

**PEYTO EXPLORATION & DEVELOPMENT CORP.**

**Notice of  
Annual Meeting of Shareholders  
to be held on May 18, 2011**

The annual meeting of the shareholders of Peyto Exploration & Development Corp. (the "Corporation") will be held in the Livingston Place Conference Centre located at +15 Level, 222 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T2P 0B4, on Wednesday, May 18, 2011 at 3:00 p.m. (Calgary time) to:

1. receive and consider the Corporation's financial statements for the year ended December 31, 2010, together with the auditors' report thereon;
2. fix the number of directors of the Corporation to be elected at the meeting at eight (8);
3. elect eight (8) directors of the Corporation;
4. appoint the auditors and authorize the directors to fix their remuneration as such; and
5. transact such other business as may properly be brought before the meeting or any adjournment thereof.

The specific details of the matters proposed to be put before the meeting are set forth in the information circular-proxy statement accompanying this notice.

If you are unable to attend the meeting in person we request that you date and sign the enclosed form of proxy and mail it to or deposit it with our Corporate Secretary, c/o Valiant Trust Company, Suite 600, 750 Cambie Street, Vancouver, B.C., V6B 0A2 or by fax at (604) 681-3067. In order to be valid and acted upon at the meeting, forms of proxy must be returned to the aforesaid address not less than 24 hours before the time for holding the meeting or any adjournment thereof.

Only shareholders of record at the close of business on April 18, 2011 will be entitled to vote at the meeting, unless that shareholder has transferred any common shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the common shares and demands that the transferee's name be included on the list of shareholders.

DATED at Calgary, Alberta this 18<sup>th</sup> day of April, 2011.

By order of the Board of Directors of  
Peyto Exploration & Development Corp.

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

## PEYTO EXPLORATION & DEVELOPMENT CORP.

Information Circular-Proxy Statement  
for the Annual Meeting to be held on May 18, 2011

### PROXIES

#### Solicitation of Proxies

This information circular proxy statement is furnished in connection with the solicitation of proxies for use at the annual meeting of the shareholders of Peyto Exploration & Development Corp. ("**Peyto**" or the "**Corporation**") to be held on Wednesday, May 18, 2011 at 3:00 p.m. (Calgary time) in the Livingston Place Conference Centre located at +15 Level, 222 – 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, T2P 0B4, and at any adjournment thereof. Forms of proxy must be addressed to and reach Valiant Trust Company, Suite 600, 750 Cambie Street, Vancouver, B.C., V6B 0A2 or by fax at (604) 681-3067, not less than 24 hours before the time for holding the meeting or any adjournment thereof. Only shareholders of record at the close of business on April 18, 2011 will be entitled to vote at the meeting, unless that shareholder has transferred any common shares subsequent to that date and the transferee shareholder, not later than 10 days before the meeting, establishes ownership of the common shares and demands that the transferee's name be included on the list of shareholders.

The instrument appointing a proxy must be in writing and must be executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation.

The persons named in the enclosed form of proxy are officers of the Corporation. **As a shareholder you have the right to appoint a person, who need not be a shareholder, to represent you at the meeting. To exercise this right you should insert the name of the desired representative in the blank space provided on the form of proxy and strike out the other names or submit another appropriate proxy.**

#### Advice to Beneficial Holders of Common Shares

The information set forth in this section is of significant importance to you if you do not hold your common shares in your own name. Only proxies deposited by shareholders whose names appear on the Corporation's records as the registered holders of common shares can be recognized and acted upon at the meeting. If common shares are listed in an account statement provided by your broker, then in almost all cases those common shares will not be registered in your name on the Corporation's records. Such common shares will likely be registered under the name of your broker or an agent of that broker. In Canada, the vast majority of such common shares are registered under the name of CDS & Co., the registration name for The Canadian Depository for Securities Limited, which acts as nominee for many Canadian brokerage firms. Common shares held by your broker or their nominee can only be voted upon your instructions. Without specific instructions, your broker or their nominee is prohibited from voting your common shares.

Applicable regulatory policy requires your broker to seek voting instructions from you in advance of the meeting. Every broker has its own mailing procedures and provides its own return instructions, which you should carefully follow in order to ensure that your common shares are voted at the meeting. Often, the form of proxy supplied by your broker is identical to the form of proxy provided to registered shareholders. However, its purpose is limited to instructing the registered shareholder how to vote on your behalf. The majority of brokers now delegate responsibility for obtaining instructions from clients to Broadridge Financial Solutions, Inc. ("**Broadridge**"). Broadridge mails a scannable voting instruction form in lieu of the form of proxy. You are asked to complete and return the voting instruction form to them by mail or facsimile. Alternatively, you can call their toll-free telephone number or visit their internet site to vote your common shares. They then tabulate the results of all instructions received and provide appropriate instructions respecting the voting of common shares to be represented at the meeting. **If you receive a voting instruction form from Broadridge it cannot be used as a proxy to vote common shares directly at the meeting as the proxy must be returned to Broadridge well in advance of the meeting in order to have the common shares voted.**

### **Revocability of Proxy**

You may revoke your proxy at any time prior to a vote. If you or the person you give your proxy attends personally at the meeting you or such person may revoke the proxy and vote in person. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by you or your attorney authorized in writing or, if you are a corporation, under your corporate seal or by a duly authorized officer or attorney of the corporation. To be effective the instrument in writing must be deposited either at the Corporation's head office at any time up to and including the last business day before the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the chairman of the meeting on the day of the meeting, or any adjournment thereof.

### **Persons Making the Solicitation**

This solicitation is made on behalf of the Corporation's management. The Corporation will bear the costs incurred in the preparation and mailing of the form of proxy, notice of annual meeting and this information circular-proxy statement. In addition to mailing forms of proxy, proxies may be solicited by personal interviews, or by other means of communication, by the Corporation's directors, officers and employees who will not be remunerated therefore.

### **Exercise of Discretion by Proxy**

The common shares represented by proxy in favour of management nominees will be voted on any poll at the meeting. Where you specify a choice with respect to any matter to be acted upon the common shares will be voted on any poll in accordance with the specification so made. If you do not provide instructions your common shares will be voted in favour of the matters to be acted upon as set out herein. The persons appointed under the form of proxy which we have furnished are conferred with discretionary authority with respect to amendments or variations of those matters specified in the form of proxy and notice of annual meeting and with respect to any other matters which may properly be brought before the meeting or any adjournment thereof. At the time of printing this information circular proxy statement, we know of no such amendment, variation or other matter.

## **VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

The Corporation is authorized to issue an unlimited number of common shares without nominal or par value which may be issued for such consideration as may be determined by resolution of the Board of Directors. As at April 18, 2011, there were 133,061,301 common shares issued and outstanding. As a holder of common shares you are entitled to one vote for each common share you own.

To the knowledge of the Corporation's directors and officers, as at April 7, 2011 no person or company beneficially owned or controlled or directed, directly or indirectly, more than 10% of the common shares which may be cast at the meeting.

As at April 7, 2011, the Corporation's directors and officers, as a group, beneficially owned or controlled or directed, directly or indirectly, approximately 8 million common shares or approximately 6% of the issued and outstanding common shares.

## **QUORUM FOR MEETING**

A quorum for the meeting is two or more persons either present in person or represented by proxy and representing in the aggregate not less than 5% of the Corporation's outstanding common shares. If a quorum is not present at the meeting within one-half hour after the time fixed for the holding of the meeting, the meeting will be adjourned to such day being not less than 21 days later and to such place and time as may be determined by the chairman of the meeting. At such meeting, the shareholders present either personally or by proxy shall form a quorum.

## APPROVAL REQUIREMENT

All of the matters to be considered at the meeting are ordinary resolutions requiring approval by more than 50% of the votes cast in respect of the resolution by or on behalf of shareholders present in person or represented by proxy at the meeting.

## MATTERS TO BE ACTED UPON AT THE MEETING

### Election of Directors

At the meeting, the shareholders will be asked to fix the number of directors of the Corporation to be elected at the meeting at eight (8) and to elect eight (8) directors.

Management is soliciting proxies, in the accompanying form of proxy, for an ordinary resolution in favour of fixing the Board of Directors at eight (8) members, and in favour of the election as directors, until the next annual meeting of shareholders of the Corporation, of the eight (8) nominees set forth below:

Rick Braund  
Donald Gray  
Michael MacBean  
Brian Davis  
Darren Gee  
Gregory Fletcher  
Stephen Chetner  
Scott Robinson

In the event that a vacancy among such nominees occurs because of death or for any reason prior to the meeting, the proxy shall not be voted with respect to such vacancy.

The proxy provided by management of the Corporation accompanying this information circular-proxy statement provides for individual voting on directors rather than slate voting.

The following table sets forth the names and municipalities of residence of all of the persons nominated for election as directors, the approximate number of common shares beneficially owned, directly or indirectly, or over which control or direction is exercised, by each of them, the dates on which they became directors, and their principal occupations, as of April 7, 2011.

