

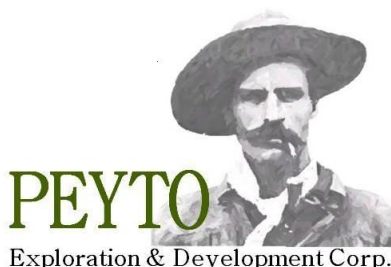
No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "1933 Act") or any state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement (as defined herein), these securities may not be offered or sold within the United States. This short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See "Plan of Distribution".

Information has been incorporated by reference in this short form prospectus from documents filed with the securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Peyto Exploration & Development Corp., at Suite 1500, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1, telephone number (403) 261-6081, and are also available electronically at www.sedar.com.

SHORT FORM PROSPECTUS

New Issue

December 9, 2011



\$100,110,000
4,260,000 Common Shares

This short form prospectus qualifies for distribution 4,260,000 common shares ("**Common Shares**") of Peyto Exploration & Development Corp. (the "**Corporation**"). The Common Shares are listed on the Toronto Stock Exchange (the "**TSX**") under the symbol "PEY". On November 28, 2011, the last completed trading day on which the Common Shares traded prior to announcement of this offering, the closing price of the Common Shares on the TSX was \$23.95. On December 8, 2011, the closing price of the Common Shares on the TSX was \$25.08. The TSX has conditionally approved the listing of the Common Shares offered hereunder. Such listing is subject to the Corporation fulfilling all of the listing requirements of the TSX on or before March 1, 2012. The offering price of \$23.50 per Common Share was determined by negotiation between the Corporation and BMO Nesbitt Burns Inc., on behalf of itself and on behalf of CIBC World Markets Inc., RBC Dominion Securities Inc., Peters & Co. Limited, Scotia Capital Inc., Stifel Nicolaus Canada Inc., FirstEnergy Capital Corp., TD Securities Inc., HSBC Securities (Canada) Inc. and Haywood Securities Inc. (collectively, the "**Underwriters**").

Price: \$23.50 per Common Share

	Price to the Public	Underwriters' Fee	Net Proceeds to the Corporation⁽¹⁾
Per Common Share	\$23.50	\$0.94	\$22.56
Total ⁽²⁾	\$100,110,000	\$4,004,400	\$96,105,600

Notes:

- (1) Before deducting expenses of this offering, estimated to be \$400,000, which will be paid from the general funds of the Corporation.
- (2) The Corporation has also granted to the Underwriters an option (the "**Over-Allotment Option**") to purchase up to an additional 639,000 Common Shares on the same terms and conditions as this offering, exercisable in whole or in part at any time until 30 days following closing of this offering, to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the Total Price to the Public, Underwriters' Fee and Net Proceeds to the Corporation (before deducting expenses of this offering) will be \$115,126,500, \$4,605,060 and \$110,521,440, respectively. This short form prospectus also qualifies the distribution of the Common Shares issuable upon exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters'

over-allocation position acquires those Common Shares under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See "*Plan of Distribution*".

The following table sets forth the number of Common Shares that may be issued by the Corporation pursuant to the Over-Allotment Option:

Underwriters' Position	Maximum size or number of securities held	Exercise period	Exercise price
Over-Allotment Option	Up to 639,000 Common Shares	Until 30 days following closing of this offering	\$23.50 per Common Share

The Underwriters, as principals, conditionally offer the Common Shares offered hereunder for sale, subject to prior sale, if, as and when issued by the Corporation and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "*Plan of Distribution*" and subject to the approval of certain legal matters on behalf of the Corporation by Burnet, Duckworth & Palmer LLP and on behalf of the Underwriters by Macleod Dixon LLP. The Corporation has been advised by the Underwriters that, in connection with this offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "*Plan of Distribution*".

