NEWS RELEASE

MAY 9, 2012 **SYMBOL: PEY – TSX**

PEYTO REPORTS FIRST QUARTER 2012 RESULTS AND 25% PRODUCTION PER SHARE GROWTH

CALGARY, ALBERTA – Peyto Exploration & Development Corp. ("Peyto") is pleased to present its operating and financial results for the first quarter of the 2012 fiscal year. Peyto's production per share grew for the tenth consecutive quarter while first quarter operating margins of 76%(1) and profit margins of 26%(2) were consistent with the previous quarter. First quarter 2012 highlights were as follows:

- **Production per share up 25%.** First quarter 2012 production increased 30% (25% per share) from 189 MMcfe/d (31,531 boe/d) in Q1 2011 to 245 MMcfe/d (40,903 boe/d) in Q1 2012.

- **Funds from operations of $0.56/share.** Generated $78 million in Funds from Operations ("FFO") in Q1 2012 up 4% from $75 million in Q1 2011. Increased production offset the 22% year over year reduction in realized commodity prices.

- **Operating costs less than $2/boe.** Industry leading operating costs were further reduced from $0.39/mcfe ($2.32/boe) in Q1 2011 to $0.33/mcfe ($1.96/boe) in Q1 2012. Total cash costs, including royalties, operating costs, transportation, G&A and interest were $1.11/mcfe ($6.67/boe), resulting in a $3.48/mcfe ($20.86/boe) cash netback or 76% operating margin.

- **Capital Investments of $99 million**. At quarter end, production additions resulting from the $99 million capital program totaled 8,000 boe/d. The annualized cost (trailing twelve months) to build new production has averaged approximately $18,000/boe/d over the last two and a half years. A total of 19 gross wells were drilled during the first quarter.

- **Earnings of $0.19/share, dividends of $0.18/share.** Earnings of $27 million were generated in the quarter while dividends of $25 million were paid to shareholders, representing a before tax payout ratio of 32% of FFO.

- N**GLs realized $85/boe.** Natural gas liquid production of 4,101 boe/d, comprised of approximately 65% condensate and pentanes, 17% butane, and 18% propane averaged 92% of Edmonton light oil price of $92/bbl.

First Quarter 2012 in Review

The first quarter was another active period as Peyto continued to deliver industry leading efficiency and results with its capital program. Drilling activity during the quarter focused on the liquids rich formations within Peyto's large inventory of opportunities. As well, Peyto successfully acquired 22 sections of new Deep Basin land, with drilling opportunities already identified, which will more than replace the 19 drilled locations. Peyto's natural gas liquids made up 10% of its production and realized 92% of the light oil price. The revenue from these liquids was more than sufficient to cover all of Peyto's cash costs, while a solid hedge book helped offset the 34% year over year drop in Alberta monthly natural gas prices. As a result of these low costs and production increases, funds from operations increased from the prior year's period. Subsequent to the quarter, Peyto's revolving bank line capacity was increased from $625 million to $700 million, for a total debt capacity of $800 million, including $100 million of senior secured notes. As of the quarter end, 64% of this capacity was utilized representing a net debt to annualized FFO ratio of 1.65 times. The strong financial and operating performance delivered in the quarter resulted in an annualized 11% Return on Equity (ROE) and 10% Return on Capital Employed (ROCE).

1. Operating Margin is defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.
2. Profit Margin is defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.
Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