Name and Age	Principal Occupation	Year Became Director	Number of Common Shares Beneficially Owned Directly or Indirectly or Over Which Control or Direction is Exercised
<b>Rick Braund</b> <sup>(2)(3)</sup> Calgary, Alberta Age: 55	Private Investor; Director of Gear Energy Corporation, a private oil and natural gas company, since 2007; Chairman of Buck Oil Ltd., a private oil and gas company, since 1999	October, 1998	1,184,126

Name and Age	Principal Occupation	Year Became Director	Number of Common Shares Beneficially Owned Directly or Indirectly or Over Which Control or Direction is Exercised
<b>Donald Gray</b> Calgary, Alberta Age: 45	Private Investor; Chairman of Gear Energy Corporation, a private oil and natural gas company, since January 2010; President of Gray Capital Partners Inc., a private capital management company, since May 2007; prior thereto, Mr. Gray was the Chief Executive Officer of Peyto from August 2006 to January 2007; prior thereto, Mr. Gray was the President and Chief Executive Officer of Peyto from October 1998 to August 2006	October, 1998	3,425,583
<b>Michael MacBean</b> <sup>(1)(2)(3)</sup> Calgary, Alberta Age: 43	Managing Director of TriWest Capital Partners, a private equity firm since April 2010; prior thereto, Mr. MacBean was the Chief Executive Officer of Diamond Energy Services LP, an oil services company from October 1998 to April 2010	June, 2003	203,510
<b>Brian Davis</b> <sup>(1)(2)(3)</sup> Houston, Texas Age: 45	Managing Partner of Oil and Gas Evaluations and Consulting, an independent oil and gas engineering consultancy firm based in Houston, Texas, since July 1994	August, 2006	188,540
<b>Darren Gee</b> Calgary, Alberta Age: 43	President and Chief Executive Officer of Peyto since January 2007 and President of Peyto since August 2006; prior thereto, Mr. Gee was the Vice-President, Engineering of Peyto from March 2001 to August 2006	January, 2007	1,704,946
<b>Gregory Fletcher</b> <sup>(1)(2)(3)</sup> Calgary, Alberta Age: 62	President of Sierra Energy Inc., a private oil and gas production company, since 1997	January, 2007	12,500
<b>Stephen Chetner</b> Calgary, Alberta Age: 44	Partner at Burnet, Duckworth & Palmer LLP, Barristers and Solicitors	May 2009	563,317
<b>Scott Robinson</b> Calgary, Alberta Age: 51	Executive Vice-President and Chief Operating Officer of Peyto since August 2006; prior thereto, Mr. Robinson was the Vice-President, Operations of Peyto from January 2004 to August 2006	May 2010	552,127

Notes:

- (1) Member of the audit committee, which is required under the *Business Corporations Act* (Alberta).
- (2) Member of the reserves committee.
- (3) Member of the compensation and nominating committee.
- (4) We do not have an executive committee.
- (5) The period of time served as a director or officer of the Corporation includes, where applicable, the period of time served as a director of the Corporation's predecessors, Peyto Energy Administration Corp., former administrator of Peyto Energy Trust, and Peyto Exploration & Development Corp, a corporation amalgamated under the *Business Corporations Act* (Alberta), prior thereto.

The information as to voting securities beneficially owned, directly or indirectly, is based upon information furnished to us by the nominees.

## **Director's Biographies**

### ***Rick Braund***

Mr. Braund is a co-founder and the former Chairman of the Board of Directors of Peyto. Mr. Braund has over 30 years of experience in the Canadian oil and gas business, with both private and publicly traded corporations. Mr. Braund has previously acted for Peyto in the land department. Mr. Braund has been a director of Gear Energy Corporation, a private oil and natural gas company, since 2007. Mr. Braund co-founded and was an executive with numerous energy companies including Viewpoint Resources, Calx Resources, Alterio Resources, and Intensity Resources Ltd. He began his career in 1977 with Aquitaine Company of Canada and Murphy Oil as a Landman.

### ***Donald Gray***

Mr. Gray is a co-founder and former President and Chief Executive Officer of Peyto. Mr. Gray has been primarily engaged as President of Gray Capital Partners Inc., a private capital management company, since May 2007. Mr. Gray has also been the Chairman of Gear Energy Corporation, a private oil and natural gas company, since January 2010. Mr. Gray holds a BSc in petroleum engineering from Texas A&M University and has over 20 years experience in the Canadian oil and gas business in various capacities. Mr. Gray co-founded Peyto in 1998 and efficiently grew production from zero to greater than 20,000 boe/day.

### ***Michael MacBean***

Mr. MacBean is the Chairman of the Audit Committee of Peyto. Mr. MacBean is primarily engaged as the Managing Director of TriWest Capital Partners, a private equity firm. From October 1998 to April 2010 Mr. MacBean was the Chief Executive Officer of Diamond Energy Services LP, a partnership engaged in the energy services sector. From 1995 through 1998, Mr. MacBean served as Controller and subsequently Senior Investment Analyst for ARC Financial Corporation. During this time Mr. MacBean also served as Vice-President, Finance for ARC Energy Trust. Prior to 1995, Mr. MacBean was the Manager of Financial Reporting and Taxation for Mannville Oil & Gas. Mr. MacBean received his Bachelor of Commerce Degree from the University of Saskatchewan in 1990. In 1993 Mr. MacBean received his C.A. designation from the Institute of Chartered Accountants of Alberta. In February 2007, Mr. MacBean received his Chartered Directors (C. Dir) designation from McMaster University.

### ***Brian Davis***

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

### ***Darren Gee***

Mr. Gee is the President and Chief Executive Officer of Peyto and was previously the Vice-President, Engineering of Peyto commencing in 2001. Mr. Gee has over 20 years experience in the Canadian oil and gas business. Mr. Gee has a BSc in mechanical engineering from the University of Alberta.

### ***Gregory Fletcher***

Mr. Fletcher is the Chairman of the Compensation and Nominating Committee of Peyto. Mr. Fletcher is primarily engaged as the President of Sierra Energy Inc., a private oil and gas production company that he founded in 1997. Mr. Fletcher is also a director of Calfrac Well Services Ltd., a public oilfield service company, a director of Total Energy Services Inc., a public oilfield services company and Whitecap Resources Inc., a public oil and gas company. Mr. Fletcher holds a BSc in geology from the University of Calgary. In January 2009, Mr. Fletcher graduated from the Directors' Education Program sponsored by the Institute of Corporate Directors and Haskayne School of Business at the University of Calgary.

***Stephen Chetner***

Mr. Chetner is a Partner at the law firm of Burnet, Duckworth & Palmer LLP. Mr. Chetner has over 15 years of corporate securities legal experience. Mr. Chetner has an LLB from the University of Western Ontario and a LLM from the University of London (U.K.). Mr. Chetner is also the Corporate Secretary of Peyto.

***Scott Robinson***

Mr. Robinson is the Executive Vice-President and Chief Operating Officer of Peyto and was previously the Vice-President, Operations of Peyto commencing in 2004. Mr. Robinson has a Bachelor of Science Degree from the University of Denver, a Masters of Science Degree in Engineering from the Colorado School of Mines and is a member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta.

**Penalties or Sanctions**

No proposed director has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by any securities regulatory authority relating to trading in securities, promotion or management of a publicly traded issuer or theft or fraud or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body or self regulatory authority that would be likely to be considered important to a reasonable investor making or deciding whether to vote for a proposed director.

**APPOINTMENT OF AUDITORS**

Management is soliciting proxies, in the accompanying form of proxy, in favour of the appointment of the firm of Deloitte & Touche LLP, Chartered Accountants, as the Corporation's auditors, to hold office until the next annual meeting of the shareholders and to authorize the directors to fix their remuneration as such. Deloitte & Touche LLP was first appointed auditors of the Corporation's predecessor, Peyto Energy Trust, on June 3, 2004.

**INFORMATION CONCERNING THE CORPORATION**

The Corporation was created by amalgamation pursuant to a plan of arrangement under the *Business Corporations Act* (Alberta) (the "**ABCA**") involving Peyto Energy Trust (the "**Trust**"), Peyto Operating Trust, Peyto Energy Administration Corp., Peyto Energy Limited Partnership, Peyto Exploration & Development Corp. (a corporation amalgamated under the ABCA and a predecessor to the Corporation), Peyto Exploration (2011) Ltd. and the unitholders of the Trust which commenced on December 31, 2010 and was completed on January 1, 2011 whereby unitholders of the Trust received common shares in exchange for all of the issued and outstanding trust units of the Trust (the "**Reorganization**"). As a result of the Reorganization, the Corporation acquired all of the existing assets and assumed all of the liabilities of the Trust. Information herein in respect of the Corporation includes information in respect of the Trust prior to completion of the Reorganization to the extent applicable unless the context otherwise requires.

