2010 to March 31, 2012	Fixed Price	5,000 GJ	\$4.10/GJ
April 1, 2011 to October 31, 2011	Fixed Price	5,000 GJ	\$3.50/GJ
April 1, 2011 to October 31, 2011	Fixed price	5,000 GJ	\$3.80/GJ
April 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$6.20/GJ
April 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$5.00/GJ
April 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$5.12/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	\$4.05/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	\$4.15/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	\$4.10/GJ
April 1, 2011 to October 31, 2012	Fixed Price	5,000 GJ	\$4.00/GJ
November 1, 2011 to March 31, 2012	Fixed Price	5,000 GJ	\$4.50/GJ

Tax Horizon

No material cash income taxes were paid by the Peyto or its subsidiaries for the year ended December 31, 2010. Within the context of current commodity prices and capital spending plans, Peyto does not expect to be taxable before 2014. This future tax horizon will also fluctuate depending on the ultimate nature and timing of Peyto's acquisitions and dispositions. Once it is taxable, Peyto expects that its capital spending will help shelter taxes and would expect cash taxes to average less than 15% of cash flow, which is not dissimilar to other oil and gas production companies. If crude oil and natural gas prices were to strengthen beyond the levels anticipated by the current forward market, Peyto's tax pools would be utilized more quickly and it may experience higher than expected cash taxes or payment of such taxes in an earlier time period. However, it is difficult to give guidance on future taxability as Peyto operates within an industry that constantly changes given acquisitions, divestments, capital spending, dividends and overall commodity prices. See "*Risk Factors – Taxation of Peyto*".

Additional Information Concerning Abandonment and Reclamation Costs

Peyto bases its estimates for the costs of abandonment and reclamation of surface leases, wells, facilities and pipelines on previous experience of management with similar well sites and facility locations. As at December 31, 2010, management expected to incur such costs on 547 net wells. The total of such costs, net of estimated salvage value, expected to be incurred is \$39.6 million (undiscounted) and \$11.9 million (discounted at 7%). Future net revenue figures set forth in this report only include abandonment liabilities for wells that have been assigned reserves. Within the next three financial years, it is expected such costs will total approximately \$1.0 million (undiscounted) in aggregate.

Capital Expenditures

The following table summarizes capital expenditures (net of incentives and net of certain proceeds and including capitalized general and administrative expenses) related to Peyto's activities for the year-ended December 31, 2010:

Property acquisition costs			0.0
Proved properties	MM	\$	5.7
Unproved properties			12.6
Exploration costs			13.2
Development costs			230.0
Total	MM	\$	<u>261.5</u>

Exploration and Development Activities

The following table sets forth the gross and net exploratory and development wells in which Peyto participated during the year-ended December 31, 2010:

	Exploratory Wells		Development Wells	
	Gross	Net	Gross	Net
Oil	-	-	-	-
Natural Gas	4.0	3.5	45.0	42.2
Service	-	-	-	-
Dry	-	-	-	-
Total:	<u>4.0</u>	<u>3.5</u>	<u>45.0</u>	<u>42.2</u>

For a description of Peyto's most important current and likely exploration and development activities, see "*Statement of Reserves Data and Other Oil and Gas Information – Other Oil and Gas Information – Oil and Gas Properties*".

Production Estimates

The following table sets out the volume of Peyto's production before royalties estimated for the year-ended December 31, 2011 which is reflected in the estimate of gross proved reserves and probable reserves disclosed in the tables contained under "*Statement of Reserves Data and Other Oil and Gas Information – Disclosure of Reserves Data*".

	Light and Medium Oil (Bbls/d)	Heavy Oil (Bbls/d)	Natural Gas (MMcf/d)	Natural Gas Liquids (Bbls/d)	BOE (BOE/d)
Proved					
Sundance	9	-	130.9	2,853	24,679
Kakwa	-	-	8.3	519	1,902
Other	24	-	8.8	387	1,878
Total Proved 2011	33	-	148.0	3,759	28,459
Proved Plus Probable					
Sundance	9	-	142.7	3,042	26,834
Kakwa	-	-	8.9	561	2,044
Other	25	-	10.7	424	2,232
Total Proved Plus Probable 2011	34	-	162.3	4,027	31,111

Note:

- (1) Numbers may not add due to rounding.

Production History and Prices Received

The following table summarizes certain information in respect of production, product prices received, royalties paid, operating expenses and resulting netback for the periods indicated below:

	2010			
	Quarter Ended			
	Dec. 31	Sept. 30	June 30	Mar. 31
Average Daily Production ⁽¹⁾				
Light and Medium Crude Oil (Bbls/d)	-	-	-	-
Heavy Oil (Bbls/d)	-	-	-	-
Gas (Mcf/d)	148,551	122,717	112,422	103,934
NGLs (Bbls/d)	3,439	3,322	3,465	3,330
Combined (BOE/d)	28,197	23,775	22,202	20,653
Average Price Received				
Light and Medium Crude Oil (\$/Bbl)	-	-	-	-
Heavy Oil (\$/Bbl)	-	-	-	-
Gas (\$/Mcf)	4.93	5.16	5.25	6.34
NGLs (\$/Bbl)	67.06	59.66	65.58	68.93
Combined (\$/BOE)	34.20	34.98	36.84	43.02
Royalties Paid (\$/BOE)	2.97	3.11	4.81	4.93
Production Costs including transportation (\$/BOE)	2.67	2.86	3.06	3.22
Netback Received (\$/BOE)	28.52	28.99	28.93	34.87

Notes:

- (1) Before deduction of royalties.
(2) Light and Medium Crude Oil production is included in NGLs production.
(3) Numbers may not add due to rounding.

The following table indicates Peyto's average daily production from its important fields, and in total, for the year-ended December 31, 2010. It is noted the Chime area, included as "Other Properties" last year is now part of the Greater Kakwa area.

	Light and Medium Crude Oil (Bbls/d)	Heavy Oil (Bbls/d)	Gas (Mcf/d)	NGLS (Bbls/d)	BOE (BOE/d)
Sundance	10	-	105,659	2,542	20,152
Kakwa	-	-	12,656	731	2,840
Cutbank	-	-	1,160	49	242
Other Properties	24	-	2,556	31	492
Total Alberta	34	-	122,031	3,353	23,726
Total British Columbia	2	-	-	-	2
Total	36	-	122,031	3,353	23,728

Note:

- (1) Numbers may not add due to rounding.

DIVIDENDS AND DISTRIBUTIONS

In conjunction with the completion of the 2010 Arrangement, the board of directors of the Corporation established a dividend policy of paying monthly dividends to the holders of Common Shares. The payment of dividends by the Corporation commenced with the first dividend declared to Shareholders of record on January 31, 2011 in the amount of \$0.06 per Common Share, made payable February 15, 2011. Similar dividends were declared and made payable by the Corporation in respect of the months of February and March, 2011. It is expected that cash dividends will continue to be made by the Corporation on approximately the 15th day of each month to holders of Common Shares of record on the immediately preceding dividend record date.

