Peyto Exploration & Development Corp.
President's Monthly Report

January 2011 — From the desk of Darren Gee, President & CEO

A belated Merry Christmas and Happy New Year!! I hope every one of our shareholders had a prosperous 2010 and here's to more of the same in 2011. I know that we at Peyto had a banner year, building more than 15,000 boe/d of new production. Most of that new production is coming from the more prolific, horizontal multi-stage frac'd wells that we've used on some of our Deep Basin tight gas sands. We've also undergone some signficant infrastructure expansion in our greater Sundance area to accomadate all this new production. Now the job in 2011 will be to continue in that same vein, while offsetting what is now an increased corporate decline.

As in the past, this report includes an estimate of monthly capital spending, as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below).

Capital Investment

*2010 Capital Summary (millions$ CND)**

	Q1 '10	Q2 '10	July	Aug	Sept	Q3 '10	Oct	Nov	Dec	Q4	2010
Land & Seismic	0	0	0	4	1	5	1	0			
Drilling	31	18	12	12	11	34	19	23			
Completions	16	10	4	5	4	13	4	10			
Tie ins	8	4	3	5	2	10	3	3			
Facilities	2	6	1	1	3	5	2	2			
Drilling Credit Used	-3	-2	0	0	-3	-4	-1	-1			
Sub Total	55	37	**20**	**26**	**17**	63	**28**	**37**			
Rem. Drilling Credit	**-5**	**0**	1	1	0	**2**	0	0			
Total	**50**	**37**	**21**	**26**	**17**	**64**	**28**	**37**			

This is an estimate based on real field data, not a forecast, and the actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.

Production

*2010 Production ('000 boe/d)**

	Q1 10	Q2 10	Jul	Aug	Sept	Q3 10	Oct	Nov	Dec	Q4 10
Sundance	16.5	18.5	19.2	20.1	21.0	20.1	22.9	24.4	26.4	24.6
Kakwa	2.8	2.7	2.8	2.6	2.5	2.6	2.5	2.6	2.6	2.6
Other	1.3	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.2	1.1
Total	**20.6**	**22.3**	**23.0**	**23.7**	**24.5**	**23.8**	**26.4**	**28.0**	**30.2**	**28.2**

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Peyto Version 3.0

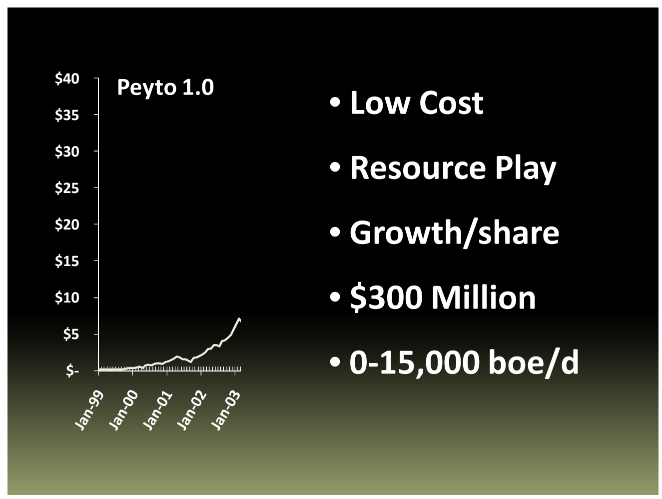
Welcome, to the new and improved Peyto Exploration & Development Corp. or Peyto Version 3.0 as I like to call it. Like all the new versions of iPods that were gifted this Christmas, we too are a new and improved version of the previous Peyto. With the passing of the new year, we officially converted Peyto from an income trust back to a corporation. A dividend paying, growth corporation with more horsepower than ever before and the ability to apply horizontal MSF technology to our Deep Basin plays. This technology not only allows us to improve recovery of our resource plays but also accelerate that recovery so that we can grow even faster. All that growth of course, is profitable growth, even at \$3-\$4 gas prices, due to our low cost advantage.

Peyto Version 1.0

Many of Peyto's original investors remember it's humble beginings. Peyto version 1.0 was launched in the fall of 1998 as a junior E&P growth corp., and it was based on a very simple, but effective strategy; invest for returns, control your own destiny, and focus on being the lowest cost producer. Low cost, of course, being your best insulation from a commodity price you can't control.

So Peyto version 1.0 originally focused on resource plays where the technical risks were lower and results more predictable. And on delivering growth per share, which is what investors need to see.

Over the first 4.5 years as a company, Peyto 1.0 invested \$300 million in drilling projects and grew production from zero to 15,000 boe/d or 140 boe/d/MM shares.