**STATEMENT OF EXECUTIVE COMPENSATION**

**Compensation Discussion and Analysis**

***Role of Compensation and Nominating Committee***

The Compensation and Nominating Committee is comprised of Messrs. Fletcher, Braund, MacBean and Davis. These directors are considered independent from Peyto. The Compensation and Nominating Committee meets from time to time each year for the purpose of, among other things, reviewing the overall compensation policy of Peyto. The Compensation and Nominating Committee makes recommendations to the Board of Directors on salaries of executive officers, bonus allocations and directors' compensation. The Board of Directors reviews all recommendations of the Compensation and Nominating Committee relating to compensation matters before final approval.

### ***Executive and Employee Compensation Principles and Strategy***

Our compensation policies are founded on the principle that executive and employee compensation should be consistent with shareholders' interests and, therefore, the compensation strategy employed is weighted towards variable or performance based compensation. The objectives of the policies are to attract and retain a high quality management and employee team and to motivate performance by tying a significant portion of compensation to performance measures. The current elements of the Corporation's executive and employee compensation policies are consistent with the Corporation's business strategy of building value by drilling for oil and natural gas reserves, while distributing a portion of the Corporation's cash to shareholders. The Compensation and Nominating Committee evaluates these objectives on an ongoing basis. The Corporation's compensation plan consists of the following items:

- base salary
- market based bonus
- reserves/value based bonus

In keeping with the objectives stated above, the Corporation pays base salaries at the median of entities of similar size. The variable or performance based compensation consists of the market based bonus and reserves/value based bonus which are described in detail below. The market based bonus rewards participants for the performance of the common shares and the amount of dividends paid to shareholders, while the reserves/value based bonus rewards participants for accretive oil and natural gas reserve value growth. The Compensation and Nominating Committee reviews all three components in assessing the compensation of individual executive officers and of Peyto employees as a whole. The Corporation does not have a pension plan or other form of formal retirement compensation.

The compensation of all the Corporation's employees, including executive officers, is consistent with the above policies. The Chief Executive Officer of Peyto is responsible for making recommendations to the Compensation and Nominating Committee with respect to compensation levels for all executive officers. In making such recommendations, the Chief Executive Officer analyzes a number of factors including the performance of the individual executive officer, level of responsibility, experience, expertise and the leadership role undertaken. The Chief Executive Officer's compensation is determined by the Board of Directors upon recommendation by the Compensation and Nominating Committee. A description of each element of our compensation is set forth below.

#### ***Base Salaries***

The base salary component is intended to provide a fixed level of competitive pay that reflects each executive officer's or employee's primary duties and responsibilities. The Corporation's policy is that salaries for our executive officers and other employees are competitive within our industry and generally set at the median salary level among entities our size. The rationale, as set forth above, is to focus compensation on variable or performance based compensation. The Corporation subscribes to available summaries for data on industry compensation, which assists in determining salary levels.

#### ***Market Based Bonus***

The purpose of the market based bonus (the "**Market Component**") is to provide officers, consultants, employees and other service providers, as applicable (all of which are hereinafter called "**Service Providers**"), of Peyto with an opportunity to be issued allocations of the Market Component (referred to herein as "**Rights**"), as designated from time to time by the Board of Directors of Peyto, the future value of which is based primarily on the market value of the common shares and the dividends paid to shareholders. The Market Component provides an increased incentive for these Service Providers to contribute to the future success of Peyto, thus enhancing the value of the common shares for the benefit of all the shareholders.

Rights are granted by the Board of Directors from time to time, at its sole discretion, to Service Providers. No Service Provider shall have any right to be granted Rights, except as may be specifically granted by the Board of Directors. The allocation of Rights are granted by the Board of Directors based on the recommendations of the Compensation and Nominating Committee after consultation with the Chief Executive Officer. The amount of Rights allocated to each executive officer and employee is not set in relation to any formula or specific criteria but is

primarily the result of a subjective determination by the Chief Executive Officer based on an assessment of an individual's roles and responsibilities with Peyto. Allocations made to the Chief Executive Officer are determined by the Board of Directors on advice of the Compensation and Nominating Committee. Given the small number of employees at Peyto, this manner of allocation remains optimal. All payments under this bonus plan are paid in cash.

At the beginning of each calendar year, the Board of Directors uses its discretion to determine whether to award new Rights, the number of Rights to be awarded, if any, the vesting schedule of such Rights and the allocations. Such new Rights are granted effective January 1 and are issued at the Grant Price (as defined below). In certain circumstances, a new Service Provider may be granted Rights at the time they commence providing services, the Grant Price of such Rights is the market price of the common shares at such time. All Rights that have vested expire at the end of the year regardless of whether they are in the money or not.

The grant price (the "**Grant Price**") per Right in respect of Rights granted is equal to the weighted average of the per common share closing price of common shares traded through the facilities of the Toronto Stock Exchange: (i) on the five (5) consecutive trading days immediately preceding the date of grant for the Rights granted in 2009; or (ii) on the ten (10) consecutive trading days immediately preceding the date of grant for the Rights granted in 2010. The Rights have vesting schedules as determined by the Board of Directors, in its sole discretion.

The Rights granted in 2009 vest equally over three (3) years. Upon the vesting of each Right granted in 2009, Peyto shall pay to the holder of such Right an amount equal to the sum of: (i) the weighted average of the per common share closing price of common shares traded through the facilities of the Toronto Stock Exchange on the five (5) consecutive trading days immediately preceding the end of the calendar year less the Grant Price for such Right; and (ii) the amount of cash distributed by Peyto per common share from the grant date to the date of vesting. For greater certainty, the sum calculated in (i) above may be negative if the weighted average trading price is less than the Grant Price.

The Rights granted in 2010 were all valued at December 31, 2010 using the formula set forth below, but vest and are paid out equally over three (3) years. Each Right was valued at an amount equal to the sum of: (i) the weighted average of the per common share closing price of Peyto's common shares traded through the facilities of the Toronto Stock Exchange on the ten (10) consecutive trading days immediately preceding the end of the calendar year less the Grant Price for such Right; and (ii) the amount of cash distributed by Peyto per common share from the grant date to the date of valuation. For the 2010 grants, the aggregate potential payout is \$13.2 million, of which \$4.4 million was paid on December 31, 2010, \$4.4 million will vest and be paid on December 31, 2011, with the balance vesting and to be paid out on December 31, 2012.

To date, 21.9 million Rights (inclusive of 2 million Rights granted on January 1, 2011) have been issued, of which 11.7 million have vested (inclusive of 2.6 million Rights vested on December 31, 2010) and expenses were paid out shortly thereafter. To date, 3.6 million unvested Rights have been cancelled. Compensation expenses with respect to Rights vested for December 31, 2009 totalled \$4.5 million and for December 31, 2010 totalled \$21.3 million. It is the current intention of Peyto to keep the number of Rights outstanding at a number which is no greater than 6% of the issued and outstanding common shares. There are currently 3.9 million Rights outstanding, notionally representing 3% of the issued and outstanding common shares.

### ***Reserves/Value Based Bonus***

The principal purpose of the Reserves/Value Based Component ("**Value Component**") is to advance the interests of Peyto by providing for bonuses for key employees and directors of Peyto who are designated as participants thereunder. The goal in implementing the Value Component is to attract and retain key employees and directors, make their compensation competitive with other opportunities, and provide them with an incentive to strive to achieve the financial and business objectives of Peyto. The overriding philosophy of the Value Component is to reward designated executives and employees for accretive oil and natural gas reserve value growth, which is a result of Peyto's exploration and development program. The Value Component is designed to recognize individual performance that has played a role in creating incremental value per common share but not to reward for increases in commodity prices.

The Value Component is administered by the Chief Executive Officer of Peyto, who selects the participants in the Value Component from among key employees of Peyto and allocates participation points to each such participant. The amount of participation in the Value Component is not set in relation to any formula or specific criteria but is the result of a subjective determination by the Chief Executive Officer and is approved by the Compensation and Nominating Committee and the Board of Directors. Recommendations regarding the allocations made by the Chief Executive Officer are reviewed by the Compensation and Nominating Committee. Allocations and payments made to the Chief Executive Officer are determined by the Board of Directors on the advice of the Compensation and Nominating Committee. Given the small number of employees at Peyto, this manner of allocation remains optimal.

Under the Value Component, the bonus pool is comprised of 4% of the annual incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of Proven Producing Reserves calculated using a discount rate of 8%. The change in Proven Producing Reserves is calculated on a calendar year basis. The Proven Producing Reserves are calculated by an independent oil and gas reservoir engineer, at the end of a fiscal year, using the following year's constant price forecast for all calculations. The bonuses, if any, under the Value Component are paid in cash. Compensation expense with respect to the Value Component totalled \$8.6 million in 2010 (2009 - \$0.5 million).