	3 Months Ended Mar. 31		%
	2012	2011	Change
Operations			
Production			
Natural gas (mcf/d)	**220,811**	166,710	*32%*
Oil & NGLs (bbl/d)	**4,101**	3,746	*9%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**245,417**	189,187	*30%*
Barrels of oil equivalent (boe/d @ 6:1)	**40,903**	31,531	*30%*
Product prices			
Natural gas ($/mcf)	**3.53**	4.92	*(28)%*
Oil & NGLs ($/bbl)	**84.83**	76.19	*11%*
Operating expenses ($/mcfe)	**0.33**	0.39	*(15)%*
Transportation ($/mcfe)	**0.12**	0.13	*(8)%*
Field netback ($/mcfe)	**3.75**	4.75	*(21)%*
General & administrative expenses ($/mcfe)	**0.04**	0.09	*(56)%*
Interest expense ($/mcfe)	**0.23**	0.27	*(15)%*
Financial ($000, except per share)			
Revenue	**102,496**	99,577	*3%*
Royalties	**8,835**	9,922	*(11)%*
Funds from operations	**77,645**	74,696	*4%*
Funds from operations per share	**0.56**	0.56	-
Total dividends	**24,912**	23,921	*4%*
Total dividends per share	**0.18**	0.18	-
Payout ratio	**32**	32	-
Earnings	**26,868**	31,688	*(15)%*
Earnings per diluted share	**0.19**	0.24	*(21)%*
Capital expenditures	**98,632**	103,786	*(5)%*
Weighted average common shares outstanding	**138,312,078**	132,737,066	*4%*
As at March 31			
Net debt (before future compensation expense and unrealized hedging gains)	**512,627**	453,376	*13%*
Shareholders' equity	**1,027,231**	850,442	*21%*
Total assets	**1,800,394**	1,527,845	*18%*

	Three Months ended Mar. 31	
($000)	**2012**	2011
Cash flows from operating activities	**59,383**	43,644
Change in non-cash working capital	**16,367**	26,829
Change in provision for performance based compensation	**1,895**	4,223
Funds from operations	**77,645**	74,696
Funds from operations per share	**0.56**	0.56

(1) Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. Management believes that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Funds from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, funds from operations, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that funds from operations should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations cannot be assured and future distributions may vary.

Exploration & Development

Peyto continued to advance many of its Deep Basin plays in the quarter through exploratory and development drilling, land acquisitions, and seismic evaluations. A focus on liquids rich formations like the Cardium and Falher improved the corporate average liquid yield by over 10% from the start of the year.

In the Kiskiu-Smoky area, six horizontal Cardium wells were drilled during the winter program which further defined and proved up an inventory of over 40 locations. Natural gas liquid yields from the Kiskiu Cardium are the highest of any formation that Peyto develops with average first year condensate and pentane yields of 48 bbl/mmcf, butane yields of 12 bbl/mmcf and propane yields of 13 bbl/mmcf, totaling 73 bbls per mmcf of sales gas.

In Sundance, Peyto drilled and brought on production, with encouraging results, its first two Bluesky horizontal wells. Capital costs of $3.4 million to drill and $1.8 million to complete were in line with expectations and consistent with those of other Mannville zones that Peyto is developing in the area. Production performance over the next several months will assist in determining the full cycle returns that can be achieved from the Bluesky. The internal assessment of inventory in this formation currently stands at 20 locations.

The enhanced natural gas liquids recovery project at the Oldman plant in Sundance continues to advance with the fabrication of major equipment. Field construction is scheduled for July 2012 with startup anticipated in late September. In addition, engineering and procurement is proceeding on a similar facility for the Nosehill gas plant, with equipment fabrication expected to start in September. Nosehill site construction is forecast to occur at the end of 2012 and plant start-up is scheduled for early 2013.

In addition to focusing the majority of capital on maximizing liquids revenue in this time of low natural gas prices, Peyto continues to advance its drier gas plays in the Notikewin and Wilrich formations. Step out drilling in five new areas has proven successful, despite three of these areas remaining “behind pipe” or shut in until more attractive processing arrangements can be made or higher natural gas prices are achieved.

Capital Expenditures

During the first quarter 2012, Peyto spent $51.8 million to spud 19 gross (16.4 net) horizontal wells and $31.2 million completing 21 gross (19.8 net) zones. Wellsite equipment and tie-ins accounted for $8.5 million. A total of $4.3 million was invested in new facilities to complete the Nosehill gas plant expansion as well as progress payments on the Oldman Deep Cut equipment. New lands were acquired for $2.2 million, or $154/ acre, while new seismic accounted for $0.6 million.