The Underwriters propose to offer the Common Shares offered hereunder initially at the offering price specified above. After a reasonable effort has been made to sell all of such Common Shares at the price specified, the Underwriters may subsequently reduce the selling price to purchasers from time to time in order to sell any of such Common Shares remaining unsold. Any such reduction will not affect the proceeds received by the Corporation. See "*Plan of Distribution*".

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc. and HSBC Securities (Canada) Inc. are direct or indirect subsidiaries of Canadian chartered banks which are lenders to the Corporation, and to which the Corporation is indebted. Consequently, the Corporation may be considered to be a "connected issuer" of these Underwriters for the purposes of securities regulations in certain provinces. The net proceeds of this offering will be used to repay a portion of the indebtedness of the Corporation to such banks. See "*Relationship Between the Corporation and Certain Underwriters*" and "*Use of Proceeds*".

It is important for an investor to consider the particular risk factors that may affect the industry in which it is investing and, therefore, the stability of the dividends that shareholders of the Corporation ("**Shareholders**") receive. See, for example, the risk factors, under the heading "*Risk Factors*" in the AIF (as defined herein) and "*Risk Factors*" in this short form prospectus. These sections also describe the Corporation's assessments of those risk factors, as well as some of the potential consequences to an investor if a risk should occur.

The principal offices of the Corporation are located at Suite 1500, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1 and the registered office of the Corporation is located at 2400, 525 - 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

Subscriptions for Common Shares offered hereunder will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that certificates for the Common Shares offered hereunder will be available for delivery at closing which is expected to occur on or about December 16, 2011 but in any event not later than December 30, 2011. The Common Shares offered hereunder (other than any Common Shares issuable on exercise of the Over-Allotment Option) are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for this short form prospectus. Except in certain limited circumstances, including where a share certificate requires the addition of a legend under applicable securities laws in the United States: (i) Common Shares issued hereunder will be represented by a global certificate issued in registered form to the CDS Clearing and Depository Services Inc. ("**CDS**") or its nominee under the book-based system administered by CDS or will be deposited directly with CDS, (ii) no certificates evidencing Common Shares will be issued to purchasers of Common Shares hereunder, and (iii) purchasers of Common Shares hereunder will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is purchased.

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DOCUMENTS INCORPORATED BY REFERENCE

The following documents of the Corporation, filed with the various securities commissions or similar authorities in the provinces of Canada, are specifically incorporated into and form an integral part of this short form prospectus:

- (a) the annual information form of the Corporation dated March 30, 2011 for the year ended December 31, 2010 (the "**AIF**");
- (b) the audited consolidated financial statements and notes thereto of the Corporation as at and for the fiscal years ended December 31, 2010 and 2009, together with the report of the auditors thereon dated March 8, 2011;
- (c) the unaudited consolidated financial statements and notes thereto of the Corporation as at September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010;
- (d) management's discussion and analysis of the financial condition and operating results of the Corporation for the year ended December 31, 2010;
- (e) management's discussion and analysis of the financial condition and operating results of the Corporation for the three and nine months ended September 30, 2011;
- (f) the information circular - proxy statement of the Corporation dated April 18, 2011, relating to the annual meeting of Shareholders held on May 18, 2011; and
- (g) the material change report of the Corporation and the Corporation's predecessor, Peyto Energy Trust (the "**Trust**"), dated January 10, 2011 in respect of the arrangement (the "**Arrangement**") under the provisions of section 93 of the *Business Corporations Act* (Alberta) among the Trust, Peyto Operating Trust, Peyto Energy Administration Corp. ("**Peyto AdminCo**"), Peyto Energy Limited Partnership, Peyto Exploration & Development Corp. ("**PEDC**"), Peyto Exploration (2011) Ltd. ("**Newco**") and unitholders of the Trust ("**Unitholders**") which resulted in the reorganization of the Trust into the Corporation.