### Summary

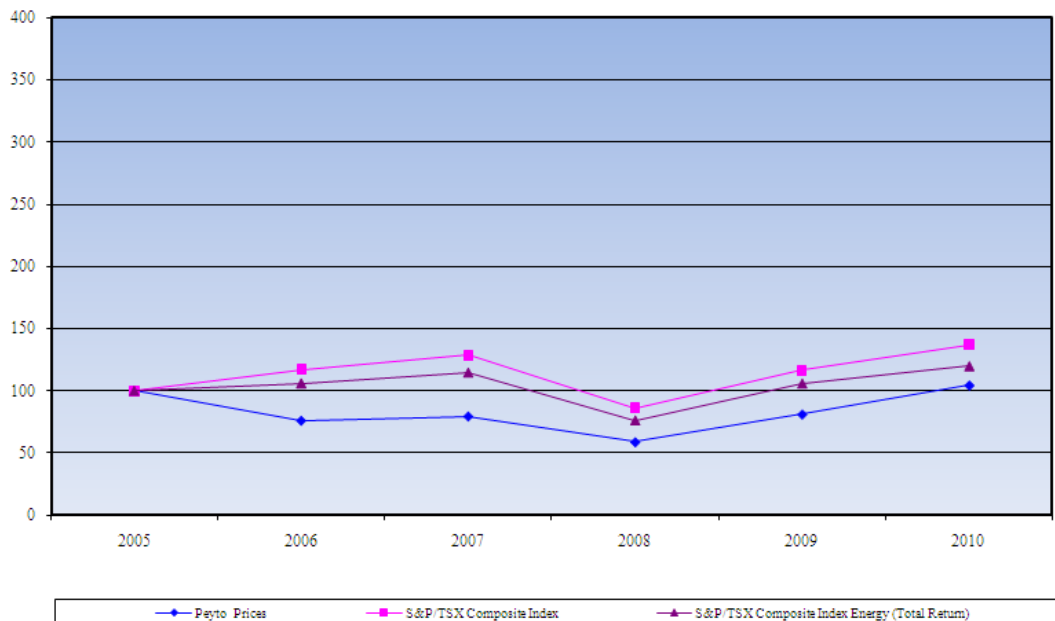
The Board of Directors believes that long-term shareholder value is enhanced by compensation based upon corporate performance achievements. Through the plans described above, a significant portion of the compensation for all employees, including executive officers, is based on corporate performance, as well as industry-competitive pay practices.

### Option-Based Awards

Please see discussion under "*Compensation Discussion and Analysis – Market Based Bonus*".

### Performance Graph

The following graph illustrates our five year cumulative shareholder return, as measured by the closing price of our common shares at the end of each financial year, assuming an initial investment of \$100.00 on December 31, 2005, compared to the S&P/TSX Composite Index and the S&P/TSX Composite Index Energy, assuming the reinvestment of dividends where applicable.



	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2010
Peyto Exploration & Development Corp.	100	76.25	79.72	59.08	81.25	104.37
S&P/TSX Composite Index <sup>(1)</sup>	100	117.26	128.79	86.28	116.53	137.05
S&P/TSX Composite Index Energy (Sector) <sup>(1)</sup>	100	106.06	114.79	75.90	105.85	119.97

Note:

(1) Total Return Index.

As the price of common shares at year-end is a determining factor regarding the payment of the Market Component, the total compensation of the Named Executive Officers (as defined below) is affected by increases and decreases in the price of the common shares.

### Summary Compensation Table

The following table sets forth for the years ended December 31, 2010 and December 31, 2009 information concerning the compensation paid to our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") and all of the other executive officers at the end of the years ended December 31, 2010 and December 31, 2009 whose total compensation was more than \$150,000 (each a "Named Executive Officer" and collectively, the "Named Executive Officers").

Name and Principal Position	Year	Salary (\$)	Share-Based Awards (\$)	Option-Based Awards (\$) <sup>(1)(2)</sup>	Non-Equity Incentive Plan Compensation (\$)		Pension Value (\$)	All Other Compensation <sup>(5)</sup>	Total Compensation (\$) <sup>(6)</sup>
					Annual Incentive Plans <sup>(3)</sup>	Long-Term Incentive Plans <sup>(4)</sup>			
Darren Gee President and Chief Executive Officer	2010	230,000	N/A	353,967	777,000	2,757,817	N/A	-	4,118,784
	2009	220,000	N/A	588,490	50,300	643,300	N/A	-	1,502,090
Scott Robinson Executive Vice- President and Chief Operating Officer	2010	215,000	N/A	328,067	777,000	2,570,063	N/A	-	3,890,130
	2009	205,000	N/A	532,443	49,700	582,031	N/A	-	1,369,174
Kathy Turgeon Vice-President, Finance and Chief Financial Officer	2010	185,000	N/A	189,933	418,000	1,549,587	N/A	-	2,342,520
	2009	175,000	N/A	350,292	27,000	343,719	N/A	-	896,011
Glenn Booth Vice-President, Land	2010	175,000	N/A	189,933	418,000	1,656,687	N/A	-	2,439,620
	2009	167,500	N/A	350,292	32,400	382,919	N/A	-	933,111
David Thomas Vice-President, Exploration <sup>(7)</sup>	2010	170,000	N/A	160,580	545,000	1,167,976	N/A	-	2,043,556

Notes:

(1) Represents Rights issued pursuant to the Market Component.

- (2) Rights granted January 1, 2010 are fair valued using the Black-Scholes option pricing model on the grant date. The fair value was determined using a risk free rate of 1.46% per annum; expected life of 1 year, volatility of 47.25%; grant price of \$13.44 and an exercise price of \$13.44 for Rights vesting in one year. Fair value of Rights vesting on December 31, 2010 are not included in this amount as they are included in the amount under "Long-Term Incentive Plans". The fair value of the Rights vesting December 31, 2010 were Darren Gee - \$466,717; Scott Robinson - \$432,567; Kathy Turgeon - \$250,433; David Thomas - \$211,730; and Glenn Booth - \$250,433 (grant price of \$13.44, expected life of 1 year, volatility of 47.25% and an exercise price of \$13.44).
- (3) Represents the amounts paid pursuant to the Value Component.
- (4) Represents the amounts paid pursuant to the Market Component.
- (5) The value of perquisites received by each of the Named Executive Officers, including property or other personal benefits provided to the Named Executive Officers that are not generally available to all employees, were not in the aggregate greater than \$50,000 or 10% of the Named Executive Officer's total salary for the financial year.
- (6) Total compensation includes both cash and non-cash amounts (as set out in "Option-Based Awards"). Cash compensation per Named Executive Officer for 2010 was: Darren Gee - \$3,764,817; Scott Robinson - \$3,562,063; Kathy Turgeon - \$2,152,587; Glenn Booth - \$2,249,687 and David Thomas - \$1,882,976 (2009 cash compensation: Darren Gee - \$913,600; Scott Robinson - \$837,731; Kathy Turgeon - \$545,719 and Glenn Booth - \$582,819).
- (7) David Thomas was appointed Vice President, Exploration on November 1, 2010. The amounts above reflect his compensation for the full 2010 year.

### Incentive Plan Awards

Please see discussion under "*Compensation Discussion and Analysis – Market Based Bonus*" and "*Compensation Discussion and Analysis – Reserves/Value Based Bonus*" for a description of our incentive plan awards.

#### *Outstanding Share-Based Awards and Option-Based Awards*

The following table sets forth for each Named Executive Officer all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2010.

Name	Option-Based Awards				Share-Based Awards	
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>	Option Exercise Price (\$) <sup>(2)</sup>	Option Expiration Date	Value of Unexercised In-The-Money Options <sup>(3)</sup> (\$)	Number of Shares or Units of Shares That Have Not Vested (#)	Market or Payout Value of Share-Based Awards That Have Not Vested (\$)
Darren Gee	70,000	\$9.53	December 31, 2011	863,100	N/A	N/A
	136,667	\$13.44	½ December 31, 2011 ½ December 31, 2012	933,433	N/A	N/A
Scott Robinson	63,333	\$9.53	December 31, 2011	780,896	N/A	N/A
	126,667	\$13.44	½ December 31, 2011 ½ December 31, 2012	865,133	N/A	N/A
Kathy Turgeon	41,667	\$9.53	December 31, 2011	513,754	N/A	N/A
	73,333	\$13.44	½ December 31, 2011 ½ December 31, 2012	500,867	N/A	N/A
Glenn Booth	41,667	\$9.53	December 31, 2011	513,754	N/A	N/A
	73,333	\$13.44	½ December 31, 2011 ½ December 31, 2012	500,867	N/A	N/A
David Thomas	28,333	\$9.53	December 31, 2011	349,346	N/A	N/A
	62,000	\$13.44	½ December 31, 2011 ½ December 31, 2012	423,460	N/A	N/A

Notes:

- (1) Represents Rights issued pursuant to the Market Component.

