

## NEWS RELEASE

FEBRUARY 16, 2011

SYMBOL: PEY - TSX

### PEYTO EXPLORATION & DEVELOPMENT CORP. ANNOUNCES 2010 YEAR END RESERVES AND 2011 UPDATE

Peyto Exploration & Development Corp. (formerly Peyto Energy Trust) is pleased to present the results and analysis of the independent reserve report effective December 31, 2010. The evaluation encompassed 100% of Peyto's reserve assets and was conducted by InSite Petroleum Consultants ("InSite", formerly Paddock Lindstrom and Associates Ltd.).

Peyto had a tremendous year of growth in 2010, its twelfth successful year developing natural gas resource plays in the Western Canadian Sedimentary Basin. Production<sup>1</sup> and reserves grew 60% and 30% from year end 2009 to year end 2010 (40% and 13%, respectively per share), while the inventory of future booked opportunities grew by 37% to 356 drilling locations.

#### Historical

- Over its twelve year history, Peyto has explored for and discovered over 1.9 Trillion Cubic Feet equivalent ("TCFe") of Alberta Deep Basin natural gas reserves, has developed with the drill bit 1.2 TCFe, and is actively working to develop the remaining 0.7 TCFe of identified reserves, all while continuing to explore for new reserves.
- A total of \$1.9 billion was invested in the development of the 1.2 TCFe at an average cost of \$1.56/MCFe. A weighted average field netback<sup>1</sup> of \$5.85/MCFe was also achieved over that time, for a cumulative recycle ratio of 3.8 times.
- Peyto now has \$32.63/share of Proved plus Probable Additional Net Present Value ("P+P NPV" - debt adjusted, 5% discount) comprised of \$18.78/share of developed reserves and \$13.85/share of undeveloped reserves.

#### 2010 Highlights

- For the year ending December 31, 2010, Peyto invested \$261 million of capital<sup>1</sup> (net of Drilling Royalty Credits) to build a record 91 MMCFe/d or 15,100 boe/d of new production for a cost of \$17,300/boe/d.
- The \$261 million of capital investment created new Proved Producing ("PP") reserves valued at \$672 million (Before Tax, NPV<sub>5</sub>) for a NPV ratio of 2.6.
- Reserves increased by 12%, 21% and 30% to 0.7 TCFe, 1.1 TCFe and 1.6 TCFe for Proved Producing, Total Proved ("TP") and Proved plus Probable Additional ("P+P"), respectively. Per share or per unit reserves were down 3%, up 5%, and up 13% for the respective categories.
- The Reserve Life Index ("RLI") for Proved Producing was reduced to 11 years from 14 years due to the significant increase in corporate production, while the RLI for TP and P+P also dropped to 17 and 25 years from 21 and 29 years, respectively.
- For the year, the Proved Producing, Finding, Development and Acquisition ("PP FD&A") cost, inclusive of additions, revisions and production was \$2.10/MCFe (\$12.63/boe) while the average field netback<sup>1</sup> before hedging was \$4.17/MCFe (\$25.02/boe), resulting in a 2.0 times recycle ratio.
- Peyto replaced 456% of production with new Total Proved reserves at a FD&A cost of \$2.35/MCFe (\$14.09/boe) and 790% of production with new P+P reserves at a FD&A cost of \$2.19/MCFe (\$13.15/boe) (including increases in Future Development Capital ("FDC") of \$295 million and \$639 million for the respective categories).

#### 2011 Update

- Based on the profitable returns being generated at current forecasted natural gas prices, Peyto plans to aggressively grow production (32,500 boe/d currently) and reserves with an expanded capital program of \$300 - \$325 million this year.

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

## 2010 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, 2010.

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	567,964	15,959	664	110,619	\$4,502,786	\$2,363,414	\$1,821,029	\$1,581,876
Proved Non-producing	11,585	305	13	2,236	\$92,274	\$37,141	\$23,876	\$18,457
Proved Undeveloped	349,505	8,595	401	66,846	\$2,198,177	\$1,003,877	\$678,357	\$531,792
Total Proved	929,055	24,858	1,078	179,701	\$6,793,236	\$3,404,432	\$2,523,263	\$2,132,126
Probable Additional	424,335	9,255	480	79,977	\$3,145,882	\$1,333,672	\$896,915	\$710,622
Proved + Probable								
Additional	1,353,390	34,113	1,558	259,678	\$9,939,118	\$4,738,104	\$3,420,177	\$2,842,748

Note: Based on the InSite report effective December 31, 2010. Tables may not add due to rounding.

