

PEYTO EXPLORATION & DEVELOPMENT CORP.
COMPENSATION AND NOMINATING COMMITTEE
COMMITTEE CHARTER

This charter governs the operations of the Compensation and Nominating Committee (the "Committee") of Peyto Exploration & Development Corp. (the "Corporation"). The Committee shall report to the Board of Directors (the "Board") of the Corporation.

The Committee shall review and reassess this Charter annually.

I. PURPOSE

The purpose of the Committee is to assist the Board in fulfilling its responsibilities relating to compensation matters, particularly those relating to compensation of the Corporation's senior officers as well as matters dealing with the nomination of Board members and the overall functioning of the Board. The role of the Committee includes human resources matters in the sense of the establishment and maintenance of an overall compensation plan to attract, reward and keep talented people and in the sense of ensuring that the Board is properly comprised. In addition, the Committee will attempt to design the Corporation's compensation in a manner that will foster longer-term value creation.

II. MEMBERSHIP OF THE COMMITTEE

The Committee shall be composed of not less than three directors, all of whom shall be unrelated directors. An "unrelated director" is a director who is independent of management and is free from any interest or other relationship, which could reasonably be perceived to materially interfere with the director's ability to act with a view to the best interests of the Corporation, other than interests and relationships arising from shareholding.

Members of the Committee shall be appointed by the Board to serve for a period of one year. Any member may be removed or replaced at any time by the Board. The Board may fill vacancies on the Committee by appointment from among its members. If a vacancy exists, the remaining members of the Committee may exercise all its power so long as a quorum remains.

The Board of Directors shall appoint the Committee Chairman, who shall also be an unrelated director.

III. MEETINGS AND OPERATIONS

Frequency of Meetings: The Compensation and Nominating Committee shall meet a minimum of twice per year at the call of the Committee Chairman or the Corporate Secretary.

Notice Required: Notice of the time and place of each meeting shall be given to each Committee member at least 48 hours prior to the meeting.

Chair: The Committee Chairman shall preside at all meetings, unless the Chair is not present, in which case the members of the Committee present shall designate, from among the members present, the Chair for the purpose of the Meeting.

Quorum: A quorum for meetings of the Committee shall be a majority of its members present in person or by telephone or other electronic telecommunication device.

Questions: At meetings of the Committee, questions shall be decided by a majority of the votes cast. If the votes are equal, the Chairman shall not be entitled to a second or casting vote.

Attendance by Non-Committee members: The Chief Executive Officer ("CEO") and other officers and directors of the Corporation are expected to be available to attend meetings or portions thereof upon invitation.

External Advice: The Committee has the authority to engage outside advice on compensation matters at the expense of the Corporation.

Secretary: The Secretary of the Committee shall be the Corporate Secretary or an appointee of the Corporate Secretary.

Minutes: Minutes of Committee meetings shall be approved by the Committee and sent to all members of the Board. The Committee Secretary shall maintain a copy of the minutes.

IV. RESPONSIBILITIES

In carrying out its mandate, the Committee is expected to:

Compensation Matters

- A. Advise the Board on executive compensation matters.
- B. Review and recommend a compensation philosophy, guidelines and plans for the Corporation's executives and employees.
- C. Review and approve corporate goals and objectives relevant to CEO compensation.
- D. Evaluate the CEO's performance in light of those goals, and make recommendations to the Board with regard to the CEO's compensation based on this evaluation.
- E. In consultation with the CEO, review and approve non-CEO compensation, incentive-compensation plans, and equity-based plans.
- F. Review and approve all discretionary compensation granted.
- G. Review and approve fees to be paid to members of the board of directors.
- H. Review executive compensation disclosure before it is publicly disclosed.
- I. Be the forum for meetings of all independent directors of the Corporation.

Nominating Matters

- A. To make recommendations to the Board as to which directors should be classified as "independent directors", "related" directors or "unrelated" directors pursuant to any such report or circular.
- B. To review on a periodic basis the composition of the Board and ensure that an appropriate number of independent directors sit on the Board, analyzing the needs of the Board and recommending nominees who meet such needs.

- C. To assess, at least annually, the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual directors (including the competencies and skills that each individual director is expected to bring to the Board), including considering the appropriate size of the Board.
- D. To recommend suitable candidates for nominees for election or appointment as directors, and recommend the criteria governing the overall composition of the Board and governing the desirable individual characteristics for directors and in making such recommendations, the Committee should consider:
 - (i) the competencies and skills that the Board considers to be necessary for the Board, as a whole, to possess;
 - (ii) the competencies and skills that the Board considers each existing director to possess;
 - (iii) the competencies and skills each new nominee will bring to the boardroom; 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.
- E. As required, develop, for approval by the Board, an orientation and education program for new recruits to the Board.
- F. To develop a system under which succession to senior management positions will occur in a timely manner.