- (2) Represents initial grant price which is equal to the weighted average of the per trust unit closing price of trust units traded through the facilities of the Toronto Stock Exchange on the five (5) consecutive trading days immediately preceding January 1, 2009 and the ten (10) consecutive trading days immediately preceding January 1, 2010.
- (3) Calculated based on the payout formula as set out in "Compensation Discussion and Analysis – Market Based Bonus" as at December 31, 2010.

***Rights Granted During the Year Ended December 31, 2010***

Rights issued pursuant to the Market Component are listed below. For more information on the Market Component, please see "Compensation Discussion and Analysis - Market Based Bonus".

The following table sets forth details with respect to all Rights granted pursuant to the Market Component to our Named Executive Officers during 2010.

<b>Name</b>	<b>Rights Granted (#)</b>	<b>Percentage of Total Rights Granted in 2010 (%)</b>	<b>Base Price (\$/Security)</b>	<b>Market Value of Securities Underlying Rights on Date of Grant (\$/Security)</b>	<b>Expiration Date</b>
Darren Gee	205,000	11%	\$13.44	\$13.44	1/3 December 31, 2010 1/3 December 31, 2011 1/3 December 31, 2012
Scott Robinson	190,000	10%	\$13.44	\$13.44	1/3 December 31, 2010 1/3 December 31, 2011 1/3 December 31, 2012
Kathy Turgeon	110,000	6%	\$13.44	\$13.44	1/3 December 31, 2010 1/3 December 31, 2011 1/3 December 31, 2012
Glenn Booth	110,000	6%	\$13.44	\$13.44	1/3 December 31, 2010 1/3 December 31, 2011 1/3 December 31, 2012
David Thomas	93,000	5%	\$13.44	\$13.44	1/3 December 31, 2010 1/3 December 31, 2011 1/3 December 31, 2012

***Incentive Plan Awards – Value Vested or Earned During the Year***

The following table sets forth for each Named Executive Officer, the value of option-based awards and share-based awards which vested during the year ended December 31, 2010 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2010.

<b>Name</b>	<b>Option-Based Awards – Value Vested During the Year<sup>(1)</sup> (\$)</b>	<b>Share-Based Awards – Value Vested During the Year (\$)</b>	<b>Non-Equity Incentive Plan Compensation – Value Earned During the Year<sup>(2)</sup> (\$)</b>
Darren Gee	2,757,817	N/A	777,000
Scott Robinson	2,570,063	N/A	777,000
Kathy Turgeon	1,549,587	N/A	418,000
Glenn Booth	1,656,687	N/A	418,000
David Thomas	1,167,976	N/A	545,000

Notes:

- (1) Represents the amounts paid pursuant to the Market Component.
- (2) Represents amounts paid pursuant to the Value Component.

## Directors' Compensation

Each of the directors of Peyto, with the exception of Mr. Darren Gee and Mr. Scott Robinson who, in 2010 were employees of Peyto, receives an annual retainer plus expenses for attending meetings of the Board of Directors and committees thereof. The retainers depend on committee membership, undertaking the role of chairman of the Board of Directors, undertaking the role of a committee chair and other relevant factors considered by the Compensation and Nominating Committee. The annual retainer is paid in cash. In order to further align the directors' annual retainer to shareholders' interests, half of the retainer is fixed and half is variable. The variable portion is subject to the following multiplier: the weighted average of the per common share closing price of common shares traded through the facilities of the Toronto Stock Exchange on the ten (10) consecutive trading days immediately preceding December 31 of a given year plus the dividends paid per common share for that year divided by the weighted average of the per common share closing price of common shares traded through the facilities of the Toronto Stock Exchange on the ten (10) consecutive trading days immediately preceding December 31 of the previous year. If shareholder value is increased during a given year, the variable portion of the directors' retainer will go up. Conversely, if shareholder value is decreased during the year, the variable portion will go down. Peyto adopted this new directors' compensation plan for the 2010 calendar year. Prior thereto, payments were all fixed and were paid after the annual meeting of shareholders. The following chart highlights all the payments made to the Corporation's directors for the 2010 transition year.

It is a requirement that directors hold common shares which have a dollar value, calculated at the time of becoming a director, of not less than \$160,000. Directors are expected to reach this level within one year of appointment.

Name	2009 Fees Paid in 2010 (\$) <sup>(1)</sup>	2010 Fees Earned Fixed/Variable (\$) <sup>(2)</sup>	Share-Based Awards (\$)	Option-Based Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Pension Value (\$)	All Other Compensation (\$)	Total (\$)
Rick Braund	\$15,000	\$36,250	-	-	-	-	-	\$105,922
		\$54,672						
Donald Gray	\$28,750	\$58,500	-	-	-	-	-	\$175,479
		\$88,229						
Michael MacBean	\$25,000	\$41,250	-	-	-	-	-	\$128,463
		\$62,213						
Brian Davis	\$23,750	\$41,250	-	-	-	-	-	\$127,213
		\$62,213						
Darren Gee	Nil	Nil	-	2,757,817	777,000	-	-	\$3,534,817
		Nil						
Gregory Fletcher	\$23,750	\$41,250	-	-	-	-	-	\$127,213
		\$62,213						
Stephen Chetner	\$17,350	\$36,250	-	268,261	125,000	-	-	\$501,533
		\$54,672						
Scott Robinson	Nil	Nil	-	2,570,063	777,000	-	-	\$3,347,003
		Nil						

Notes:

- (1) Payments for the 2009 fees paid in 2010 were paid after the annual meeting of shareholders in 2010.
- (2) Payments under the new directors' compensation plan are made annually at the end of the calendar year.

***Outstanding Share-Based Awards and Option-Based Awards***

The following table sets forth, for each director who participates, all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2010.

Name	Option-Based Awards				Share-Based Awards	
	Number of Securities Underlying Unexercised Options (#) <sup>(1)</sup>	Option Exercise Price (\$) <sup>(2)</sup>	Option Expiration Date	Value of Unexercised In-The-Money Options <sup>(3)</sup> (\$)	Number of Shares or Units of Shares That Have Not Vested (#)	Market or Payout Value of Share-Based Awards That Have Not Vested (\$)
Darren Gee	70,000	\$9.53	December 31, 2011	863,100	N/A	N/A
	136,667	\$13.44	½ December 31, 2011 ½ December 31, 2012	933,433	N/A	N/A
Scott Robinson	63,333	\$9.53	December 31, 2011	780,896	N/A	N/A
	126,667	\$13.44	½ December 31, 2011 ½ December 31, 2012	865,133	N/A	N/A
Stephen Chetner	6,667	\$9.53	December 31, 2011	82,204	N/A	N/A
	12,667	\$13.44	½ December 31, 2011 ½ December 31, 2012	86,513	N/A	N/A

Notes:

- (1) Represents Rights issued pursuant to the Market Component.
- (2) Represents initial grant price which is equal to the weighted average of the per trust unit closing price of trust units traded through the facilities of the Toronto Stock Exchange on the five (5) consecutive trading days immediately preceding January 1, 2009 and the ten (10) consecutive trading days immediately preceding January 1, 2010.
- (3) Calculated based on the payout formula as set out in "Compensation Discussion and Analysis – Market Based Bonus" as at December 31, 2010.

***Rights Granted During the Year Ended December 31, 2010***

The following table sets forth details with respect to all Rights granted pursuant to the Market Component to each of the participating directors during 2010.

Name	Rights Granted (#)	Percentage of Total Rights Granted in 2010 (%)	Base Price (\$/Security)	Market Value of Securities Underlying Rights on Date of Grant (\$/Security)	Expiration Date
Darren Gee	205,000	11%	\$13.44	\$13.44	⅓ December 31, 2010 ⅓ December 31, 2011 ⅓ December 31, 2012
Scott Robinson	190,000	10%	\$13.44	\$13.44	⅓ December 31, 2010 ⅓ December 31, 2011 ⅓ December 31, 2012

***Liability Insurance of Directors and Officers***

Peyto maintains directors' and officers' liability insurance coverage, in the amount of \$20 million, for losses to Peyto if it is required to reimburse directors and officers, where permitted, and for direct indemnity of directors and officers where corporate reimbursement is not permitted by law. The insurance protects Peyto against liability (including costs), subject to standard policy exclusions, which may be incurred by directors and/or officers acting in such capacity for Peyto. All directors and officers of Peyto are covered by the policy and the amount of insurance applies collectively to all. The cost of this insurance policy is \$60,000 per annum.

***Director and Officer Equity Ownership***

The following tables set out each current directors' and officers' equity ownership interest in Peyto and any changes in ownership interests since April 7, 2010.