Since Peyto began drilling horizontal multi-stage frac wells in the Deep Basin in the fall of 2009, a total of 136 horizontal wells have been drilled. By continuously evolving the design and improving the execution, drilling times have been reduced by over 30% from an average of 33 days (spud to rig release) down to 23 days. While this normally would have translated into substantial reductions in drilling cost, it has only served to offset the inflation in drilling rig rates and the increased fuel costs which have been driven by higher oil prices. In the present low gas price environment, fewer wells are being drilled which should bring lower service rates and allow Peyto to realize the financial gains of these operational efficiencies.

Despite this service rate inflation, a new drilling design has recently been tried that has resulted in measurable cost savings in Peyto’s Cardium play at Sundance. The last four Cardium horizontal wells were drilled using a monobore well design resulting in further reducing drilling times and eliminating some casing costs. This has lowered average drilling costs for this type of well by over 20% to $2.0 million. Peyto has attempted this same design on other formations but due to increased borehole risk, has only seen limited success to date.

Financial Results

Peyto realized an unhedged natural gas price of $2.67/mcf in the quarter, 15% greater than the volume weighted average AECO monthly natural gas price of $2.32/GJ due to above average heat content. Inclusive of natural gas liquids revenues, the realized effective natural gas price was $3.82/mcfe, before hedging gains of $0.77/mcfe. This realized effective price was 1.65 times that of dry gas and illustrates the benefit of high heat content, liquids rich natural gas production.

Total cash costs of $1.11/mcfe ($6.67/boe) comprised of $0.39/mcfe of royalties, $0.33/mcfe of operating costs, $0.12/mcfe of transportation, $0.04/mcfe of G&A and $0.23/mcfe of interest costs deducted from the realized hedged price of $4.59/mcfe ($27.54/boe) resulted in a cash netback of $3.48/mcfe ($20.86/boe) or an operating margin of 76%. Depletion, depreciation and amortization, along with a provision for future tax and market based bonus payments further reduced the cash netback to earnings of $1.20/mcfe. The profit margin, or earnings divided by revenue, was 26%, down from 35% in Q1 2011.

Subsequent to the end of the first quarter, Peyto's credit facility was reviewed and the annual revolver increased to $700 million from $625 million. This increase was a reflection of the 2011 growth in volume and value of Peyto's Proved Producing reserves. Including the $100 million of senior secured notes, Peyto's total borrowing capacity increased to $800 million.

Marketing

North American natural gas prices fell dramatically during the first quarter in response to the abnormally warm winter weather and a lack of natural gas heating demand. Storage reservoirs, which are normally drawn down in the winter months, left the heating season with over 50% more in storage than normal and caused both Henry Hub (US) and AECO (Canadian) natural gas prices to drop by over 30%. By the end of the first quarter natural gas prices were at their lowest level in over a decade with Henry Hub at $2.00/MMBTU and AECO at $1.60/GJ. Peyto's practice of layering in future sales of natural gas provided insulation from this drop in gas prices.

The continued practice of Peyto's hedging strategy, designed to smooth out the volatility in the price of natural gas, has resulted in approximately 45% of current natural gas production being sold in 2012 for an average of $4.23/mcf. In addition to the forward sales of natural gas, Peyto is now applying the same strategy to Propane and Butane sales. Starting in April of 2012, Peyto began layering in small fixed price swaps for Propane and Butane volumes. These future sales have a term that begins in September of 2012, coincident with the anticipated startup of the Oldman Deep Cut facility. For detailed information on these contracts, see the Management Discussion and Analysis. As at March 31, 2012, Peyto had committed to the future sale of 14,000 barrels of propane at an average price of $49.56 per barrel and 41,750,000 gigajoules (GJ) of natural gas at an average price of $3.54 per GJ or $4.15 per mcf. Had these contracts been closed on March 31, 2012, Peyto would have realized a gain in the amount of $54.7 million.

Activity Update

Peyto is in the middle of spring breakup with 6 rigs employed but sitting idle as heavy traffic road bans are still in place. Three of the rigs had commenced drilling on wells prior to breakup and were shut down at intermediate progress points with the onset of the road bans. The timing for resumption of all six rigs is expected to occur in late May, leading to a typical breakup period of six weeks. After breakup, the drilling program will continue to target a mix of Cardium and Falher liquids-rich opportunities, primarily in the Greater Sundance Area. A Kakwa Cardium program is scheduled to commence later in the year.

