

## NEWS RELEASE

FEBRUARY 15, 2012

SYMBOL: PEY - TSX

### PEYTO EXPLORATION & DEVELOPMENT CORP. INCREASES RESERVES PER SHARE 19% AND PRODUCTION PER SHARE 33% IN 2011

Peyto Exploration & Development Corp. is pleased to present the results and analysis of the independent reserve report effective December 31, 2011. The evaluation encompassed 100% of Peyto's reserve assets and was conducted by InSite Petroleum Consultants.

Peyto successfully executed the largest capital program in its thirteen year history during 2011, resulting in substantial growth in production and reserves. All of the activity was focused on the company's multi-zone, liquids rich, natural gas resource plays located in the Alberta Deep Basin. Production<sup>1</sup> grew 38%, from 30,600 boe/d at year end 2010 to 42,100 boe/d at year end 2011, while reserves grew 24% from 260 mmboes to 322 mmboes (33% and 19%, respectively per share). This represents the 13<sup>th</sup> consecutive year that Peyto has grown its reserves per share.

#### Historical

- Since the company's inception in 1998, Peyto has explored for and discovered 2.4 Trillion Cubic Feet equivalent ("TCFe") of Alberta Deep Basin natural gas reserves, has developed with the drill bit 1.4 TCFe, and has recovered and sold 0.5 TCFe. Peyto is actively working to develop the remaining 1.0 TCFe of identified reserves, all while continuing to explore for new reserves.
- A total of \$2.26 billion was invested in the development of the 1.4 TCFe at an average cost of \$1.58/MCFe. A weighted average field netback<sup>1</sup> of \$5.62/MCFe was also achieved over that time, for a cumulative recycle ratio of 3.6 times.
- Peyto now has \$36.27/share of Proved plus Probable Additional Net Present Value ("P+P NPV" - debt adjusted, 5% discount) comprised of \$20.26/share of developed reserves and \$16.01/share of undeveloped reserves.

#### 2011 Highlights

- For the year ending December 31, 2011, Peyto invested \$379 million of total capital<sup>1</sup> to build a record 21,700 boe/d of new production<sup>1</sup> at a cost of \$17,500/boe/d. This is the third year in a row that Peyto has added new production for less than \$18,000/boe/d, inclusive of acquisitions, land, seismic, facilities and all well costs.
- This capital investment created new Proved Producing ("PP") reserves valued at \$745 million (Before Tax, NPV<sub>5</sub>) for a NPV recycle ratio of 2.0, or \$5.40/share.
- Reserves increased by 15%, 25% and 24% to 0.8 TCFe, 1.35 TCFe and 1.9 TCFe for Proved Producing, Total Proved ("TP") and Proved plus Probable Additional ("P+P"), respectively. Per share reserves were up 11%, 20%, and 19% for these respective categories.
- The Reserve Life Index ("RLI") for the PP reserves was reduced to 9 years from 11 years due to the significant increase in corporate production, while the RLI for TP and P+P also dropped to 16 and 22 years, respectively.
- For the year, the Proved Producing, Finding, Development and Acquisition ("PP FD&A") cost, inclusive of additions, revisions and production was \$2.12/MCFe (\$12.73/boe) while the average field netback<sup>1</sup> before hedging was \$3.98/MCFe (\$23.88/boe), resulting in a 1.9 times recycle ratio.
- Peyto replaced 452% of production with new Total Proved reserves at a FD&A cost of \$2.13/MCFe (\$12.80/boe) and 585% of production with new P+P reserves at a FD&A cost of \$1.90/MCFe (\$11.40/boe) (including increases in Future Development Capital ("FDC") of \$370 million and \$484 million for the respective categories). For comparative purposes, FD&A costs before FDC were \$1.08/MCFe (\$6.47/boe) and \$0.83/MCFe (\$5.01/boe), respectively.
- At year end, P+P reserves had been assigned to 18% of Peyto's total Deep Basin lands.
- The ratio of year end net debt to the value of the producing reserves (PP NPV<sub>5</sub>) was maintained at 18%, consistent with historical averages.
- Natural Gas Liquids ("NGLs") which make up 17% of Peyto's P+P reserves increased 64% due to planned deep-cut processing facilities.