*Directors*

	Directors' Equity Ownership and Changes Therein			Market Value of Equity Holdings as at April 7, 2011 (\$)
	Equity Ownership as at April 7, 2010	Equity Ownership as at April 7, 2011	Net Change in Equity Ownership	
Director	Common Shares	Common Shares	Common Shares	
Rick Braund	2,218,875	1,184,126	(1,034,749)	23,646,996
Donald Gray	3,735,682	3,425,583	(310,099)	68,408,893
Michael MacBean	211,500	203,510	(7,990)	4,064,095
Brian Davis	198,240	188,540	(9,700)	3,765,144
Gregory Fletcher	10,000	12,500	2,500	249,625
Stephen Chetner	540,863	563,317	22,454	11,249,440
Scott Robinson	417,276	552,127	134,851	11,025,976
Darren Gee	1,510,278	1,704,946	194,668	34,047,772

*Officers*

	Officers' Equity Ownership and Changes Therein			Market Value of Equity Holdings as at April 7, 2011 (\$)
	Equity Ownership as at April 7, 2010	Equity Ownership as at April 7, 2011	Net Change in Equity Ownership	
Officer	Common shares	Common shares	Common shares	
Darren Gee	1,510,278	1,704,946	194,668	34,047,772
Scott Robinson	417,276	552,127	134,851	11,025,976
Glenn Booth	71,260	137,890	66,630	2,753,663
Kathy Turgeon	51,600	79,780	28,180	1,593,207
David Thomas <sup>(1)</sup>	39,940	77,550	37,610	1,548,674

Note:

- (1) David Thomas was appointed Vice President, Exploration effective November 1, 2010.

**CORPORATE GOVERNANCE PRACTICES**

National Instrument 58-101, entitled "Disclosure of Corporate Governance Practices" ("**NI 58-101**") requires that if management of an issuer solicits proxies from its securityholders for the purpose of electing directors that certain prescribed disclosure respecting corporate governance matters be included in its management information circular. The Toronto Stock Exchange also requires listed companies to provide, on an annual basis, the corporate governance disclosure which is prescribed by NI 58-101.

The prescribed corporate governance disclosure for the Corporation is that contained in Form 58-101F1 which is attached to NI 58-101 ("**Form 58-101F1 Disclosure**").

Set out below is a description of the Corporation's current corporate governance practices, relative to the Form 58-101F1 Disclosure.

**1. Board of Directors**

**(a) Disclose the identity of directors who are independent.**

The following five directors of the Corporation are independent (for purposes of NI 58-101):

Donald Gray (Chairman)  
Michael MacBean (Lead Director)  
Brian Davis  
Gregory Fletcher  
Rick Braund

**(b) Disclose the identity of directors who are not independent, and describe the basis for that determination.**

Darren Gee is not independent as he occupies the position of President and Chief Executive Officer of the Corporation.

Stephen Chetner is not independent as he occupies the position of Corporate Secretary of the Corporation.

Scott Robinson is not independent as he occupies the position of Executive Vice-President and Chief Operating Officer of the Corporation.

**(c) Disclose whether or not a majority of directors are independent. If a majority of directors are not independent, describe what the board of directors (the Board) does to facilitate its exercise of independent judgement in carrying out its responsibilities.**

A majority of the directors of the Corporation (currently five of eight) are independent.

**(d) If a director is presently a director of any other issuer that is a reporting issuer (or the equivalent) in a jurisdiction or a foreign jurisdiction, identify both the director and the other issuer.**

The following director is presently a director of other issuers that are reporting issuers (or the equivalent):

<u>Name of Director</u>	<u>Name of Other Reporting Issuers</u>
Gregory Fletcher	Total Energy Services Inc. Calfrac Well Services Ltd. Whitecap Resources Inc.

**(e) Disclose whether or not the independent directors hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance. If the independent directors hold such meetings, disclose the number of meetings held since the beginning of the issuer's most recently completed financial year. If the independent directors do not hold such meetings, describe what the Board does to facilitate open and candid discussion among its independent directors.**

At the end of or during each meeting of the Board, the members of management of the Corporation and the non-independent directors of the Corporation who are present at such meeting leave the meeting in order for the independent directors to meet. In addition, as the Compensation and Nominating Committee is comprised of all the independent directors, other than Don Gray, it also serves as a forum for discussion amongst independent members of the Board. In addition, other meetings of the independent directors may be held from time to time if required. The Chairman of the Board also communicates informally, from time to time, with the independent members. Four (4) meetings of the independent directors have been held since the beginning of the Corporation's most recently completed financial year.

- (f) **Disclose whether or not the chair of the Board is an independent director. If the Board has a chair or lead director who is an independent director, disclose the identity of the independent chair or lead director, and describe his or her role and responsibilities. If the Board has neither a chair that is independent nor a lead director that is independent, describe what the Board does to provide leadership for its independent directors.**

The Chairman of the Board is Donald Gray, who is an independent member of the Board. The Chairman presides at all meetings of the Board and, unless otherwise determined, at all meetings of shareholders and to enforce the rules of order in connection with such meetings. The Chairman is to provide overall leadership to the Board without limiting the principle of collective responsibility and the ability of the Board to function as a unit. The Chairman is to endeavour to fulfill his Board responsibilities in a manner that will ensure that the Board is able to function independently of management and is to consider, and allow for, when appropriate, a meeting of independent directors, so that Board meetings can take place without management being present. The Chairman is also to endeavour to ensure that reasonable procedures are in place to allow directors to engage outside advisors at the expense of the Corporation in appropriate circumstances.

- (g) **Disclose the attendance record of each director for all Board meetings held since the beginning of the issuer's most recently completed financial year.**

The attendance record of each of the directors of the Corporation for Board meetings and committee meetings held since January 1, 2010, is as follows:

Name of Director	Attendance Record	
Darren Gee	7 out of 7	Board Meetings
Don Gray	7 out of 7	Board Meetings
Rick Braund	5 out of 7 1 out of 1 1 out of 1	Board Meetings Reserves Committee Meetings Compensation and Nominating Committee Meetings
Michael MacBean	6 out of 7 4 out of 4 1 out of 1 1 out of 1	Board Meetings Audit Committee Meetings Reserves Committee Meetings Compensation and Nominating Committee Meetings
Brian Davis	6 out of 7 4 out of 4 1 out of 1 1 out of 1	Board Meetings Audit Committee Meetings Reserves Committee Meetings Compensation and Nominating Committee Meetings
Gregory Fletcher	7 out of 7 4 out of 4 1 out of 1 1 out of 1	Board Meetings Audit Committee Meeting Reserves Committee Meetings Compensation and Nominating Committee Meetings
Stephen Chetner	7 out of 7	Board Meetings
Scott Robinson <sup>(1)</sup>	3 out of 3	Board Meetings

Notes:

- (1) Mr. Robinson became a member of the Board on May 19, 2010.

**2. Board Mandate – Disclose the text of the Board's written mandate. If the Board does not have a written mandate, describe how the Board delineates its role and responsibilities.**

The mandate of the Board is attached to this information circular-proxy statement at Schedule "A".

**3. Position Descriptions**

**(a) Disclose whether or not the Board has developed written position descriptions for the chair and the chair of each Board committee. If the Board has not developed written position descriptions for the chair and/or the chair of each Board committee, briefly describe how the Board delineates the role and responsibilities of each such position.**

The Board has developed written position descriptions for the Chairman of the Board as well as the Chairman of each of the committees of the Board. The position descriptions are available on the Corporation's website under the heading "Corporate Governance".

**(b) Disclose whether or not the Board and Chief Executive Officer have developed a written position description for the Chief Executive. If the Board and Chief Executive Officer have not developed such a position description, briefly describe how the Board delineates the role and responsibilities of the Chief Executive Officer.**

The Board, with the input of the Chief Executive Officer of the Corporation, has developed a written position description for the Chief Executive Officer. The position description is available on the Corporation's website under the heading "Corporate Governance".

**4. Orientation and Continuing Education**

**(a) Briefly describe what measures the Board takes to orient new directors regarding (i) the role of the Board, its committees and its directors, and (ii) the nature and operation of the issuer's business.**

While the Corporation does not currently have a formal orientation and education program for new recruits to the Board, the Corporation has historically provided such orientation and education on an informal basis. As new directors have joined the Board, management has provided these individuals with corporate policies, historical information about the Corporation, as well as information on the Corporation's performance and its strategic plan with an outline of the general duties and responsibilities entailed in carrying out their duties. The Board believes that these procedures have proved to be a practical and effective approach in light of the Corporation's particular circumstances, including the size of the Corporation, limited turnover of the directors and the experience and expertise of the members of the Board.

**(b) Briefly describe what measures, if any, the Board takes to provide continuing education for its directors. If the Board does not provide continuing education, describe how the Board ensures that its directors maintain the skill and knowledge necessary to meet their obligations as directors.**

No formal continuing education program currently exists for the directors of the Corporation; however, the Corporation encourages directors to attend, enrol or participate in courses and/or seminars dealing with financial literacy, corporate governance and related matters and has agreed to pay the cost of such courses and seminars. Each director of the Corporation has the responsibility for ensuring that he maintains the skill and knowledge necessary to meet his obligations as a director. In February 2007, Michael MacBean received his Chartered Directors (C. Dir) designation from McMaster University. In January 2009, Gregory Fletcher graduated from the Directors' Education Program sponsored by the Institute of Corporate Directors and Haskayne School of Business at the University of Calgary.