Five gross (3.4 net) wells have been drilled and currently await completion and tie in after breakup. These include two Cardiums and two Falher wells. Additionally, Peyto has 4 new wells drilled and completed but not yet on production.

With the Oldman plant nearing capacity, a major intra-field pipeline project, designed to offload volumes from the Oldman plant to the Nosehill plant was completed in the first quarter of 2012. As a result of this volume shift, Peyto is well positioned with sufficient capacity in each of the gas plants to accommodate an aggressive drilling program and subsequent production growth into the second half of 2012.

Outlook

Current natural gas prices in both Canada and the US present substantial financial challenges for most gas producers. Few plays and even fewer operators are able to cover both the production costs and replacement costs at these levels, let alone generate a return for shareholders on the capital invested. Peyto is one of the few exceptions, with its industry leading low production costs and long life, liquids rich natural gas plays that can be efficiently developed. The combination of $1/mcfe cash cost, $2/mcfe PDP FD&A replacement cost, and a production stream that receives 165% of the dry gas price, means Peyto can generate positive total margins below $2/GJ.

Peyto is not content to sit on this advantage. Additional optimization can further reduce cash costs while investments in Deep Cut facilities can extract more propane and butane from the natural gas to improve realized prices. By operating over 99% of production and processing 98% in Peyto owned and operated facilities these strategies can be achieved in a timely manner to protect shareholder returns and monthly dividends from further natural gas price erosion.

The capital program for the year will remain flexible and be opportunistic. The current rate of capital spending would result in a $350 million capital program for 2012. Peyto's budget, however, looks to take advantage of reduced service costs and a foreseeable recovery in natural gas prices and has been approved to accommodate an acceleration in activity to spend $400 million with an option to increase spending to $450 million should market conditions allow. As always, capital investments will only be pursued if return objectives can be met.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2012 first quarter financial results on Thursday, May 10th, 2012, at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). To participate, please call 1-416-340-2216 (Toronto area) or 1-866-226-1792 for all other participants. The conference call will also be available on replay by calling 1-905-694-9451 (Toronto area) or 1-800-408-3053 for all other parties, using passcode 6827666. The replay will be available at 11:00 a.m. MDT, 1:00 p.m. EDT Thursday, May 10th, 2012 until midnight EDT on Thursday, May 17th, 2012. The conference call can also be accessed through the internet at http://events.digitalmedia.telus.com/peyto/051012/index.php. After this time the conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

Annual General Meeting

Shareholders are invited to attend Peyto's AGM at 3:00 p.m. on Wednesday, June 6, 2012 at Livingston Place Conference Centre, +15 level, 222-3rd Avenue SW, Calgary, Alberta.

Management's Discussion and Analysis

Management's Discussion and Analysis of this first quarter report is available on the Peyto website at http://www.peyto.com/news/Q12012MDandA.pdf. A complete copy of the first quarter report to shareholders, including the Management's Discussion and Analysis, and Financial Statements is also available at www.peyto.com and will be filed at SEDAR, www.sedar.com , at a later date.

Darren Gee
President and CEO
May 9, 2012

Certain information set forth in this document and Management's Discussion and Analysis, including management's assessment of Peyto's future plans and operations, capital expenditures and capital efficiencies, 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 Peyto will derive there from. In addition, Peyto is providing future oriented financial information set out in this press release for the purposes of providing clarity with respect to Peyto's strategic direction and readers are cautioned that this information may not be appropriate for any other purpose. Other than is required pursuant to applicable securities law, Peyto does not undertake to update forward looking statements at any particular time.