The amount of future cash dividends, if any, by the Corporation will be at the discretion of the board of directors of the Corporation and may vary depending on a variety of factors, including fluctuations in operating costs and profits, working capital and capital expenditure requirements, debt service requirements, foreign exchange rates, the satisfaction of solvency tests imposed by the ABCA for the declaration and payment of dividends and other conditions existing from time to time.

Distribution History

Prior to completion of the 2010 Arrangement, the following cash distributions were paid by the Corporation's predecessor, the Trust, to Unitholders for the periods indicated:

<u>For the Month Ended</u>	<u>Distributions per Unit⁽²⁾</u>	<u>Payment Date</u>
<u>2003</u>		
July 31, 2003 ⁽¹⁾	\$0.075	August 15, 2003
August 31, 2003	\$0.075	September 15, 2003
September 30, 2003	\$0.075	October 15, 2003
October 31, 2003	\$0.075	November 14, 2003
November 30, 2003	\$0.075	December 15, 2003
December 31, 2003	\$0.075	January 15, 2004
<u>2004</u>		
January 31, 2004	\$0.075	February 16, 2004
February 29, 2004	\$0.075	March 15, 2004
March 31, 2004	\$0.075	April 15, 2004
April 30, 2004	\$0.085	May 14, 2004
May 31, 2004	\$0.085	June 15, 2004
June 30, 2004	\$0.085	July 15, 2004
July 31, 2004	\$0.085	August 16, 2004
August 31, 2004	\$0.085	September 15, 2004
September 30, 2004	\$0.085	October 15, 2004
October 31, 2004	\$0.095	November 15, 2004
November 30, 2004	\$0.095	December 15, 2004
December 31, 2004	\$0.095	January 14, 2005
<u>2005</u>		
January 31, 2005	\$0.095	February 15, 2005
February 28, 2005	\$0.11	March 15, 2005
March 31, 2005	\$0.11	April 15, 2005
April 30, 2005	\$0.11	May 13, 2005
May 31, 2005 ⁽²⁾	\$0.12	June 15, 2005
June 30, 2005	\$0.12	July 15, 2005
July 31, 2005	\$0.12	August 15, 2005
August 31, 2005	\$0.12	September 15, 2005
September 30, 2005	\$0.12	October 14, 2005

For the Month Ended	Distributions per Unit ⁽²⁾	Payment Date
October 31, 2005	\$0.12	November 15, 2005
November 30, 2005	\$0.12	December 15, 2005
December 31, 2005	\$0.12	January 13, 2006
<u>2006</u>		
January 31, 2006	\$0.12	February 15, 2006
February 28, 2006	\$0.14	March 15, 2006
March 31, 2006	\$0.14	April 13, 2006
April 30, 2006	\$0.14	May 15, 2006
May 31, 2006	\$0.14	June 15, 2006
June 30, 2006	\$0.14	July 14, 2006
July 31, 2006	\$0.14	August 15, 2006
August 31, 2006	\$0.14	September 15, 2006
September 30, 2006	\$0.14	October 13, 2006
October 31, 2006	\$0.14	November 15, 2006
November 30, 2006	\$0.14	December 15, 2006
December 31, 2006	\$0.14	January 15, 2007
<u>2007</u>		
January 31, 2007	\$0.14	February 15, 2007
February 28, 2007	\$0.14	March 15, 2007
March 31, 2007	\$0.14	April 13, 2007
April 30, 2007	\$0.14	May 15, 2007
May 31, 2007	\$0.14	June 15, 2007
June 30, 2007	\$0.14	July 13, 2007
July 31, 2007	\$0.14	August 15, 2007
August 31, 2007	\$0.14	September 14, 2007
September 30, 2007	\$0.14	October 15, 2007
October 31, 2007	\$0.14	November 15, 2007
November 30, 2007	\$0.14	December 14, 2007
December 31, 2007	\$0.14	January 15, 2008
<u>2008</u>		
January 31, 2008	\$0.14	February 15, 2008
February 29, 2008	\$0.14	March 14, 2008
March 31, 2008	\$0.14	April 15, 2008
April 30, 2008	\$0.14	May 15, 2008
May 31, 2008	\$0.15	June 13, 2008
June 30, 2008	\$0.15	July 15, 2008
July 31, 2008	\$0.15	August 15, 2008
August 31, 2008	\$0.15	September 15, 2008
September 30, 2008	\$0.15	October 15, 2008
October 31, 2008	\$0.15	November 14, 2008
November 30, 2008	\$0.15	December 15, 2008
December 31, 2008	\$0.15	January 15, 2009

For the Month Ended	Distributions per Unit ⁽²⁾	Payment Date
<u>2009</u>		
January 31, 2009	\$0.15	February 13, 2009
February 28, 2009	\$0.12	March 13, 2009
March 31, 2009	\$0.12	April 15, 2009
April 30, 2009	\$0.12	May 15, 2009
May 31, 2009	\$0.12	June 15, 2009
June 30, 2009	\$0.12	July 15, 2009
July 31, 2009	\$0.12	August 14, 2009
August 31, 2009	\$0.12	September 15, 2009
September 30, 2009	\$0.12	October 15, 2009
October 31, 2009	\$0.12	November 13, 2009
November 30, 2009	\$0.12	December 15, 2009
December 31, 2009	\$0.12	January 15, 2010
<u>2010</u>		
January 31, 2010	\$0.12	February 15, 2010
February 28, 2010	\$0.12	March 15, 2010
March 31, 2010	\$0.12	April 15, 2010
April 30, 2010	\$0.12	May 14, 2010
May 31, 2010	\$0.12	June 15, 2010
June 30, 2010	\$0.12	July 15, 2010
July 31, 2010	\$0.12	August 13, 2010
August 31, 2010	\$0.12	September 15, 2010
September 30, 2010	\$0.12	October 15, 2010
October 31, 2010	\$0.12	November 15, 2010
November 30, 2010	\$0.12	December 15, 2010
December 31, 2010	\$0.12	January 14, 2010
Total:	\$10.865	

Notes:

- (1) This distribution was the first cash distribution of the Trust following the completion of the 2003 Arrangement.
- (2) Distributions paid prior to May 31, 2005 have been restated to reflect the 2 for 1 Trust Unit split which was effective May 31, 2005.

DESCRIPTION OF SHARE CAPITAL

Peyto is authorized to issue an unlimited number of Common Shares. Holders of Common Shares are entitled to one vote per share at meetings of shareholders of Peyto, to receive dividends if, as and when declared by the board of directors of Peyto and to receive pro rata the remaining property and assets of Peyto upon its dissolution or winding-up, subject the rights of shares having priority over the Common Shares.