**5. Ethical Business Conduct**

**(a) Disclose whether or not the Board has adopted a written code for the directors, officers and employees. If the Board has adopted a written code:**

The Corporation has adopted a Code of Business Conduct and Ethics for directors, officers and employees (the "Code").

**(i) disclose how a person or company may obtain a copy of the code;**

A copy of the Code may be obtained by contacting the Investor Relations department of the Corporation at (jgrant@peyto.com) and is also available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Corporation's website under the heading "Corporate Governance".

**(ii) describe how the Board monitors compliance with its code, or if the Board does not monitor compliance, explain whether and how the Board satisfies itself regarding compliance with its code; and**

The Board monitors compliance with the Code by requiring that each of the senior officers of the Corporation to affirm in writing on an annual basis his or her agreement to abide by the Code, as to his or her ethical conduct and with respect to any conflicts of interest. Please also see 5(c) below for a discussion of the whistleblower policy.

**(iii) provide a cross-reference to any material change report filed since the beginning of the issuer's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the code.**

There have been no material change reports filed since the beginning of the Corporation's most recently completed financial year that pertains to any conduct of a director or executive officer that constitutes a departure from the Code.

**(b) Describe any steps the Board takes to ensure directors exercise independent judgement in considering transactions and agreements in respect of which a director or executive officer has a material interest.**

In accordance with the ABCA, directors who are a party to, or are a director or an officer of a person which is a party to, a material contract or material transaction or a proposed material contract or proposed material transaction are required to disclose the nature and extent of their interest and not to vote on any resolution to approve the contract or transaction. In addition, in certain cases, an independent committee of the Board may be formed to deliberate on such matters in the absence of the interested party.

**(c) Describe any other steps the Board takes to encourage and promote a culture of ethical business conduct.**

In addition to the Code, the Board has also adopted a "Whistleblower Policy" wherein employees and consultants of the Corporation are provided with the mechanics by which they may raise concerns about incorrect financial reporting, unlawful activities, actions that violate the Code and any other serious improper conduct in a confidential, anonymous process. A copy of this policy is available on the Corporation's website under the heading "Corporate Governance".

## 6. Nomination of Directors

### (a) Describe the process by which the Board identifies new candidates for Board nomination.

The Compensation and Nominating Committee is responsible for recommending suitable candidates as nominees for election or appointment as director, and recommending the criteria governing the overall composition of the Board and governing the desirable characteristics for directors. In making such recommendations, the Compensation and Nominating Committee is to consider: (i) the competence and skills that the Board considers to be necessary for the Board, as a whole, to possess; (ii) the competence and skills that the Board considers each existing director to possess; (iii) the competencies and skills that each new nominee will bring to the Board; and (iv) whether or not each new nominee can devote sufficient time and resources to his or her duties as a member of the Board. The Compensation and Nominating Committee also monitors the age of the directors to ensure that the mandatory retirement age of 75 is upheld.

The Compensation and Nominating Committee is also to review on a periodic basis the composition of the Board to ensure that an appropriate number of independent directors sit on the Board, and analyze the needs of the Board and recommend nominees who meet such needs.

### (b) Disclose whether or not the Board has a nominating committee composed entirely of independent directors. If the Board does not have a nominating committee composed entirely of independent directors, describe what steps the Board takes to encourage an objective nomination process.

The Compensation and Nominating Committee, which is responsible for nominating directors, is comprised of only independent directors.

### (c) If the Board has a nominating committee, describe the responsibilities, powers and operation of the nominating committee.

See item 6(a).

## 7. Compensation

### (a) Describe the process by which the Board determines the compensation for the issuer's directors and officers.

#### *Compensation of Directors*

The Compensation and Nominating Committee conducts a yearly review of directors' compensation having regard to various reports on current trends in directors' compensation and compensation data for directors of reporting issuers of comparative size to the Corporation.

#### *Compensation of Officers*

The Chairman of the Compensation and Nominating Committee has ongoing communication with the Chief Executive Officer regarding compensation matters for the upcoming fiscal year. After such background communication, the two meet in person to discuss compensation matters, with the Chairman and the Chief Executive Officer striving to ensure that executive compensation is consistent with the general principles as set forth under the heading "*Statement of Executive Compensation – Compensation Discussion and Analysis – Executive and Employee Compensation Principles and Strategy*". The Chairman and Chief Executive Officer go through the proposed executive compensation for each executive, including salary and participation levels in the bonus plans. The Chairman then meets with the other members of the Compensation and Nominating Committee and briefs them on the discussions held with the Chief Executive Officer. The full Compensation and Nominating Committee discuss the proposed executive compensation, in light of the strategic, operating and financial objectives of the Corporation as

well as industry norms and conditions. If general or specific issues are raised, the Compensation and Nominating Committee will debate them. The full Compensation and Nominating Committee then meets with the Chief Executive Officer to discuss such matters and raise any questions or issues they may have regarding executive compensation. In light of the Corporation's size and small number of employees, these meetings allow the Compensation and Nominating Committee to get a sense of the practical issues involved in determining compensation levels for executives. The Compensation and Nominating Committee then deals specifically with setting the compensation of the Chief Executive Officer. The Compensation and Nominating Committee then discuss and debate, as necessary, the specific executive compensation proposals. If further clarification is necessary, the Chairman will ask the Chief Executive Officer for information. Once compensation levels are agreed to by the members of the Compensation and Nominating Committee, they are formally approved.

Please also see discussion under the heading "*Statement of Executive Compensation – Compensation Discussion and Analysis – Executive and Employee Compensation Principles and Strategy*".

- (b) Disclose whether or not the Board has a compensation committee composed entirely of independent directors. If the Board does not have a compensation committee composed entirely of independent directors, describe what steps the Board takes to ensure an objective process for determining such compensation.**

The Compensation and Nominating Committee is comprised entirely of independent directors.

- (c) If the Board has a compensation committee, describe the responsibilities, powers and operation of the compensation committee.**

The Compensation and Nominating Committee's responsibility is to formulate and make recommendations to the Board in respect of compensation issues relating to directors and officers of the Corporation. Without limiting the generality of the foregoing, the Compensation and Nominating Committee has the following duties:

- (i) advise the Board on executive compensation matters.
- (ii) review and recommend a compensation philosophy, guidelines and plans for the Corporation's executives and employees.
- (iii) review and approve corporate goals and objectives relevant to Chief Executive Officer compensation.
- (iv) evaluate the Chief Executive Officer's performance in light of those goals, and make recommendations to the Board with regard to the Chief Executive Officer's compensation based on this evaluation.
- (v) in consultation with the Chief Executive Officer, review and approve non-Chief Executive Officer compensation, incentive-compensation plans, and equity-based plans.
- (vi) review and approve all discretionary compensation granted.
- (vii) review and approve fees to be paid to members of the Board.
- (viii) review executive compensation disclosure before it is publicly disclosed.
- (ix) be the forum for meetings of all independent directors of the Corporation.

The Compensation and Nominating Committee is required to be comprised of at least three directors, or such greater number as the Board may determine from time to time. All members of the Committee are

required to be independent, as such term is defined for this purpose under applicable securities law requirements. Pursuant to the mandate and terms of reference of the Compensation and Nominating Committee, meetings of the Committee are to take place at least two times per year and at such other times as the Chair of the Compensation and Nominating Committee may determine.

- (d) **If a compensation consultant or advisor has, at any time since the beginning of the issuer's most recently completed financial year, been retained to assist in determining compensation for any of the issuer's directors and officers, disclose the identity of the consultant or advisor and briefly summarize the mandate for which they have been retained. If the consultant or advisor has been retained to perform any other work for the issuer, state that fact and briefly describe the nature of the work.**

A compensation consultant or advisor has not, at any time since the beginning of the Corporation's most recently completed financial year, been retained to assist in determining compensation for any of the Corporation's directors and officers. Peyto does participate in the Mercer Total Compensation Survey for the Energy Sector.

**8. Other Board Committees – If the Board has standing committees other than the audit, compensation and nominating committees, identify the committees and describe their function.**

Other than the Audit Committee and the Compensation and Nominating Committee, the Corporation has established a Reserves Committee. The Reserves Committee is comprised entirely of independent directors.