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	March 31 2012	December 31 2011
Assets		
Current assets		
Cash	-	57,224
Accounts receivable	45,753	53,829
Due from private placement *(Note 6)*	-	9,740
Financial derivative instruments *(Note 8)*	50,179	38,530
Prepaid expenses	6,087	3,991
	102,019	**163,314**
Long-term financial derivative instruments *(Note 8)*	4,495	6,304
Prepaid capital	6,342	1,414
Property, plant and equipment, net *(Note 3)*	1,687,538	1,629,220
	1,698,375	**1,636,938**
	1,800,394	**1,800,252**
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	86,158	110,483
Dividends payable *(Note 6)*	8,309	8,278
Provision for future performance based compensation *(Note 7)*	5,842	4,321
	100,309	**123,082**
Long-term debt *(Note 4)*	470,000	470,000
Provision for future performance based compensation *(Note 7)*	1,608	1,235
Decommissioning provision *(Note 5)*	37,652	38,037
Deferred income taxes	163,594	152,190
	672,854	**661,462**
Shareholders' equity		
Shareholders' capital *(Note 6)*	901,041	889,115
Shares to be issued *(Note 6)*	-	9,740
Retained earnings	84,845	82,889
Accumulated other comprehensive income *(Note 6)*	41,345	33,964
	1,027,231	**1,015,708**
	1,800,394	**1,800,252**

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31 2012	Three months ended March 31 2011
Revenue		
Oil and gas sales	85,221	86,458
Realized gain on hedges *(Note 8)*	17,275	13,119
Royalties	(8,835)	(9,922)
Petroleum and natural gas sales, net	**93,661**	**89,655**
Expenses		
Operating	7,300	6,571
Transportation	2,606	2,163
General and administrative	972	1,607
Future performance based compensation *(Note 7)*	1,895	4,223
Interest	5,138	4,618
Accretion of decommissioning provision	257	232
Depletion and depreciation *(Note 3)*	39,673	29,026
Gain on disposition of assets *(Note 3)*	-	(818)
	57,841	**47,622**
Earnings before taxes	**35,820**	**42,033**
Income tax		
Deferred income tax expense	8,952	10,345
Earnings for the period	**26,868**	**31,688**
Earnings per share *(Note 6)*		
Basic and diluted	**$ 0.19**	**$ 0.24**
Weighted average number of common shares outstanding *(Note 6)*		
Basic and diluted	**138,312,078**	**132,737,066**

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2012	**2011**
Earnings for the period	**26,868**	**31,688**
Other comprehensive income		
Change in unrealized gain on cash flow hedges	24,656	6,350
(net of deferred tax; $2.5 million expense (2011 - $2.4 million recovery))		
Realized (gain) loss on cash flow hedges	(17,275)	(13,119)
Comprehensive income	**34,249**	**24,919**

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2012	**2011**
Shareholders' capital, beginning of period	**889,115**	755,831
Common shares issued	-	-
Common shares issued by private placement	11,952	17,150
Common shares issuance costs (net of tax)	(26)	(65)
Common shares issued pursuant to DRIP	-	1,973
Common shares issued pursuant to OTUPP	-	2,889
Shareholders' capital, end of period	**901,041**	777,778

Common shares to be issued, beginning of period	**9,740**	17,285
Common shares issued	(9,740)	(17,285)
Common shares to be issued	-	-
Common shares to be issued, end of period	**-**	-

Retained earnings, beginning of period	**82,889**	50,774
Earnings for the period	26,868	31,688
Dividends *(Note 6)*	(24,912)	(23,921)
Retained earnings, end of period	**84,845**	58,541

Accumulated other comprehensive income, beginning of period	**33,964**	**20,893**
Other comprehensive income (loss)	7,381	(6,769)
Accumulated other comprehensive income, end of period	**41,345**	**14,124**

Total shareholders' equity	**1,027,231**	850,443

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2012	**2011**
Cash provided by (used in) operating activities		
Earnings	**26,868**	31,688
Items not requiring cash:		
Deferred income tax	**8,952**	10,345
Depletion and depreciation	**39,673**	29,026
Gain on disposition of assets	**-**	(818)
Accretion of decommissioning provision	**257**	232
Change in non-cash working capital related to operating activities	**(16,367)**	(27,585)
	59,383	42,888
Financing activities		
Issuance of common shares	**11,952**	17,150
Issuance costs	**(35)**	(86)
Cash dividends paid	**(24,881)**	(31,762)
Increase in bank debt	**-**	70,000
	(12,964)	55,302
Investing activities		
Additions to property, plant and equipment	**(103,643)**	(95,344)
Net increase (decrease) in cash	**(57,224)**	2,846
Cash, Beginning of Period	**57,224**	7,894
Cash, End of Period	**-**	10,740