- For every location drilled and converted to Proved Producing, Peyto was able to recognize over two new undeveloped locations in its inventory of future opportunities.

## 2012 Update

- Based on the current commodity price forecast, Peyto plans to direct more of the \$400 to \$450 million 2012 capital program towards its liquid rich, natural gas plays, as well as accelerate the installation of deep-cut gas processing facilities at its Oldman, Nosehill and Wildhay gas plants. These new processing facilities are estimated to cost \$60 million and are forecast to recover an incremental 12.5 mmoes of P+P reserves and over \$200 million (Before Tax, NPV<sub>5</sub>).

<sup>1</sup>Capital Expenditure, Field Netback, and Production are estimated and remain unaudited at this time.

## 2011 RESERVES

The following table summarizes Peyto's reserves and the discounted Net Present Value of future cash flows, before income tax, using variable pricing, at December 31, 2011.

Reserve Category	Before Tax Net Present Value (\$thousands)							
					Discounted at			
	Gas (mmcf)	Oil & NGL (mstb)	BCFe (6:1)	MBOE (6:1)	0%	5%	8%	10%
Proved Producing	667,997	16,125	765	127,458	\$4,809,495	\$2,624,139	\$2,049,171	\$1,791,531
Proved Non-producing	14,335	356	16	2,745	\$96,555	\$42,531	\$28,716	\$22,878
Proved Undeveloped	421,606	24,834	571	95,101	\$2,795,600	\$1,305,678	\$878,074	\$681,252
Total Proved	1,103,938	41,314	1,352	225,304	\$7,701,651	\$3,972,348	\$2,955,961	\$2,495,661
Probable Additional	495,588	14,525	583	97,123	\$3,554,252	\$1,511,454	\$1,010,077	\$794,928
Proved + Probable Additional	1,599,526	55,839	1,935	322,427	\$11,255,903	\$5,483,802	\$3,966,037	\$3,290,588

Note: Based on the InSite report effective December 31, 2011. Tables may not add due to rounding.

## Analysis

Peyto has analyzed the reserve evaluation in order to answer three fundamental questions.

1. Base Reserves - How did the "base reserves" that were on production at the time of the last reserve report perform during the year, and how did any change in commodity price forecast affect their value?
2. Value Creation - How much value did the 2011 capital investments create, both in current producing reserves and in undeveloped potential?
3. Growth and Income - Are the projected cashflows capable of funding the growing number of undeveloped opportunities and a sustainable dividend stream to shareholders without sacrificing financial flexibility?

## BASE RESERVES

Peyto's existing Proved Producing reserves at the start of 2011 (base reserves) were evaluated and adjusted for 2011 production as well as any technical revisions resulting from the additional twelve months of data. As part of InSite's independent engineering analysis, all 710 producing entities were evaluated. These producing wells and zones represent a total gross Estimated Ultimate Recoverable (EUR) volume of 1.2 TCF plus associated liquids.

Included in this group of producing wells are 43 horizontal wells which were drilled and completed with multi-stage fracture stimulations prior to 2011. Original reserve assignments for these wells were conservative due to a lack of analog production performance data. Over time, these wells have outperformed expectations and have received an average Proven Producing reserve increase of 10% from 3.2 BCFe/well to 3.5 BCFe/well.

In aggregate, Peyto is pleased to report that its total base reserves continue to meet with expectation, which increases the confidence in the prediction of future recoveries.

### **Price Forecasts**

InSite's Alberta spot natural gas price forecast for the next 15 years, which begins with \$3.25 C\$/MMBTU, is starting 18% lower today than a year ago. This is due to a reduction in forecasted Henry Hub natural gas price and an increase in the CND\$/USD\$ exchange rate.

The Insite forecast for Alberta Condensate price, which accounts for over 62% of Peyto's total natural gas liquid production, starts 12% higher, or \$102.90/bbl. The debt adjusted NPV, discounted at 5%, of last year's Proved Producing reserves, decreased 10% due to this change in commodity price forecasts, as described in the following value reconciliation.