MARKET FOR SECURITIES

Common Shares

The Common Shares commenced trading on the TSX under the symbol "PEY" on January 7, 2011 following completion of the 2010 Arrangement. The following table sets forth the trading history of the Common Shares since January 7, 2011 as reported by the TSX:

	Price Range		Volume
	High (\$)	Low (\$)	
<u>2011</u>			
January	19.73	18.19	12,651,459
February	20.15	18.54	10,685,167
March (1 to 8)	20.04	19.20	1,592,830

Trust Units

Prior to completion of the 2010 Arrangement, the Trust Units were listed and traded on the TSX under the trading symbol "PEY.UN". Following completion of the 2010 Arrangement, the Trust Units were delisted from the TSX after the close of markets on January 6, 2011. The following table sets forth the trading history of the Trust Units for the periods indicated as reported by the TSX:

	Price Range		Volume
	High (\$)	Low (\$)	
<u>2010</u>			
January	14.99	12.73	8,223,206
February	14.00	12.46	7,268,285
March	14.22	13.06	8,134,114
April	13.95	13.20	8,932,026
May	14.24	11.80	9,048,662
June	16.03	13.98	7,939,436
July	15.90	14.26	4,088,943
August	15.71	13.51	5,660,482
September	16.05	13.99	8,288,415
October	16.01	15.05	5,923,487
November	18.15	15.44	10,595,626
December	19.75	17.00	10,295,727

ESCROWED SECURITIES

There are no securities of the Corporation currently held in escrow.

DIRECTORS AND OFFICERS OF PEYTO

The name, municipality of residence, principal occupation for the prior five years of each of the directors and officers of Peyto are as follows:

Name and Municipality of Residence	Position with Peyto	Principal Occupation
Donald Gray Calgary, Alberta	Co-founder and Director since 1998 and Chairman of the Board since 2009	Private Investor; Chairman of Gear Energy Corporation, a private oil and natural gas company, since January 2010; President of Gray Capital Partners Inc., a private capital management company, since May 2007; prior thereto, Mr. Gray was the Chief Executive Officer of Peyto from August 2006 to January 2007; prior thereto, Mr. Gray was the President and Chief Executive Officer of Peyto from October 1998 to August 2006

Name and Municipality of Residence	Position with Peyto	Principal Occupation
Michael MacBean ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director since 2003 and Lead Independent Director since 2009	Managing Director of TriWest Capital Partners since May 12, 2010; prior thereto, Chief Executive Officer of Diamond Energy Services LP, an oil services partnership, since October 1998
Brian Davis ⁽¹⁾⁽²⁾⁽³⁾ Houston, Texas	Director since 2006	Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994
Gregory Fletcher ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director since 2007	President of Sierra Energy Inc., a private oil and gas production company, since 1997
Rick Braund ⁽²⁾⁽³⁾ Calgary, Alberta	Co-founder and Director since 1998	Private Investor; President, Chief Executive Officer and director of Gear Energy Corporation, a private oil and natural gas company, since 2007; Chairman of Buck Oil Ltd., a private oil and gas company, since 1999
Darren Gee Calgary, Alberta	President, Chief Executive Officer and Director since 2007	President and Chief Executive Officer of Peyto since January 2007 and President of Peyto since August 2006; prior thereto, Mr. Gee was the Vice-President, Engineering of Peyto from March 2001 to August 2006
Stephen J. Chetner Calgary, Alberta	Corporate Secretary since 2000 and Director since 2009	Partner of Burnet, Duckworth & Palmer LLP
Scott Robinson Calgary, Alberta	Executive Vice-President and Chief Operating Officer since 2006 and Director since May 2010	Executive Vice-President and Chief Operating Officer of Peyto since August 2006; prior thereto, Mr. Robinson was the Vice-President, Operations of Peyto from January 2004 to August 2006
Glenn Booth Calgary, Alberta	Vice-President, Land	Vice-President, Land of Peyto since July 2005; prior thereto, Mr. Booth was the Vice-President, Land of Mustang Resources Inc. from September 2002 to July 2005
Kathy Turgeon Calgary, Alberta	Vice-President, Finance and Chief Financial Officer	Vice-President, Finance and Chief Financial Officer since November 30, 2007; prior thereto Vice-President, Finance of Peyto from January 2006 to November 2007; prior thereto, Ms. Turgeon was the Controller of Peyto from April 2004 to January 2006
David Thomas Calgary, Alberta	Vice-President, Exploration	Vice-President, Exploration of Peyto since November 1, 2010; prior thereto, Senior Geologist with Peyto since 2005.

Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation and Nominating Committee.
- (3) Member of the Reserves Committee.
- (4) Peyto does not have an executive committee.
- (5) Peyto directors shall hold office until the next annual general meeting of the Peyto's Shareholders or until each director's successor is appointed or elected pursuant to the ABCA.
- (6) The period of time served as a director or officer of Peyto includes the period of time served as a director of Peyto AdminCo or an officer of PEDC, where and as applicable, prior to the completion of the 2010 Arrangement.

As at March 8, 2011, the directors and executive officers of Peyto, as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 8.1 million Common Shares, or approximately 6% of the issued and outstanding Common Shares.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

No director or officer of Peyto, or a shareholder holding a sufficient number of securities of Peyto to affect materially the control of Peyto is, as at the date hereof, or has been within the 10 years before the date hereof, a director, or executive officer of any company that: (i) while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) while such person was acting in that capacity or within a year of such person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

No director or officer of Peyto, or a shareholder holding a sufficient number of securities of Peyto to affect materially the control of Peyto (or any personal holding company of such person), has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Personal Bankruptcies

No director or officer of Peyto, or a shareholder holding sufficient securities of Peyto to affect materially the control of Peyto, or a personal holding company of any such persons, has, within the 10 years preceding the date of this document, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the individual.

Conflicts of Interest

There are potential conflicts of interest to which the directors and officers of Peyto will be subject in connection with the operations of Peyto. In particular, certain of the directors and officers of Peyto are involved in managerial or director positions with other oil and gas companies whose operations may, from time to time, be in direct competition with those of Peyto or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Peyto. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided in the ABCA. As at the date hereof, Peyto is not aware of any existing material conflicts of interest between Peyto and any director or officer of Peyto.

Personnel

As at December 31, 2010, Peyto, directly or indirectly, employed 32 head office employees. Contract operators are retained for all field operations.

Audit Committee

Members

The Audit Committee currently has three members, Michael MacBean (Chairman), Brian Davis and Gregory Fletcher, none of which have a direct or indirect material relationship with Peyto and each of whom is financially literate, meaning the individual has the ability to read and understand a set of financial statements that present a breadth and level of complexity of the issues that can be expected to be raised by Peyto's financial statements.

The following is a description of the education and experience of each member of the Audit Committee.

Michael MacBean

Mr. MacBean is the Chairman of the Audit Committee. Mr. MacBean is primarily engaged as Managing Director of TriWest Capital Partners and as Chief Executive Officer of Diamond Energy Services LP, a partnership engaged in the energy services sector. From 1995 through 1998, Mr. MacBean served as Controller and subsequently Senior Investment Analyst for ARC Financial Corporation. During this time Mr. MacBean also served as Vice-President, Finance for ARC Energy Trust. Prior to 1995, Mr. MacBean was the Manager of Financial Reporting and Taxation for Mannville Oil & Gas. Mr. MacBean received his Bachelor of Commerce Degree from the University of Saskatchewan in 1990. In 1993 Mr. MacBean received his C.A. designation from the Institute of Chartered Accountants of Alberta. In February 2007 Mr. MacBean received his Chartered Directors (C.Dir) designation from McMaster University.