The following amounts are included in cash flows from operating activities:

Cash interest paid	**4,313**	4,536
Cash taxes paid	**-**	-

(Amount in $ thousands, except as otherwise noted)

1. Nature of operations

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 1500, 250 – 2nd Street SW, Calgary, Alberta, Canada, T2P 0C1.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 8, 2012.

2. Basis of presentation

The condensed interim financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's Financial Statements for the year ended December 31, 2011.

The timely preparation of the condensed interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed interim financial statements.

All accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's audited Financial Statements as at and for the years ended December 31, 2011 and 2010.

3. Property, plant and equipment, net

	Development and Production Assets	Corporate Assets	Total Assets
Cost			
At December 31, 2011	1,842,759	1,007	1,843,766
Additions	97,991	-	97,991
Dispositions	-	-	-
At March 31, 2012	1,940,750	1,007	1,941,757
Accumulated depreciation			
At December 31, 2011	(213,755)	(791)	(214,546)
Depletion and depreciation	(39,659)	(14)	(39,673)
Dispositions	-	-	-
At March 31, 2012	(253,414)	(805)	(254,219)
Carrying amount at March 31, 2012	**1,687,336**	**202**	**1,687,538**

Proceeds received for assets disposed of during the period ended March 31, 2012 were $nil (2011 - $1.5 million).

During the period ended March 31 2012, Peyto capitalized $1.7 million (2011 - $1.2 million) of general and administrative expense directly attributable to production and development activities.

4. Long-term debt

Peyto has a syndicated $725 million extendible revolving credit facility with a stated term date of April 29, 2012. The bank facility is made up of a $30 million working capital sub-tranche and a $695 million production line. The facilities are available on a revolving basis for a period of at least 364 days and upon the term out date may be extended for a further 364 day period at the request of Peyto, subject to approval by the lenders. In the event that the revolving period is not extended, the facility is available on a non-revolving basis for a further one year term, at the end of which time the facility would be due and payable. Outstanding amounts on this facility will bear interest at rates ranging from prime plus 1.25% to prime plus 2.75% determined by Peyto's debt to earnings before interest, taxes, depreciation, depletion and amortization (EBITDA) ratios ranging from less than 1:1 to greater than 2.5:1. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank.

On January 3, 2012, Peyto issued CDN $100 million of senior secured notes pursuant to a note purchase and private shelf agreement. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.39% and mature on January 3, 2019. Interest will be paid semi-annually in arrears. The private shelf agreement provides for the issuance, on an uncommitted basis, of an additional US $25 million of senior notes on or prior to January 3, 2015. A General Security Agreement with a floating charge on land registered in Alberta is held as collateral by the bank. Peyto's total borrowing capacity remains at $725 million; however Peyto's net credit facility has been reduced to $625 million in conjunction with this private placement.\

Upon the issuance of the senior secured notes January 3, 2012, Peyto became subject to the following financial covenants as defined in the credit facility and note purchase and private shelf agreements:

- Senior Debt to EBITDA Ratio will not exceed 3.0 to 1.0.
- Total Debt to EBITDA Ratio will not exceed 4.0 to 1.0.
- Interest Coverage Ratio will not be less than 3.0 to 1.0
- Total Debt to Capitalization Ratio will not exceed 0.55:1.0

Peyto is in compliance with all financial covenants at March 31, 2012.

Total interest expense for the period ended March 31, 2012 was $5.1 million (2011 - $4.6 million) and the average borrowing rate for the period was 4.5% (2011 – 4.7%).

Subsequent to March 31, 2012, Peyto's banking syndicate has agreed to increase the credit facility to $800 million (net $700 million) and extend the stated term date of the credit facility to April 28, 2013.