The Reserves Committee is responsible for various matters relating to reserves of the Corporation that may be delegated to the Reserves Committee pursuant to National Instrument 51-101 (Standards of Disclosure for Oil and Gas Activities) ("**NI 51-101**"), including:

- (i) reviewing the Corporation's procedures relating to the disclosure of information with respect to oil and gas activities, including reviewing its procedures for complying with disclosure requirements and restrictions set forth under applicable securities law requirements;
- (ii) reviewing the Corporation's procedures for providing information to the independent evaluator;
- (iii) meeting, as considered necessary, with management and the independent evaluator to determine whether any restrictions placed by management affect the ability of the evaluator to report without reservation on the Reserves Data (as defined in NI 51-101) (the "**Reserves Data**") and to review the Reserves Data and the report of the independent evaluator thereon (if such report is provided);
- (iv) reviewing the appointment of the independent evaluator and, in the case of any proposed change to such independent evaluator, determining the reason therefor and whether there have been any disputes with management;
- (v) providing a recommendation to the Board as to whether to approve the content or filing of the statement of the Reserves Data and other information that may be prescribed by applicable securities law requirements including any reports of the independent engineer and of management in connection therewith;
- (vi) reviewing the Corporation's procedures for reporting other information associated with oil and gas producing activities; and
- (vii) generally reviewing all matters relating to the preparation and public disclosure of estimates of the Corporation's reserves.

9. **Assessments – Disclose whether or not the Board, its committees and individual directors are regularly assessed with respect to their effectiveness and contribution. If assessments are regularly conducted, describe the process used for the assessments. If assessments are not regularly conducted, describe how the Board satisfies itself that the Board, its committees, and its individual directors are performing effectively.**

The Compensation and Nominating Committee is responsible by its terms of reference to evaluate the effectiveness of the Board, its committees and individual directors. The Compensation and Nominating Committee developed a questionnaire that assesses the effectiveness of the Board as a whole, individual Board members and each of the committees of the Board. Assessments are conducted annually. The results of the assessment are summarized by the Corporate Secretary and provided to the Chairman of the Compensation and Nominating Committee as well as the Chairman of the Board. The Chairman of the Compensation and Nominating Committee presents a summary of the results to the Board as a whole and communicates the results of the committee assessment to each committee Chairman.

#### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

Neither the Corporation, nor any director or executive officer of the Corporation, any proposed nominee for election as a director of the Corporation, nor any associate of any of the foregoing, is, or has at any time since the beginning of the Corporation's last completed financial year, been indebted to the Corporation, nor is or has the indebtedness of any such persons to another entity been the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries.

#### **INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS**

Except as disclosed herein, there were no material interests, direct or indirect, of directors or executive officers of the Corporation, any proposed director of the Corporation, any securityholder who beneficially owns, directly or indirectly, or exercises control or direction over more than 10% of the outstanding common shares, or any other Informed Person (as defined in National Instrument 51-102) or any known associate or affiliate of such persons, in any transaction since the commencement of the last completed financial year of the Corporation or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

#### **INTEREST OF CERTAIN PERSONS AND COMPANIES IN MATTERS TO BE ACTED UPON**

Management is not aware of any material interest of any director or executive officer or anyone who has held office as such since the beginning of the Corporation's last financial year, any proposed nominee for election as a director or of any associate or affiliate of any of the foregoing in any matter to be acted on at the meeting, save as is disclosed herein.

#### **ADDITIONAL INFORMATION**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information in respect of the Corporation and its affairs is provided in the Corporation's annual audited comparative financial statements for the year ended December 31, 2010 and the related management's discussion and analysis. Copies of the Corporation's financial statements and related management discussion and analysis are available upon request from the Corporation at Suite 1500, 250 – 2<sup>nd</sup> Street S.W., Calgary, Alberta, T2P 0C1, Attention: Kathy Turgeon, telephone (403) 263-2950, or telecopy (403) 451-4100.

#### **OTHER MATTERS**

Management of the Corporation knows of no amendment, variation or other matter to come before the meeting other than the matters referred to in the notice of annual meeting. However, if any other matter properly comes before the meeting, the accompanying proxy will be voted on such matter in accordance with the best judgment of the person voting the proxy.

The contents and the sending of this information circular-proxy statement have been approved by the Corporation's board of directors.

Dated: April 18, 2011

## **SCHEDULE "A"**

### **PEYTO EXPLORATION & DEVELOPMENT CORP.**

#### **MANDATE OF THE BOARD OF DIRECTORS**

The Board of Directors (the "**Board**") of Peyto Exploration & Development Corp. (the "**Corporation**") is responsible for the stewardship of the Corporation. In discharging its responsibility, the Board will exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances and will act honestly and in good faith with a view to the best interests of the Corporation. In general terms, the Board will:

- A. in consultation with the chief executive officer of the Corporation (the "**CEO**"), define the principal objective(s) of the Corporation;
- B. supervise the management of the business and affairs of the Corporation with the goal of achieving the Corporation's principal objective(s) as defined by the Board;
- C. discharge the duties imposed on the Board by applicable laws; and
- D. for the purpose of carrying out the foregoing responsibilities, take all such actions as the Board deems necessary or appropriate.

Without limiting the generality of the foregoing, the Board will perform the following duties:

#### **Strategic Direction, Operating, Capital and Financial Plans**

- 1. require the CEO to present annually to the Board a yearly business plan for the Corporation's business, which plans must:
  - (a) be designed to achieve the Corporation's principal objectives,
  - (b) identify the principal strategic and operational opportunities and risks of the Corporation's business, and
  - (c) be approved by the Board as a pre-condition to the implementation of such plans;
- 2. review progress towards the achievement of the goals established in the strategic, operating and capital plans;
- 3. identify the principal risks of the Corporation's business and take all reasonable steps to ensure the implementation of the appropriate systems to manage these risks;
- 4. approve the annual operating and capital plans, as may be amended from time to time;
- 5. approve issuances of additional common shares of the Corporation or other securities to the public;
- 6. monitor the Corporation's progress towards its goals, and to revise and alter its direction through management in light of changing circumstances;

#### **Management and Organization**

- 7. appoint the CEO and determine the terms of the CEO's employment with the Corporation;
- 8. in consultation with the CEO, develop a position description for the CEO;

9. evaluate the performance of the CEO at least annually;
10. in consultation with the CEO, establish the limits of management's authority and responsibility in conducting the Corporation's business;
11. in consultation with the CEO, appoint all officers of the Corporation and approve the terms of each officer's employment with the Corporation;
12. receive annually from the CEO the CEO's evaluation of the performance of each senior officer;
13. approve any proposed significant change in the management organization structure of the Corporation;
14. approve all retirement plans, if any, for officers and employees of the Corporation;
15. in consultation with the CEO, establish a communications/disclosure policy for the Corporation;
16. generally provide advice and guidance to management;

### **Finances and Controls**

17. use reasonable efforts to ensure that the Corporation maintains appropriate systems to manage the risks of the Corporation's business;
18. monitor the appropriateness of the Corporation's capital structure;
19. ensure that the financial performance of the Corporation is properly reported to shareholders, other security holders and regulators on a timely and regular basis;
20. in consultation with the CEO, establish the ethical standards to be observed by all officers and employees of the Corporation and use reasonable efforts to ensure that a process is in place to monitor compliance with those standards;
21. require that the CEO institute and monitor processes and systems designed to ensure compliance with applicable laws by the Corporation and its officers and employees;
22. require that the CEO institute, and maintain the integrity of, internal control and information systems, including maintenance of all required records and documentation;
23. review insurance coverage of significant business risks and uncertainties;
24. review and approve the Corporation's hedging program;
25. review and approve material contracts to be entered into by the Corporation;
26. recommend to the shareholders of the Corporation a firm of chartered accountants to be appointed as the Corporation's auditors;
27. review dividend levels, based on information from and consultation with management;
28. approve all changes to dividend levels;
29. take all necessary actions to gain reasonable assurance that all financial information made public by the Corporation (including the Corporation's annual and quarterly financial statements) is accurate and complete and represents fairly the Corporation's financial position and performance;

### **Governance**

30. in consultation with the Chairman of the Board, develop a position description for the Chairman of the Board;
31. facilitate the continuity, effectiveness and independence of the Board by, amongst other things,
  - (a) selecting nominees for election to the Board,
  - (b) appointing a Chairman of the Board who is not a member of management,
  - (c) appointing from amongst the directors an audit committee and such other committees of the Board as the Board deems appropriate,
  - (d) defining the mandate of each committee of the Board,
  - (e) ensuring that processes are in place and are utilized to assess the size of the Board, the effectiveness of the Chairman of the Board, the Board as a whole, each committee of the Board and each director,
  - (f) review the orientation and education program for new members to the Board to ensure that it is adequate and effective, and
  - (g) establishing a system to enable any director to engage an outside adviser at the expense of the Corporation;
32. review annually the adequacy and form of the compensation of directors.

### **Delegation**

The Board shall determine the composition of all committees and ensure that such composition is in compliance with all applicable laws.

The Board may delegate its duties to and receive reports and recommendations from any committee of the Board.

### **Meetings**

33. the Board shall meet at least four times per year and/or as deemed appropriate by the Board Chair;
34. minutes of each meeting shall be prepared;
35. the CEO or his designate(s) may be present at all meetings of the Board;
36. Vice Presidents and such other staff as appropriate to provide information to the Board shall attend meetings at the invitation of the Board.