## Analysis

On behalf of shareholders, Peyto has analyzed the annual independent 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 2010 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 2010 (base reserves) were evaluated and adjusted for 2010 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 1.1 TCF plus associated liquids. In aggregate, Peyto is pleased to report that the base reserves continue to meet with expectation and increase the confidence in the prediction of future recoveries.

For 2011, InSite is forecasting the total base production (all wells on production at Dec. 31, 2010) to decline at 34% in the first year. This is up from last year, when the forecast decline for the base producing reserves was 20% in the first year, and more similar to the growth years of 2003 to 2006. The increase is a result of the new horizontal well production which has a high first year decline rate, followed by a much lower decline rate as production stabilizes. The historical base decline rates and capital programs are shown in the following table:

	2003	2004	2005	2006	2007	2008	2009	2010A	2011F
Base Decline (%/yr)	31%	27%	30%	29%	23%	26%	20%	22%	34%
Capital Expenditure (\$Millions)	\$139	\$231	\$358	\$312	\$122	\$139	\$73	\$261	\$313

\*The base decline represents the aggregate annual decline of all wells on production at the end of the previous year.

## Price Forecasts

InSite's Alberta natural gas price (AECO) forecast for the next 15 years is approximately 20% less today than a year ago, due to a reduction in forecasted NYMEX natural gas price and an increase in the CND\$/USD\$ exchange rate. Their forecast for Alberta Condensate price, which accounts for over 45% of Peyto's total natural gas liquid production, is approximately 10% higher. The debt adjusted NPV, discounted at 5%, of last year's Proved Producing reserves decreased 21% 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

During 2010, Peyto drilled and tied in 48 gross (45 net) wells for a total capital investment of \$261 million. Approximately 14% of this capital was spent on new land, seismic and facilities associated with future reserves while the remaining 86% was spent developing existing reserves. Of the 48 wells, 30 (28 net) were identified as having undeveloped reserves in last year's reserve report (27 Proved, 3 Probable Additional). The remaining 18 wells were not recognized in last year's reserve report. The undeveloped reserves booked to the 28 net locations at year end 2009 totaled 84 BCFe of Proved Undeveloped plus Probable Additional reserves for a forecast capital investment of \$122.9 (\$1.46/Mcfe). In actuality, \$137.7 million of capital was spent on these 28 wells during 2010 yielding Proved Producing plus Probable Additional reserves of 102 BCFe (\$1.35/Mcfe). The development of these 28 net booked locations produced a significantly better outcome than was projected.

The economic result of this annual investment not only allows us to determine the best use of shareholders capital on a go forward basis, it also demonstrates the potential returns that can be generated from future undeveloped opportunities.

In order to measure the success of the 2010 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. At Peyto's request, and for the benefit of shareholders, 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 2010 were funded from a combination of cash flow, debt and equity, it is necessary to know the change in debt and the change in units outstanding to see if the change in value is truly accretive to shareholders.

At year end 2010, Peyto's estimated net debt had decreased by \$34.9 million to \$404.9 million while the number of units (now shares) outstanding had increased by 17.7 million units to 132.8 million units. 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 \$911 million of Proved Producing, \$1.59 billion of Total Proven, and \$2.69 billion of Proved plus Probable Additional undiscounted reserve value, with \$261 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 2010, the Proved Producing NPV recycle ratio is 3.5.

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, 2010.

(\$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, 2009 Evaluation using PLA Jan. 1, 2010 price forecast, less debt	\$4,215	\$1,949	\$1,138	\$6,210	\$2,904	\$1,687	\$8,598	\$3,856	\$2,188
Per Unit Outstanding at Dec. 31, 2009 (\$/unit or share)	\$36.62	\$16.93	\$9.89	\$53.95	\$25.23	\$14.65	\$74.69	\$33.49	\$19.01
2010 sales (revenue less royalties and operating costs)	(\$261)	(\$261)	(\$261)	(\$261)	(\$261)	(\$261)	(\$261)	(\$261)	(\$261)
Net Change due to price forecasts (using InSite Jan 1, 2011 price forecast)	(\$767)	(\$402)	(\$271)	(\$1,155)	(\$610)	(\$410)	(\$1,494)	(\$754)	(\$494)
Value Change due to discoveries (additions, extensions, transfers, revisions)	\$911	\$672	\$571	\$1,594	\$966	\$711	\$2,691	\$1,493	\$1,004
<b>Before Tax Net Present Value at End 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 Unit Outstanding at Dec. 31, 2010 (\$/unit or share)	\$30.85	\$14.75	\$8.86	\$48.10	\$22.58	\$13.00	\$71.79	\$32.63	\$18.36
Year over Year Change in Before Tax NPV/unit or share	(16%)	(13%)	(10%)	(11%)	(10%)	(11%)	(4%)	(3%)	(3%)
Year over Year Change in Before Tax NPV/unit including Distribution (\$1.44/unit)	(12%)	(4%)	4%	(8%)	(5%)	(1%)	(2%)	2%	4%