5. Decommissioning provision

Peyto makes provision for the future cost of decommissioning wells, pipelines and facilities on a discounted basis based on the commissioning of these assets.

The decommissioning provision represents the present value of the decommissioning costs related to the above infrastructure, which are expected to be incurred over the economic life of the assets. The provisions have been based on Peyto's internal estimates of the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain.

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2011	**38,037**
New or increased provisions	1,600
Accretion of decommissioning provision	257
Change in discount rate and estimates	(2,242)
Balance, March 31, 2012	**37,652**
Current	-
Non-current	37,652

Peyto has estimated the net present value of its total decommissioning provision to be $37.7 million as at March 31, 2012 ($38.0 million at December 31, 2011) based on a total future undiscounted liability of $97.9 million ($101.2 million at December 31, 2011). At March 31, 2012 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2040 to 2061. The Bank of Canada's long term bond rate of 2.66 per cent (2.49 per cent at December 31, 2011) and an inflation rate of two per cent (two per cent at December 31, 2011) were used to calculate the present value of the decommissioning provision.

6. Shareholders' capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount $
Balance, December 31, 2010	131,875,382	755,831
Common shares issued	4,899,000	115,126
Common share issuance costs (net of tax)	-	(3,854)
Common shares issued by private placement	906,196	17,150
Common shares issued pursuant to DRIP	113,527	1,973
Common shares issued pursuant to OTUPP	166,196	2,889
Balance, December 31, 2011	137,960,301	889,115
Common shares issued by private placement	525,655	11,952
Common share issuance costs (net of tax)	-	(26)
Balance, March 31, 2012	**138,485,956**	**901,041**

Peyto reinstated its amended distribution reinvestment and optional trust unit purchase plan (the "Amended DRIP Plan") effective with the January 2010 distribution whereby eligible unitholders could elect to reinvest their monthly cash distributions in additional trust units at a 5 percent discount to market price. The DRIP plan incorporated an Optional Trust Unit Purchase Plan ("OTUPP") which provided unitholders enrolled in the DRIP with the opportunity to purchase additional trust units from treasury using the same pricing as the DRIP. The DRIP and the OTUPP plans were cancelled December 31, 2010.

On December 31, 2010, Peyto completed a private placement of 655,581 common shares to employees and consultants for net proceeds of $12.4 million ($18.95 per share). These common shares were issued on January 6, 2011.

On January 14, 2011, 279,723 common shares (113,527 pursuant to the DRIP and 166,196 pursuant to the OTUPP) were issued for net proceeds of $4.9 million.

On March 25, 2011, Peyto completed a private placement of 250,615 common shares to employees and consultants for net proceeds of $4.7 million ($18.86 per share).

On December 16, 2011, Peyto closed an offering of 4,899,000 common shares at a price of $23.50 per common share, receiving proceeds of $110.1 million (net of issuance costs).

On December 31, 2011 Peyto completed a private placement of 397,235 common shares to employees and consultants for net proceeds of $9.7 million ($24.52 per share). These common shares were issued on January 13, 2012.

On March 23, 2012 Peyto completed a private placement of 128,420 common shares to employees and consultants for net proceeds of $2.2 million ($17.22 per share).

Per share amounts

Earnings per share or unit have been calculated based upon the weighted average number of common shares outstanding for the period ended March 31, 2012 of 138,312,078 (2011 - 132,737,066). There are no dilutive instruments outstanding.

Dividends

During the period ended March 31, 2012, Peyto declared and paid dividends of $0.18 per common share or $0.06 per common share per month, totaling $24.9 million (2011 - $0.18 or $0.06 per share per month, $23.9 million).

Comprehensive income

Comprehensive income consists of earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge. "Accumulated other comprehensive income" is an equity category comprised of the cumulative amounts of OCI.

Accumulated hedging gains

Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement with gains and losses being recognized as a component of net revenue. Further information on these contracts is set out in Note 8.