Brian Davis

Mr. Davis is the Chairman of the Reserves Committee. Mr. Davis is primarily engaged as the Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994. Mr. Davis has acquired significant experience and exposure to accounting and financial issues. Mr. Davis holds a BSc in petroleum engineering from Texas A&M University.

Gregory Fletcher

Mr. Fletcher is the Chairman of the Compensation & Nominating Committee. Mr. Fletcher is primarily engaged as the President of Sierra Energy Inc., a private oil and gas production company that he founded in 1997. Mr. Fletcher is also a director of Calfrac Well Services Ltd., a public oilfield service company, a director of Total Energy Services Inc., a public oilfield service company, and a director of Whitecap Resources Inc., a public oil and gas company. In these roles, Mr. Fletcher has acquired significant experience and exposure to accounting and financial reporting issues. Mr. Fletcher holds a BSc in geology from the University of Calgary. In January 2009, Mr. Fletcher graduated from the Directors' Education Program sponsored by the Institute of Corporate Directors and the Haskayne School of Business.

Charter

The primary function of the Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities for financial matters. It performs this function by serving as an independent and objective party to monitor Peyto's financial reporting process and internal control system; reviewing and assessing audit efforts of Peyto's independent auditors; providing an avenue of open communication among Peyto's independent auditors, financial and senior management and board of directors; and reviewing the independence and performance of the independent auditor. The Audit Committee has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities and the authority to retain such outside counsel, experts and other advisors as it determines appropriate to assist in the conduct of any investigation. Attached as Schedule C hereto is the complete text of the Audit Committee's Charter.

Audit Fees

The table below provides disclosure of the fees billed to Peyto by its external auditors in fiscal 2010 and fiscal 2009, dividing the services into the categories of work performed.

Type of Work	2010 Fees	2010 Percentage	2009 Fees	2009 Percentage
Audit Fees	\$153,700	43	\$149,460	38%
Audit Related Fees				
Review of interim financial statements and MD&A, reviewing prospectus disclosures and IFRS related procedures	\$147,711	41	\$90,704	23%
Tax Fees				
Tax compliance services, tax advice, tax planning and annual filings	\$60,036	16	\$152,245	39%
Total	\$361,447		\$392,409	

All non-audit services are disclosed and approved by the Audit Committee.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

There are no outstanding legal proceedings or regulatory actions involving claims for damages where the amount involved, exclusive of interest and costs, is in excess of ten percent (10%) of the current assets of Peyto or its predecessor, the Trust, to which Peyto or its predecessor, the Trust, are a party to or were a party to, or of which any of Peyto's properties are the subject, nor are there any such proceedings known to be contemplated.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

There were no material interests, direct or indirect, of directors and senior officers of Peyto, any securityholder who directly or indirectly beneficially owns, or exercises control or direction over, more than 10% of the outstanding voting securities of Peyto or any known associate or affiliate of such persons in any transaction within the three most recently completed financial years or during the current financial year which has materially affected or will materially affect Peyto.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Deloitte & Touche LLP, Chartered Accountants, the auditor of Peyto, is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

Valiant Trust Company, at its principal office in Calgary, Alberta and through its co-agent, BNY Trust Company of Canada, at its principal office in Toronto, Ontario is the transfer agent and registrar for the Common Shares.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, neither Peyto or its predecessor, the Trust, or the Trust's subsidiaries, have entered into any material contracts within the most recently completed financial year, or before the most recently completed financial year which are still in effect.

INTEREST OF EXPERTS

There is no person or company whose profession or business gives authority to a statement, report or valuation made by such person or company and who is named as having prepared or certified a report, valuation statement or opinion described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by Peyto during, or related to, Peyto's most recently completed financial year other than InSite, Peyto's independent engineering evaluators, and Deloitte & Touche LLP, Chartered Accountants, the auditor of Peyto. To the knowledge of Peyto, none of the designated professionals of InSite, had any registered or beneficial interests, direct or indirect, in any securities or other property of Peyto or of Peyto's associates or affiliates either at the time they prepared the statement, report or valuation prepared by them, at any time thereafter or to be received by them. Deloitte & Touche LLP, Chartered Accountants, is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

In addition, none of the aforementioned persons or companies, nor any director, officer or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of Peyto or of any associate or affiliate of Peyto, except for Stephen J. Chetner, the Corporate Secretary and a Director of Peyto, who is a partner of Burnet, Duckworth & Palmer LLP, which law firm renders legal services to Peyto.

RISK FACTORS

The following is a summary of certain risk factors relating to the business of Peyto. The following information is a summary only of certain risk factors and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form.

Exploration, Development and Production Risks

Oil and natural gas operations involve many risks that even a combination of experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of Peyto depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. Without the continual addition of new reserves, any existing reserves Peyto

may have at any particular time, and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Peyto's reserves will depend not only on its ability to explore and develop any properties it may have from time to time, but also on its ability to select and acquire suitable producing properties or prospects. No assurance can be given that Peyto will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by Peyto.

Future oil and natural gas exploration may involve unprofitable efforts, not only from dry wells, but also from wells that are productive but do not produce sufficient petroleum substances to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

Oil and natural gas exploration, development and production operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, cratering, sour gas releases and spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or personal injury. In particular, Peyto may explore for and produce sour natural gas in certain areas. An unintentional leak of sour natural gas could result in personal injury, loss of life or damage to property and may necessitate an evacuation of populated areas, all of which could result in liability to Peyto. In accordance with industry practice, Peyto is not fully insured against all of these risks, nor are all such risks insurable. Although Peyto maintains liability insurance in an amount that it considers consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event Peyto could incur significant costs. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including encountering unexpected formations or pressures, premature decline of reservoirs and the invasion of water into producing formations. Losses resulting from the occurrence of any of these risks may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Global Financial Crisis

Recent market events and conditions, including disruptions in the international credit markets and other financial systems and the deterioration of global economic conditions, have caused significant volatility to commodity prices. These conditions worsened in 2008 and continued in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and may impact the performance of the global economy going forward. Although economic conditions improved towards the latter portion of 2009, as anticipated, the recovery from the recession has been slow in various jurisdictions including in Europe and the United States and has been impacted by various ongoing factors including sovereign debt levels and high levels of unemployment which continue to impact commodity prices and to result in high volatility in the stock market.

Prices, Markets and Marketing

The marketability and price of oil and natural gas that may be acquired or discovered by Peyto is and will continue to be affected by numerous factors beyond Peyto's control. Peyto's ability to market its oil and natural gas may depend upon its ability to acquire space on pipelines that deliver natural gas to commercial markets. Peyto may also be affected by deliverability uncertainties related to the proximity of its reserves to pipelines and processing and storage facilities and operational problems affecting such pipelines and facilities as well as extensive government regulation relating to price, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business.