The InSite Petroleum Consultants price forecast used in the variable dollar economics is available on their website at [www.insitepc.com](http://www.insitepc.com).

### **VALUE CREATION/RECONCILIATION**

Peyto drilled 70 gross (62 net) wells in 2011 for a total capital investment of \$379 million. Of this total, 18% was spent on new lands, seismic and facilities, while the remaining 82% was spent developing existing reserves and exploring for new reserves. Of the 70 wells, 51 (46 net) were previously identified as undeveloped reserves in last year's reserve report (27 Proved, 24 Probable Additional). The remaining 19 wells were not recognized in last year's report as they were deemed too exploratory in nature. The undeveloped reserves booked to the 46 net locations at year end 2010 totaled 152 BCFe (3.3 BCFe/well) of Proved Undeveloped plus Probable Additional reserves for a forecast capital investment of \$214 million (\$1.41/Mcfe). In actuality, \$209 million of capital was spent on these 46 net wells during 2011, yielding Proved Producing plus Probable Additional reserves of 151 BCFe (\$1.39/Mcfe). The development of these 46 net booked locations produced substantively the same outcome that was originally projected. This analysis helps to validate the accuracy of the reserve and capital assignments of past undeveloped locations and provides confidence in the quality of the estimates for future undeveloped locations.

The economic result of 2011 capital investment allows Peyto to determine the best use of shareholders capital on a go-forward basis, and demonstrates the potential returns that can be generated from future undeveloped opportunities.

In order to measure the success of the 2011 capital program, it is necessary to quantify the total amount of value created during the year and compare that to the total amount of capital invested. The independent engineers have run last year's evaluation with this year's price forecast to remove the change in value attributable to both commodity prices and changing royalties. This approach isolates the value created by the Peyto team from the value created (or lost) by those changes outside of their control. Since the capital investments in 2011 were funded from a combination of cash flow, debt and equity, it is necessary to know the change in debt and the change in shares outstanding to see if the change in value is truly accretive to shareholders.

At year end 2011, Peyto's estimated net debt had increased by \$60.7 million to \$465.6 million while the number of shares outstanding had increased by 5.6 million shares to 138.4 million shares. The change in debt includes all of the capital expenditures, net of Drilling Royalty Credits earned, and the total fixed and performance based compensation paid out during the year. Although these estimates are believed to be accurate, they remain unaudited at this time and are subject to change.

Based on this reconciliation of changes in BT NPV, the Peyto team was able to create \$928 million of Proved Producing, \$1.8 billion of Total Proven, and \$2.5 billion of Proved plus Probable Additional undiscounted reserve value, with \$379 million of capital investment. The ratio of capital expenditures to value creation is what Peyto refers to as the NPV recycle ratio, which is simply the undiscounted value addition, resulting from the capital program, divided by the capital investment. For 2011, the Proved Producing NPV recycle ratio is 2.4.

The following table breaks out the value created by Peyto's capital investments and reconciles the changes in debt adjusted NPV of future net revenues using forecast prices and costs as at December 31, 2011.

(\$millions) Discounted at	Proved Producing			Total Proved			Proved + Probable Additional		
	0%	5%	10%	0%	5%	10%	0%	5%	10%
<b>Before Tax Net Present Value at Beginning of Year (\$millions)</b>									
Dec. 31, 2010 Evaluation using InSite Jan. 1, 2011 price forecast, less debt	\$4,098	\$1,958	\$1,177	\$6,388	\$2,999	\$1,727	\$9,534	\$4,333	\$2,438
Per Share Outstanding at Dec. 31, 2010 (\$/share)	\$30.85	\$14.75	\$8.86	\$48.10	\$22.58	\$13.00	\$71.79	\$32.63	\$18.36
2011 sales (revenue less royalties and operating costs)	(\$346)	(\$346)	(\$346)	(\$346)	(\$346)	(\$346)	(\$346)	(\$346)	(\$346)
Net Change due to price forecasts (using InSite Jan 1, 2011 price forecast)	(\$336)	(\$199)	(\$144)	(\$595)	(\$371)	(\$276)	(\$881)	(\$543)	(\$400)
Value Change due to discoveries (additions, extensions, transfers, revisions)	\$928	\$745	\$639	\$1,789	\$1,225	\$925	\$2,483	\$1,575	\$1,134
<b>Before Tax Net Present Value at End of Year (\$millions)</b>									
Dec. 31, 2011 Evaluation using InSite Jan. 1, 2012 price forecast, less debt	\$4,344	\$2,159	\$1,326	\$7,236	\$3,507	\$2,030	\$10,790	\$5,018	\$2,825
Per Share Outstanding at Dec. 31, 2011 (\$/share)	\$31.40	\$15.60	\$9.58	\$52.30	\$25.35	\$14.67	\$77.99	\$36.27	\$20.42
Year over Year Change in Before Tax NPV/share	2%	6%	8%	9%	12%	13%	9%	11%	11%
Year over Year Change in Before Tax NPV/share including Dividend (\$0.72/share)	4%	11%	16%	10%	15%	18%	10%	13%	15%