7. Future performance based compensation

Peyto awards performance based compensation to employees annually. The performance based compensation is comprised of reserve and market value based components.

Reserve based component

The reserves value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%.

Market based component

Under the market based component, rights with a three year vesting period are allocated to employees. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

The fair values were calculated using a Black-Scholes valuation model. The principal inputs to the option valuation model were:

	March 31 2012	**March 31 2011**
Share price	$16.38 -$24.75	$18.83 - $20.60
Exercise price	$12.06 - $24.75	$9.56 – $18.83
Expected volatility	31%	23%
Option life	1 year	1 year
Dividend yield	0%	0%
Risk-free interest rate	1.19%	1.77%

8. Risk management contracts

Peyto uses derivative instruments to reduce its exposure to fluctuations in commodity prices. Peyto considers all of these transactions to be effective economic hedges for accounting purposes.

Following is a summary of all risk management contracts in place as at March 31, 2012:

Propane Period Hedged	**Type**	**Monthly Volume**	**Price (CAD)**
September 1, 2012 to March 31, 2013	Fixed Price	2,000 bbl	$49.56/bbl

Description	**Notional (1)**	**Term**	**Effective Rate**	**Fair Value Level**	**March 31, 2012**	**December 31, 2011**
Natural gas financial swaps - AECO	41.75GJ (2)	2012- 2014	$3.54/GJ	Level 1	54,674	44,834

(1) Notional values as at March 31, 2012 (2) Millions of gigajoules

As at March 31, 2012, Peyto had committed to the future sale of 14,000 barrels of propane at an average price of $49.56 per barrel and 41,750,000 gigajoules (GJ) of natural gas at an average price of $3.54 per GJ or $4.15 per mcf. Had these contracts been closed on March 31, 2012, Peyto would have realized a gain in the amount of $54.7 million. If the AECO gas price on March 31, 2012 were to increase by $1/GJ, the unrealized gain would decrease by approximately $41.8 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2012 Peyto entered into the following contracts:

Propane **Period Hedged**	**Type**	**Monthly Volume**	**Price (CAD)**
September 1, 2012 to March 31, 2013	Fixed Price	2,000 bbl	$44.10/bbl

Butane **Period Hedged**	**Type**	**Monthly Volume**	**Price (CAD)**
September 1, 2012 to March 31, 2013	Fixed Price	2,000 bbl	$80.64/bbl

ISO Butane **Period Hedged**	**Type**	**Monthly Volume**	**Price (CAD)**
September 1, 2012 to March 31, 2013	Fixed Price	1,000 bbl	$80.32/bbl

Natural Gas **Period Hedged**	**Type**	**Daily Volume**	**Price (CAD)**
May 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.30/GJ
November 1, 2012 to October 31, 2013	Fixed Price	5,000 GJ	$2.60/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$2.81/GJ
November 1, 2012 to March 31, 2014	Fixed Price	5,000 GJ	$3.00/GJ

9. Commitments and contingencies

Following is a summary of Peyto's commitment related to an operating lease as at March 31, 2012.

	2012	**2013**	**2014**	**2015**	**2016**	**Thereafter**
Operating lease	803	1,071	1,071	-	-	-
Total	803	1,071	1,071	-	-	-

Peyto has no other contractual obligations or commitments as at March 31, 2012.

Contingent liability

From time to time, Peyto is the subject of litigation arising out of its day-to-day operations. Damages claimed pursuant to such litigation may be material or may be indeterminate and the outcome of such litigation may materially impact Peyto's financial position or results of operations in the period of settlement. While Peyto assesses the merits of each lawsuit and defends itself accordingly, Peyto may be required to incur significant expenses or devote significant resources to defending itself against such litigation. These claims are not currently expected to have a material impact on Peyto's financial position or results of operations.

Officers

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Scott Robinson
Executive Vice President and Chief Operating Officer

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

Stephen Chetner
Corporate Secretary

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Exploitation

Directors

Don Gray, Chairman
Rick Braund
Stephen Chetner
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Scott Robinson

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Deloitte & Touche LLP

Solicitors

Burnet, Duckworth & Palmer LLP

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