The prices of oil and natural gas may be volatile and subject to fluctuation. Any material decline in prices could result in a reduction of Peyto's net production revenue. The economics of producing from some wells may change as a result of lower

prices, which could result in reduced production of oil or gas and a reduction in the volumes of Peyto's reserves. Peyto might also elect not to produce from certain wells at lower prices. All of these factors could result in a material decrease in Peyto's expected net production revenue and a reduction in its oil and gas acquisition, development and exploration activities. Prices for oil and gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and gas, market uncertainty and a variety of additional factors beyond the control of Peyto. These factors include economic conditions, in the United States and Canada, the actions of OPEC, governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. Any substantial and extended decline in the price of oil and gas would have an adverse effect on Peyto's carrying value of its reserves, borrowing capacity, revenues, profitability and cash flows from operations and may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. As well, cash dividends from Peyto will be highly sensitive to the prevailing price of crude oil and natural gas.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns. Volatile oil and gas prices make it difficult to estimate the value of producing properties for acquisition and often cause disruption in the market for oil and gas producing properties, as buyers and sellers have difficulty agreeing on such value. Price volatility also makes it difficult to budget for and project the return on acquisitions and development and exploitation projects.

In addition, bank borrowings available to Peyto may, in part, be determined by Peyto's borrowing base. A sustained material decline in prices from historical average prices could reduce Peyto's borrowing base, therefore reducing the bank credit available to Peyto which could require that a portion, or all, of Peyto's bank debt be repaid.

Operations

Peyto's operations are subject to all of the risks normally incident to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells, including encountering unexpected formations or pressures, blow-outs, craterings and fires, all of which could result in personal injuries, loss of life and damage to the property of Peyto and others. Peyto has both safety and environmental policies in place to protect its operators and employees, as well as to meet the regulatory requirements in those areas where it operates. In addition, Peyto has liability insurance policies in place, in such amounts as it considers adequate. Peyto will not be fully insured against all of these risks, nor are all such risks insurable. See "*Risk Factors – Environmental*" and "*Risk Factors – Insurance*".

Operational Dependence

Other companies operate a small percentage of the assets in which Peyto has an interest. As a result, Peyto has limited ability to exercise influence over the operation of those assets or their associated costs, which could adversely affect Peyto's financial performance. Peyto's return on assets operated by others therefore depends upon a number of factors that may be outside of Peyto's control, including the timing and amount of capital expenditures, the operator's expertise and financial resources, the approval of other participants, the selection of technology and risk management practices.

Project Risks

Peyto manages a variety of small and large projects in the conduct of its business. Project delays may delay expected revenues from operations. Significant project cost over-runs could make a project uneconomic. Peyto's ability to execute projects and market oil and natural gas depends upon numerous factors beyond Peyto's control, including:

- the availability of processing capacity;
- the availability and proximity of pipeline capacity;
- the availability of storage capacity;
- the supply of and demand for oil and natural gas;
- the availability of alternative fuel sources;
- the effects of inclement weather;
- the availability of drilling and related equipment;
- unexpected cost increases;
- accidental events;
- currency fluctuations;
- changes in regulations;

- the availability and productivity of skilled labour; and
- the regulation of the oil and natural gas industry by various levels of government and governmental agencies.

Because of these factors, Peyto could be unable to execute projects on time, on budget or at all, and may not be able to effectively market the oil and natural gas that it produces.

Availability of Drilling Equipment and Access

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Peyto and may delay exploration and development activities.

Title to Assets

Although title reviews may be conducted prior to the purchase of oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat Peyto's claim which may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Failure to Realize Anticipated Benefits of Acquisitions and Dispositions

Peyto makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as Peyto's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of Peyto. The integration of acquired business may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets are periodically disposed of, so that Peyto can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of Peyto, if disposed of, could be expected to realize less than their carrying value on the financial statements of Peyto.

Competition

The petroleum industry is competitive in all its phases. Peyto competes with numerous other organizations in the search for, and the acquisition of, oil and natural gas properties and in the marketing of oil and natural gas. Peyto's competitors include oil and natural gas companies that have substantially greater financial resources, staff and facilities than those of Peyto. Peyto's ability to increase its reserves in the future will depend not only on its ability to explore and develop its present properties, but also on its ability to select and acquire other suitable producing properties or prospects for exploratory drilling. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery and storage. Competition may also be presented by alternate fuel sources.

Regulatory

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. See "*Industry Conditions*". Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for natural gas and crude oil and increase Peyto's costs, any of which may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, Peyto will require licenses from various governmental authorities. There can be no assurance that Peyto will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

Environmental

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require Peyto to incur costs to remedy such discharge. Although Peyto believes that it will be in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material increase in the costs of production, development or exploration activities or otherwise have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Climate Change

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nationwide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". Recently, representatives from approximately 170 countries met in Copenhagen, Denmark to attempt to negotiate a successor to the Kyoto Protocol. Pursuant to the resulting Copenhagen Accord, a non-binding political consensus rather than a binding international treaty such as the Kyoto Protocol, the Government of Canada revised its emissions reduction targets slightly. There has been much public debate with respect to Canada's ability to meet these targets and the Government's strategy or alternative strategies with respect to climate change and the control of greenhouse gases. Peyto's exploration and production facilities and other operations and activities emit greenhouse gases and require Peyto to comply with Alberta's greenhouse gas emissions legislation contained in the *Climate Change and Emissions Management Act* and the *Specified Gas Emitters Regulation*. Peyto may also be required comply with the regulatory scheme for greenhouse gas emissions ultimately adopted by the federal government, which is now expected to be modified to ensure consistency with the regulatory scheme for greenhouse gas emissions adopted by the United States. The direct or indirect costs of these regulations may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. The future implementation or modification of greenhouse gases regulations, whether to meet the limits required by the Kyoto Protocol, the Copenhagen Accord or as otherwise determined, could have a material impact on the nature of oil and natural gas operations, including those of Peyto. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on Peyto and its operations and financial condition. See "*Industry Conditions – Climate Change Regulation*".

Variations in Interest Rates and Foreign Exchange Rates

An increase in interest rates could result in a significant increase in the amount Peyto pays to service debt, potentially impacting dividends to Shareholders and negatively impacting the market price of the Common Shares.

World oil and gas prices are quoted in United States dollars and the price received by Canadian producers is therefore affected by the Canadian/U.S. dollar exchange rate, which will fluctuate over time. In recent years, the Canadian dollar has increased materially in value against the United States dollar. Material increases in the value of the Canadian dollar result in the receipt by Peyto of fewer Canadian dollars for its production which may affect future dividends. The increase in the exchange rate for the Canadian dollar and future Canadian/United States exchange rates may impact future dividends and the future value of Peyto's reserves as determined by independent evaluators.

To the extent that Peyto engages in risk management activities related to foreign exchange rates, there is a credit risk associated with counterparties with which Peyto may contract.

Capital Investment

The timing and amount of capital expenditures will directly affect the amount of income for dividends declared to Peyto Shareholders. Certain conditions in the oil and gas exploration and development industry, including but not limited to weather, may impact the timing of the return on capital invested. Dividends may be reduced, or even eliminated, at times when significant capital or other expenditures are made.