Tables may not add due to rounding.

## GROWTH AND INCOME

As a dividend paying growth corporation, Peyto's objective is to grow the resources which generate sustainable income (dividends) for shareholders. In order for income to be more sustainable and grow, Peyto must profitably find and develop more reserves. Simply increasing production from the existing reserves will not make that income more sustainable. Reserve Life Index (RLI), or a reserve to production ratio, provides a measure of this long term sustainability.

During 2011, the Company was successful in replacing 230% of the annual produced reserves, which resulted in a 15% increase in total Proved Producing reserves. Annual production, however, increased 49%, from 8.7 mmoes to 12.9 mmoes, thus accelerating reserve recovery and causing a 17% reduction in Proved Producing reserve life. This acceleration has the benefit of shorter time to payout and faster redeployment of capital for greater ultimate returns. Similarly, the Total Proved and P+P reserve life index dropped to 16 and 22 years, respectively. By comparison, Peyto's Proved Producing reserve life is still one of the longest in the industry.

The following table highlights the company's historical Reserve Life Index.

RLI (years)	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Proved Producing</b>	10	9	11	12	13	14	14	11	9
<b>Total Proved</b>	13	12	14	14	16	17	21	17	16
<b>Proved + Probable Additional</b>	19	17	19	20	21	23	29	25	22

## Future Undeveloped Opportunities

With the expansion of Peyto's capital program from \$261 million in 2010 to \$379 million in 2011, the company has been able to increase the pace that undeveloped opportunities are both recognized and developed. As a result, the number of future drilling locations in the reserve report has increased to 437 gross (333 net). Of these locations, 63% are categorized by the independent reserve evaluators as Proven Undeveloped with the remaining 37% as Probable Undeveloped. The net reserves associated with the undeveloped locations total 971 BCFe (161.8 mmoes) or 1.2 BOEs per share. The total capital required to develop them is estimated at \$1.793 Billion or \$1.85/MCFe, in order to create an associated net present value of \$2.215 Billion (5% discount) or \$16.01 per share. The development schedule for the undeveloped reserves is shown in the following table of forecasted capital.

Year	Forecast Capital	
	Proved Reserves Undisc., (\$Millions)	Proved+ Probable Additional Reserves Undisc., (\$Millions)
2012	\$284	\$426
2013	\$335	\$419
2014	\$249	\$418
2015	\$184	\$398
2016	\$56	\$110
Thereafter	\$4	\$23
Total	\$1,111	\$1,794

The existing producing reserves (PP) are forecast to generate over \$4.8 billion in undiscounted cash flow which should be more than sufficient to fund the \$1.8 billion in future development capital, ensuring those reserve additions are accretive to shareholders.

In addition to undeveloped drilling locations, the reserve report also reflects additions to several of Peyto's 100% owned and operated gas plants that will enhance the natural gas liquids recovery. These projects, at the Oldman, Nosehill and Wildhay gas plants located in the Greater Sundance complex, are forecast to occur in 2012 and 2013 for a combined capital investment of \$60 million. Up to 15 bbls/mmcf of increased NGL recovery is forecast to occur which results in an increase in the value of the P+P reserves of \$206 million (Before Tax, NPV<sub>5</sub>).

## Performance Ratios

The following table outlines the 2011 performance ratios for all three reserve categories.