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 2010, the Company was successful in replacing 239% of the annual producing reserves, which resulted in a 12% increase in total Proved Producing reserves. Annual production increased 28%, from 6.7 mmoes to 8.7 mmoes, primarily from new horizontal wells, thus accelerating reserve recovery and causing a 24% reduction in Proved Producing reserve life. This acceleration has the benefit of shorter time to payout and faster redeployment of capital for greater returns. Similarly, the Total Proved and P+P reserve life index dropped to 17 and 25 years. 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.

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

## Future Undeveloped Opportunities

With the application of horizontal wells and multi-stage fracture stimulations, Peyto has been able to improve the profitability of its Deep Basin undeveloped opportunities and increase the pace at which they are developed. In doing so, more undeveloped opportunities can now be recognized. In total, there are 356 gross (268 net) locations identified by the independent reserve evaluators that qualify as either Proved Undeveloped or Probable Undeveloped. Of these, 305 are horizontal locations. Peyto's net reserves associated with the undeveloped locations total 739 BCFe (123 mmoes) or 0.9 BOEs per share. The total capital required to develop them is estimated at \$1.3 Billion or \$1.77/MCFe, in order to create an associated net present value of \$1.8 Billion (5% discount) or \$13.85 per share. The development schedule for the undeveloped reserves is shown in the following capital forecast table.

Year	Forecast Capital	
	Proved Reserves Undisc., (\$Millions)	Proved+ Probable Additional Reserves Undisc., (\$Millions)
2011	183	249
2012	228	300
2013	172	300
2014	88	254
2015	65	181
Thereafter	5	27
Total	741	1,310

Peyto has significant undeveloped opportunities that can provide future growth in reserves and production. The existing producing reserves are forecast to generate over \$4.5 billion in undiscounted cash flow which should be sufficient to fund the \$1.3 billion in future development capital.

## Performance Ratios

The following table outlines the 2010 performance ratios for all three reserve categories.

	Proved Producing	Total Proved	Proved + Probable Additional
<b>2010 FD&amp;A Cost (\$/boe)</b> (including DRC and change in FDC)	\$12.63	\$14.09	\$13.15
<b>3 yr ave. FD&amp;A Cost incl. FDC (\$/boe)</b>	\$14.50	\$14.51	\$15.08
<b>Reserve Life Index (years)</b> Q4 2010 average production <sup>†</sup> – 28,197 boe/d	11	17	25
<b>Reserve Replacement Ratio</b> 2010 production <sup>†</sup> – 8.661 million boes	2.4	4.6	7.9

<sup>†</sup> Q4 and 2010 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  $(\$261.5 + \$295) / (179.7 - 148.9 + 8.661) = \$14.09$ ).
- 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  $110,619 / (28.197 \times 365) = 11$ ). 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  $((179.7 - 148.86 + 8.661) / 8.661) = 4.56$ ).

## 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, chaired by US petroleum engineering consultant Brian Davis, has reviewed the reserves information and approved the reserve report.

## 2011 UPDATE

North America continues to be oversupplied with natural gas resulting in downward pressure on future natural gas prices. Only the lowest cost gas reserves and lowest cost producers are able to generate profitable returns in this environment. Peyto has a rapidly growing inventory of these opportunities and a proven track record of efficient, profitable growth.

The strong performance of last year's capital program has validated that profitability, further proving up the application of new horizontal well technology across Peyto's land base and in additional producing horizons. At last year's development pace, there exist over 7 years of drilling opportunities, yet the Peyto team continues to add to this inventory. In order to maximize the value of these undeveloped opportunities, the Company intends to increase the pace of development. Therefore, the 2011 capital budget has been increased to \$300-\$325 million.

Currently, there are six drilling rigs operating in Peyto's Deep Basin core areas. To date in 2011, 10 new wells have been drilled and 8 wells have been brought on-stream. These additions have grown the company's production to 32,500 boe/d. New expansion projects at the company's Wildhay, Nosehill and Oldman gas plants are scheduled to be completed both before and just after spring break-up to accommodate future volume growth.

## General

For more in depth discussion of the 2010 reserve report, an interview with the management will be available on Peyto's website by Friday, February 25, 2011. 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 2011. 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.