Substantial Capital Requirements

Peyto anticipates making substantial capital expenditures for the acquisition, exploration, development and production of oil and natural gas reserves in the future. If Peyto's revenues or reserves decline, it may not have access to the capital necessary to undertake or complete future drilling programs. In addition, uncertain levels of near term industry activity coupled with the present global credit crisis exposes Peyto to additional access to capital risk. There can be no assurance that debt or equity financing, or cash generated by operations will be available or sufficient to meet these requirements or for other corporate purposes or, if debt or equity financing is available, that it will be on terms acceptable to Peyto. The inability of Peyto to access sufficient capital for its operations could have a material adverse effect on Peyto's business financial condition, results of operations and prospects.

Debt Service

Peyto has credit facilities in the amount of \$625 million. Variations in interest rates and scheduled principal repayments could result in significant changes in the amount required to be applied to debt service before payment of any amounts to Peyto. Although it is believed that the bank line of credit is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Peyto or that additional funds can be obtained.

The lenders have been provided with security over substantially all of the direct and indirect assets of Peyto. If Peyto becomes unable to pay its debt service charges or otherwise commits an event of default such as bankruptcy, the lenders may foreclose on or sell the Properties.

Issuance of Debt

From time to time Peyto may enter into transactions to acquire assets or the securities of other organizations. These transactions may be financed in whole or in part with debt, which may increase Peyto's debt levels above industry standards for oil and natural gas companies of similar size. Depending on future exploration and development plans, Peyto may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms. Neither Peyto's articles nor its by-laws limit the amount of indebtedness Peyto may incur. The level of Peyto's indebtedness from time to time, could impair Peyto's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Hedging

From time to time Peyto may enter into agreements to receive fixed prices on its oil and natural gas production to offset the risk of revenue losses if commodity prices decline; however, if commodity prices increase beyond the levels set in such agreements, Peyto will not benefit from such increases and Peyto may nevertheless be obligated to pay royalties on such higher prices, even though not received by it, after giving effect to such agreements. Similarly, from time to time Peyto may enter into agreements to fix the exchange rate of Canadian to United States dollars in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to the United States dollar; however, if the Canadian dollar declines in value compared to the United States dollar, Peyto will not benefit from the fluctuating exchange rate.

Reserve Estimates

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth herein are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and amount of capital expenditures, marketability of oil and gas, royalty rates, the assumed effects of regulation by governmental agencies and future operating costs, all of which may vary materially from actual results. For those reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular group of

properties, classification of such reserves based on risk of recovery and estimates of future net revenues associated with reserves prepared by different engineers, or by the same engineers at different times, may vary. Peyto's actual production, revenues, taxes and development and operating expenditures with respect to its reserves will vary from estimates thereof and such variations could be material.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools. Estimates based on these methods are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based upon production history and production practices will result in variations in the estimated reserves and such variations could be material.

In accordance with applicable securities laws, InSite has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual future net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from Peyto's oil and gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities Peyto intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of a specific effective date and has not been updated and thus does not reflect changes in Peyto's reserves since that date.

Insurance

Peyto's involvement in the exploration for and development of oil and natural gas properties may result in Peyto becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although Peyto maintains insurance in accordance with industry standards to address certain of these risks, such insurance has limitations on liability and may not be sufficient to cover the full extent of such liabilities. In addition, such risks are not, in all circumstances, insurable or, in certain circumstances, Peyto may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of any uninsured liabilities would reduce the funds available to Peyto. The occurrence of a significant event that Peyto is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Dividends

Historical dividend payments of Peyto may not be reflective of future dividend payments, which will be subject to review by the board of directors of Peyto taking into account the prevailing financial circumstances of Peyto at the relevant time. The actual amount declared, if any, is dependent on the commodity price environment and is at the discretion of the board of directors of Peyto.

The level of cash dividends declared to Shareholders is not an earnings measure recognized by generally accepted accounting principles and is not necessarily comparable to the measurement of the level of cash dividends declared to shareholders for other similar corporations.

Geo-Political Risks

The marketability and price of oil and natural gas that may be acquired or discovered by Peyto is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle East, and other areas of the world, have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of Peyto's net production revenue.

In addition, Peyto's oil and natural gas properties, wells and facilities could be subject to a terrorist attack. If any of Peyto's properties, wells or facilities are the subject of terrorist attack it may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects. Peyto will not have insurance to protect against the risk from terrorism.

Dilution

Peyto may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Peyto which may be dilutive.

Expiration of Licences and Leases

Peyto's properties are held in the form of licences and leases and working interests in licences and leases. If Peyto or the holder of the licence or lease fails to meet the specific requirement of a licence or lease, the licence or lease may terminate or expire. There can be no assurance that any of the obligations required to maintain each licence or lease will be met. The termination or expiration of Peyto's licences or leases or the working interests relating to a licence or lease may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Aboriginal Claims

Aboriginal peoples have claimed aboriginal title and rights to portions of western Canada and have also made claims that certain developments, including oil and gas exploration development, may have been proceeding without the Crown carrying out appropriate consultations in the course of allowing such developments to proceed. In 2008, an action was commenced on behalf of the Sunchild First Nation ("**Sunchild**") against the Provincial Crown, various provincial ministries, the Energy Resources Conservation Board (the "**ERCB**") and numerous respondent oil and gas companies, including PEDC, that appeared to have interests in the area in question. Sunchild sought judicial review of various Crown and ERCB decisions issued since June 30, 2008 in relation to what was claimed to be their traditional land, and which appeared to include a significant portion of the foothills area of Alberta, on the basis that the Crown failed to properly consult and accommodate Sunchild, in the context of issuing licences to the oil and gas companies, forestry and coal companies within Sunchild's reserve and claimed foothills traditional lands area since the end of June, 2008. The action was formally discontinued against all industry respondents, including PEDC, on October 28, 2010. If any other similar claims arise and are successful such claims may have a material adverse effect on Peyto's business, financial condition, results of operations and prospects.

Conflicts of Interest

The directors and officers of Peyto are engaged in and will continue to engage in other activities in the oil and natural gas industry and, as a result of these and other activities, the directors and officers of Peyto may become subject to conflicts of interest. The ABCA provides that in the event a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided under the ABCA. To the extent that conflicts of interest arise, such conflicts will be resolved in accordance with the provisions of the ABCA.

As at the date hereof, Peyto is not aware of any existing material conflicts of interest between Peyto and a director or officer of Peyto.

Depletion of Reserves

Peyto has certain unique attributes that differentiate it from many other oil and gas industry participants. Cash dividends declared to Shareholders in respect of Properties, absent commodity price increases or cost effective acquisition and development activities will decline over time in a manner consistent with declining production from typical oil, natural gas and natural gas liquids reserves. Although Peyto currently reinvests a portion of its cash flow to fund its exploration and development program, there can be no assurances that this will prevent a reduction in production and reserve levels.