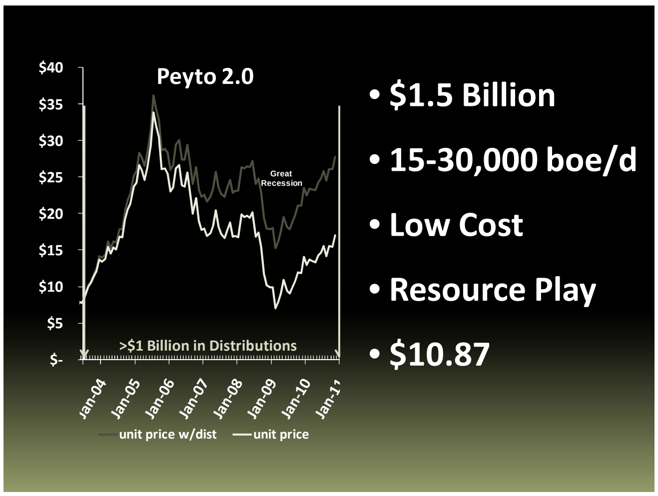
Then, in the summer of 2003, at a share price of approximately \$7.70 (post-split, or 213% CAGR to that point), we released Peyto version 2.0; an energy trust, capable of both re-investment and distribution.

Peyto Version 2.0

At the time, Peyto version 2.0 wasn't like other trusts. It was called a hybrid trust because it only distributed 50% of its cashflow, while retaining the remaining half for re-investment. This new version of Peyto also had enhanced low cost advantage functionality, an expanded resource play focus and the ability to both grow and distribute.

Over the next 7.5 years this new version of Peyto invested over $1.5 billion into gas reserve development and grew production from 15,000 to 30,000 boe/d (230 boe/d/MM shares).

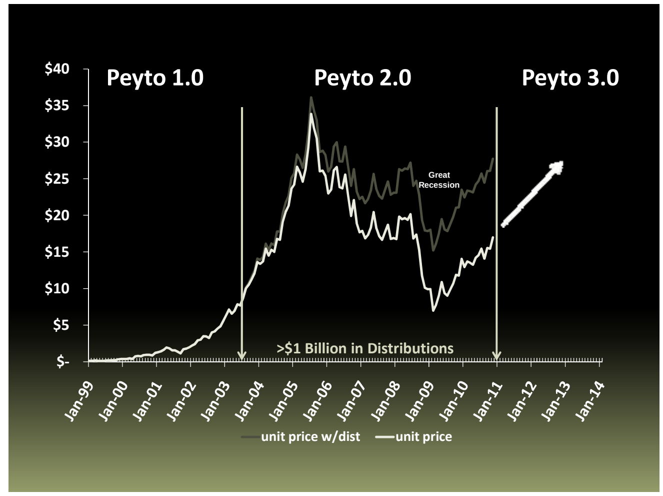
It also distributed over $1.1 billion in distributions to unitholders. That's $10.87 per trust unit. Since mid-2003 the distributions alone have accounted for 12% of the 20% compounded annual return over a 7.5 year period.



And now we're very excited about the most recent launch of Peyto version 3.0, a dividend paying growth corp. with some new features, as well as many of the same features that made Peyto 1.0 and 2.0 so successful.

<u>Peyto Version 3.0 - What's in the box</u>

- ✓ A resource-play focus that continues to expand with the identification of profitable new plays and new areas in the Deep Basin.
- ✓ A low cost producer advantage that continues to allow Peyto to generate a profit through the entire commodity price cycle.
- ✓ A proven ability to develop with the latest technologies like horizontal wells with multi stage fracture treatments to improve recovery and enhance returns.
- ✓ A skilled technical team with the capacity to execute on over $300 million per year in development opportunities.
- ✓ A growing production base of 30,000+ boe/d, which generates sufficient cashflow to fund all those opportunities.
- ✓ Profitability at sub $4 gas prices of today.



This is the new and improved Peyto 3.0. And we're excited to see how it performs in what is arguably a new world for natural gas producers. But, as with the previous two versions of Peyto, our expectations are high.

Activity Levels and Commodity Prices

2010 is in the history books and you can't really say it was much of a year for natural gas prices. AECO monthly index prices averaged $3.91/GJ, almost exactly the same as the $3.92/GJ experienced in 2009, and a far cry from the $7.70/GJ we had in '08, or the $6.26/GJ in '07. The future strip doesn't look much better with 2011, '12 and '13 forecast at $3.69/GJ, $4.14/GJ and $4.39/GJ (www.gasalberta.com pricing). We continued to be oversupplied in North America while the rest of the world is paying in the $8 range. Obviously that situation won't last, but it may be a few years yet before LNG exports rebalance that difference. Until then, Peyto will continue to be counter cyclical, taking advantage of our low costs to be profitable, even at the bottom of the cycle. One of our investors reminded me of a Warren Buffett quote that goes:

"One of the ironies of capitalism is that most managers in commodity industries abhor shortage conditions – even though those are the only circumstances permitting good returns. Whenever shortages appear, the typical manager simply can't wait to … plug the hole through which money is showering upon him." – W. Buffett

Right now we have a shortage of demand, and we're in no hurry to plug it just to get higher prices and more competition from everyone else.