	Proved Producing	Total Proved	Proved + Probable Additional
<b>2011 FD&amp;A Cost (\$/boe)</b>			
(including DRC and change in FDC)	\$12.73	\$12.80	\$11.49
<b>3 yr ave. FD&amp;A Cost incl. FDC (\$/boe)</b>	\$12.77	\$12.66	\$11.48
<b>Reserve Life Index (years)</b>			
Q4 2011 average production <sup>†</sup> – 39,399 boe/d	9	16	22
<b>Reserve Replacement Ratio</b>			
2011 production <sup>†</sup> – 12.945 million boes	2.3	4.5	5.9

<sup>†</sup> Q4 and 2011 production are estimated and remain unaudited at this time.

- FD&A (finding, development and acquisition) costs are used as a measure of capital efficiency and are calculated by dividing the capital costs for the period, including the change in undiscounted future development capital ("FDC"), by the change in the reserves, incorporating revisions and production, for the same period (eg. Total Proved  $(\$379.1 + \$370.4) / (225.3 - 179.7 + 12.945) = \$12.80$ ).
- The reserve life index is calculated by dividing the reserves (in boes) in each category by the annualized average production rate in boe/year (eg. Proved Producing  $127,457 / (39,399 \times 365) = 8.9$  yrs). Peyto believes that the most accurate way to evaluate the current reserve life is by dividing the proved developed producing reserves by the actual fourth quarter average production. In Peyto's opinion, for comparative purposes, the proved developed producing reserve life provides the best measure of sustainability.

- The reserve replacement ratio is determined by dividing the yearly change in reserves before production by the actual annual production for the year (eg. Total Proved  $((225.3-179.7+12.945)/12.945) = 4.5$ ).

## Reserves Committee

Peyto has a reserves committee, comprised of independent board members, that reviews the qualifications and appointment of the independent reserve evaluators. The committee also reviews the procedures for providing information to the evaluators. All booked reserves are based upon annual evaluations by the independent qualified reserve evaluators conducted in accordance with the COGE (Canadian Oil and Gas Evaluation) Handbook and National Instrument 51-101. The evaluations are conducted using all available geological and engineering data. The reserves committee has reviewed the reserves information and approved the reserve report.

## 2012 UPDATE

Excess supply of natural gas in North America coupled with a warmer than normal winter is expected to leave natural gas storage levels higher than usual. This has pushed current and future natural gas prices down to decade lows. Peyto's quick response has been to redirect more of its capital program to liquids rich gas plays like the Cardium and Falher where revenues are enhanced by natural gas liquids production. As well, Peyto will be installing additional facilities at its Oldman and Nosehill gas plants to extract more natural gas liquids from existing and future reserves. It is anticipated that these changes will improve Peyto's netbacks and preserve the returns originally expected from the 2012 capital program.

As the lowest cost producer in Canada, with a large and growing portfolio of proven drilling locations, Peyto remains well positioned to continue to deliver superior returns to shareholders over the long term, despite the volatility in natural gas prices. By maintaining a strong balance sheet and financial flexibility, Peyto will look to capitalize on additional opportunities that arise from slower natural gas activity created by weak prices.

## General

For more in depth discussion of the 2011 reserve report, an interview with the management will be available on Peyto's website by Friday, February 24, 2012. A complete filing of the Statement of Reserves (form 51-101F1), Report on Reserves (form 51-101F2), and Report of Management and Directors on Oil and Gas Disclosure (form 51-101F3) will be available in the Annual Information Form to be filed by the end of March 2012. Shareholders are encouraged to actively visit Peyto's website located at [www.peyto.com](http://www.peyto.com). For further information, please contact Darren Gee, President and Chief Executive Officer of Peyto at (403) 237-8911, or Jim Grant, Investor Awareness, at (403) 451-4102.

*Certain information set forth in this document, including management's assessment of Peyto's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond these parties' control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive therefrom. 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. Some values set forth in the tables above may not add due to rounding. It should not be assumed that the estimates of future net revenues presented in the tables above 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. 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 Toronto Stock Exchange has neither approved nor disapproved the information contained herein.