Peyto's future oil and natural gas reserves and production, and therefore its cash flows, will be highly dependent on Peyto's success in its exploration and development projects, exploiting its reserve base and, if applicable, acquiring additional reserves. Without reserve additions through development or acquisition activities, Peyto's reserves and production will decline over time as reserves are depleted.

To the extent that external sources of capital, including the issuance of additional Common Shares, become limited or unavailable, Peyto's ability to make the necessary capital investments to maintain or expand its oil and natural gas reserves will be impaired. To the extent that Peyto is required to use cash flow to finance capital expenditures or property acquisitions, the level of cash dividends declared to Shareholders may be reduced.

There can be no assurance that Peyto will be successful in developing or acquiring additional reserves on terms that meet Peyto's investment objectives.

Taxation of Peyto

Peyto is subject to taxation in each taxation year on its income for the year to the extent that there are not sufficient resource pool deductions, capital cost allowance or utilization of prior year non-capital losses to reduce taxable income to zero. Peyto intends to deduct, in computing its income for tax purposes, the full amount available for deduction in each year. If there are not sufficient tax pools to shelter the income of Peyto, then cash taxes would be payable by Peyto. There can be no assurance that taxation authorities will not seek to challenge certain amounts. If such a challenge were to succeed against Peyto, it could have a material adverse effect on the amount of cash available to fund future development capital expenditures or to declare and pay dividends on the Common Shares.

Accounting Write Downs as a Result of GAAP

GAAP require that management apply certain accounting policies and make certain estimates and assumptions which affect reported amounts in the consolidated financial statements of Peyto. The accounting policies may result in non-cash charges to net income and write downs of assets in the financial statements. Such non-cash charges and write downs may be viewed unfavourably by the market and result in an inability to borrow funds and/or may result in a decline in the share price.

Under GAAP, the net amounts at which crude oil and natural gas properties are carried are subject to a ceiling test, which is based in part upon estimated future net cash flows from reserves. If net capitalized costs exceed the estimated recoverable amounts, Peyto will have to charge the amounts of the excess to earnings. A decline in the net value of oil and natural gas properties could cause capitalized costs to exceed the cost ceiling limit, resulting in a charge against earnings. The net value of oil and gas properties are highly dependent upon the prices of oil and natural gas.

ADDITIONAL INFORMATION

Additional information relating to Peyto may be found on SEDAR at www.sedar.com. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Peyto's securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Information Circular of Peyto for its most recent annual meeting of securityholders that involved the election of directors. Additional financial information is contained in Peyto's audited consolidated financial statements and management's discussion and analysis for the year-ended December 31, 2010.

**SCHEDULE A – FORM 51-101F3
REPORT ON MANAGEMENT AND DIRECTORS
ON RESERVES DATA AND OTHER INFORMATION**

Management of Peyto is responsible for the preparation and disclosure of information with respect to the oil and gas activities of Peyto in accordance with securities regulatory requirements. This information includes reserves data which are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.

An independent qualified reserves evaluator has evaluated Peyto's reserves data. The report of the independent qualified reserves evaluator is presented below.

The Reserves Committee of the board of directors of Peyto, on behalf of Peyto, has

- (a) reviewed Peyto's procedures for providing information to the independent qualified reserves evaluator;
- (b) met with the independent qualified reserves evaluator to determine whether any restrictions affected the ability of the independent qualified reserves evaluator to report without reservation; and
- (c) reviewed the reserves data with management and the independent qualified reserves evaluator.

The Reserves Committee of the board of directors of Peyto has reviewed Peyto's procedures for assembling and reporting other information associated with oil and gas activities and has reviewed that information with management. The board of directors has, on the recommendation of the Reserve Committee, approved

- (a) the content and filing with securities regulatory authorities of Form 51-101F1 reserves data and other oil and gas information;
- (b) the filing of Form 51-101F2 report of the independent qualified reserves evaluator on the reserves data; and
- (c) the content and filing of this report.

Because the reserves data are based on judgments regarding future events, actual results will vary and the variations may be material. However, any variation should be consistent with the fact that reserves are categorized according to the probability of their recovery.

(signed) "*Darren Gee*"
Darren Gee
President and Chief Executive Officer

(signed) "*Scott Robinson*"
Scott Robinson
Executive Vice-President and Chief Operating Officer

(signed) "*Brian Davis*"
Brian Davis
Director and Chairman of the Reserves Committee

(signed) "*Michael MacBean*"
Michael MacBean
Director and Member of the Reserves Committee

March 30, 2011

**SCHEDULE B – FORM 51-101F2
REPORT ON RESERVES DATA**

To the Board of Directors of Peyto Energy Trust (the "**Company**"):

1. We have evaluated the Company's reserves data as at December 31, 2010. The reserves data are estimates of proved reserves and probable reserves and related future net revenue as at December 31, 2010, estimated using forecast prices and costs.
2. The reserves data are the responsibility of the Company's management. Our responsibility is to express an opinion on the reserves data based on our evaluation.

We carried out our evaluation in accordance with standards set out in the Canadian Oil and Gas Evaluation Handbook (the "**COGE Handbook**") prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society).

3. Those standards require that we plan and perform an evaluation to obtain reasonable assurance as to whether the reserves data are free of material misstatement. An evaluation also includes assessing whether the reserves data are in accordance with principles and definitions presented in the COGE Handbook.
4. The following table sets forth the estimated future net revenue (before deduction of income taxes) attributed to proved plus probable additional reserves, estimated using forecast prices and costs and calculated using a discount rate of 10 percent, included in the reserves data of the Company evaluated by us for the year ended December 31, 2010 and identifies the respective portions thereof that we have audited, evaluated and reviewed and reported on to the Company's board of directors:

Independent Qualified Reserves Evaluator	Description and Preparation Date of Evaluation Report	Location of Reserves (Country or Foreign Geographic Area)	Net Present Value of Future Net Revenue (\$ thousands CDN - before income taxes, 10% discount rate)			
			Audited	Evaluated	Reviewed	Total
InSite Petroleum Consultants Ltd.	Evaluation of Oil & Gas Properties of Peyto Energy Trust as at December 31, 2010, prepared February 15, 2011	Canada	-	\$2,847,748.4	-	\$2,842,748.4

5. In our opinion, the reserves data respectively evaluated by us have, in all material respects, been determined and are in accordance with the COGE Handbook, consistently applied. We express no opinion on the reserves data that we reviewed but did not audit or evaluate.
6. We have no responsibility to update our reports referred to in paragraph 4 for events and circumstances occurring after their respective preparation date.
7. Because the reserves data are based on judgements regarding future events, actual results will vary and the variations may be material.

Executed as to our report referred to above:

INSITE PETROLEUM CONSULTANTS LTD.

Calgary, Alberta, Canada

Execution Date: February 15, 2011

(signed) "*Peter P. Hadala*"

Peter P. Hadala, P.Eng.

Managing Director

SCHEDULE C – AUDIT COMMITTEE CHARTER

PEYTO EXPLORATION & DEVELOPMENT CORP.

AUDIT COMMITTEE

AUDIT COMMITTEE CHARTER

This charter governs the operations of the audit committee (the "**Committee**") of Peyto Exploration & Development Corp. ("**Peyto**"). The Committee shall report to the board of directors (the "**Board**") of Peyto.

I. PURPOSE

- (a) The primary function of the Committee is to assist the Board in fulfilling its responsibilities regarding the integrity of Peyto's financial statements including the financial reporting process and systems of internal controls, the compliance by Peyto with legal and regulatory requirements and the qualifications, performance and independence of Peyto's external auditor by reviewing:
 - (i) the financial information that will be provided to the shareholders, regulatory authorities and others;
 - (ii) the systems of internal controls management has established;
 - (iii) all audit processes;
 - (iv) all reporting from the external auditors.
- (b) Primary responsibility for the financial reporting, information systems, risk management and internal controls of Peyto is vested in management and is overseen by the Board. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that Peyto's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. These are the responsibilities of management and the external auditor. Nor is it the duty of the Committee to conduct investigations, to resolve disagreements, if any, between management and the external auditor or to assure compliance with laws and regulations.

II. COMPOSITION AND OPERATIONS

- (a) The Committee shall be composed of not fewer than three directors, none of whom shall be officers, employees or consultants to Peyto or any of its related legal entities. The Committee shall only be comprised of unrelated directors. An unrelated director is a director who is independent of management and is free from any interest or other relationship which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of Peyto, other than interests and relationships arising from shareholding.
- (b) The Committee shall review and reassess this Charter annually.
- (c) All Committee members shall be financially literate (as defined by the TSX or other regulatory authority), or shall become financially literate within a reasonable period of time after appointment to the Committee, and at least one member shall have appropriate financial management experience or expertise.
- (d) Peyto's auditors shall be advised of the names of the Committee members and when appropriate will receive notice of and be invited to attend meetings of the Committee and to be heard at those meetings on matters relating to the auditor's duties.
- (e) The Committee shall meet with the external auditors as it deems appropriate to consider any matter that the Committee or auditors determine should be brought to the attention of the Board or shareholders.

- (f) The Committee shall meet at least four times each year.
- (g) The Committee shall have access to Peyto's senior management and documents as required to fulfill its responsibilities and is provided with the resources necessary to carry out its responsibilities.
- (h) The Committee shall provide open avenues of communication among management, employees, external auditors and the Board.
- (i) The secretary to the Committee shall be the Corporate Secretary or an appointee of the Corporate Secretary.
- (j) Notice of the time and place of every meeting shall be given to each Committee member at least 48 hours prior to the meeting.
- (k) A majority of the voting membership of the Committee present in person or by telephone or other electronic telecommunication device shall constitute a quorum.
- (l) The Chief Executive Officer, Vice-President, Finance and Chief Financial Officer and external auditor would be expected to be available to attend meetings or portions thereof. The external auditors would meet at least twice annually with the Committee. Others may or may not attend the meetings at the sole discretion of the Committee.
- (m) Minutes of Committee meetings shall be approved by the Committee and sent to all directors of the Board.

III. DUTIES AND RESPONSIBILITIES

(a) Financial Statements and Other Financial Information

The Committee will review and recommend for approval to the Board financial information that will be made publicly available. This includes:

- (i) Peyto's annual and quarterly financial statements;
- (ii) Peyto's press releases and reports as they relate to the finances of Peyto;
- (iii) the Management Discussion and Analysis;
- (iv) the financial content of the Annual Report;
- (v) the Annual Information Form and any Prospectus or Private Placement Memorandums; and
- (vi) any reports required by regulatory or government authorities as they relate to the finances of Peyto.

The Committee will review and discuss:

- (i) the appropriateness of accounting policies and financial reporting practices to be adopted by Peyto;
- (ii) any significant proposed changes in financial reporting and accounting policies and practices to be adopted by Peyto;
- (iii) any new or pending developments in accounting and reporting standards that may affect Peyto;
- (iv) ascertain compliance with the covenants under loan agreements;

- (v) management's key estimates and judgments that may be material to financial reporting; and
- (vi) any other matters required to be reviewed under applicable legal, regulatory or stock exchange requirements.

(b) Risk Management, Internal Control and Information Systems

The Committee will review and obtain reasonable assurance that the risk management, internal control and information systems are operating effectively to produce accurate, appropriate and timely management and financial information. This includes:

- (i) review Peyto's risk management controls and policies;
- (ii) obtain reasonable assurance that the information systems are reliable and the systems of internal controls are properly designed and effectively implemented through discussions with and reports from management and the external auditor;
- (iii) review management steps to implement and maintain appropriate internal control procedures including a review of policies;
- (iv) review adequacy of security of information, information systems and recovery plans;
- (v) monitor compliance with statutory and regulatory obligations;
- (vi) review the appointment of the Vice-President, Finance and Chief Financial Officer; and
- (vii) review the adequacy of accounting and finance resources.

(c) External Audit

The Committee will review the planning and results of external audit activities and the ongoing relationship with the external auditor. This includes:

- (i) review and recommend to the Board, for shareholder approval, engagement of the external auditor including, as part of such review and recommendation, an evaluation of the external auditors qualifications, independence and performance;
- (ii) review and recommend to the Board the annual external audit plan, including but not limited to the following:
 1. engagement letter;
 2. objectives and scope of the external audit work;
 3. procedures for quarterly review of financial statements;
 4. materiality limit;
 5. areas of audit risk;
 6. staffing;
 7. timetable; and
 8. proposed fees.
- (iii) meet with the external auditor to discuss Peyto's quarterly and annual financial statements and the auditor's report including the appropriateness of accounting policies and underlying estimates;

- (iv) review and advise the Board with respect to the planning, conduct and reporting of the annual audit, including but not limited to:
 - 1. any difficulties encountered, or restrictions imposed by management during the annual audit;
 - 2. any significant accounting or financial reporting issue including the resolution of any disagreement between management and the external auditors;
 - 3. the auditor's evaluation of Peyto's system of internal controls, procedures and documentation;
 - 4. the post audit or management letter containing any findings or recommendation of the external auditor, including management's response thereto and the subsequent follow-up to any identified internal control weakness;
 - 5. assess the performance and consider the annual appointment of external auditors for recommendation to the Board.
- (v) review and receive assurances on the independence of the external auditor;
- (vi) review the non-audit services to be provided by the external auditor's firm and consider the impact on the independence of the external audit; and
- (vii) meet periodically with the external auditor without management present.
- (d) Other
 - (i) review material litigation and its impact on financial reporting; and
 - (ii) establish procedures for the receipt, retention and treatment of complaints received by Peyto regarding accounting, internal controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

IV. ACCOUNTABILITY

The Committee shall report its discussions to the Board by distributing the minutes of its meetings and where appropriate, by oral report at the next Board meeting.

V. STANDARDS OF LIABILITY

Nothing contained in this Charter is intended to expand applicable standards of liability under statutory, regulatory or other legal requirements for the Board or members of the Committee. The purposes and responsibilities outlined in these terms of reference are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards as it deems necessary from time to time to fulfill its responsibilities.