The following documents of the Trust, the Corporation's predecessor, filed with certain securities commissions or similar authorities in each of the provinces of Canada are incorporated by reference into this short form prospectus:

- (a) the information circular and proxy statement of the Trust dated November 5, 2010, relating to the special meeting of Unitholders held on December 8, 2010 (the "**Arrangement Circular**"); and
- (b) the information circular - proxy statement of the Trust dated April 16, 2010, relating to the annual and special meeting of Unitholders held on May 19, 2010.

Any documents of the type required by National Instrument 44-101 - *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus including any material change reports (excluding material change reports filed on a confidential basis), comparative interim financial statements, comparative annual financial statements and the auditor's report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms and business acquisition reports filed by the Corporation with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this short form prospectus and prior to the termination of this distribution are deemed to be incorporated by reference in this short form prospectus.

Any statement contained in a document incorporated or deemed to be incorporated by reference in this short form prospectus shall be deemed to be modified or superseded for the purposes of this short form prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference in this short form prospectus modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this short form prospectus.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this short form prospectus, and in certain documents incorporated by reference in this short form prospectus, constitute forward-looking statements. These statements relate to future events or future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Corporation believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this short form prospectus should not be unduly relied upon. These statements speak only as of the date of this short form prospectus or as of the date specified in the documents incorporated by reference in this short form prospectus, as the case may be.

In particular, this short form prospectus, and the documents incorporated by reference in this short form prospectus, contain forward-looking statements pertaining to the following:

- the closing date of this offering and the use of proceeds;
- the performance characteristics of the Corporation's oil and natural gas properties;
- oil and natural gas production levels;
- the size of the Corporation's oil and natural gas reserves;
- projections of market prices and costs and the related sensitivities of dividends;
- supply and demand for oil and natural gas;
- expectations regarding the ability of the Corporation to raise capital and to continually add to reserves through acquisitions and development;
- treatment under governmental regulatory regimes and tax laws;
- capital expenditure programs;
- the existence, operation and strategy of the Corporation's commodity price risk management program;
- the impact of Canadian federal and provincial governmental regulation on the Corporation; and
- the goal to grow or sustain production and reserves through prudent exploration, management and acquisitions.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth in the AIF and the management's discussion and analysis of the financial condition and operating results of the Corporation incorporated by reference in this short form prospectus and elsewhere in this short form prospectus, including but not limited to the following factors:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- risks and uncertainties inherent in exploration and development opportunities;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value, or failure to realize the anticipated benefits, of acquisitions;
- geological, technical, drilling and processing problems;
- fluctuations in foreign exchange interest rates and stock market volatility;
- uncertainties associated with changes in legislation including, but not limited to changes in income tax laws or changes in tax or environmental laws and incentive programs or royalty regimes relating to the oil and gas industry;
- ability to obtain regulatory approvals; and
- risks and uncertainties associated with liquidity and capital resources.

The actual results could differ materially from those results anticipated in these forward-looking statements, which are based on assumptions, including as to the market prices for oil and natural gas; the continued availability of capital, acquisitions of reserves, undeveloped lands and skilled personnel; the continuation of the current tax and regulatory regime and other assumptions contained in this short form prospectus and the documents incorporated by reference in this short form prospectus.

Statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources and reserves described can be profitably produced in the future. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this short form prospectus and the documents incorporated by reference in this short form prospectus are made as of the date hereof and thereof and the Corporation undertakes no obligation to update publicly or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. The forward-looking statements contained in this short form prospectus and the documents incorporated by reference in this short form prospectus are expressly qualified by this cautionary statement.

PEYTO EXPLORATION & DEVELOPMENT CORP.

General

The Corporation continued as "Peyto Exploration & Development Corp." upon the amalgamation of Peyto AdminCo, PEDC and Newco on January 1, 2011 pursuant to the Arrangement. The Arrangement involved an internal reorganization of the Trust and certain of its subsidiaries through which the trust structure was replaced with a corporate structure and the Trust was dissolved. Pursuant to the Arrangement: (i) on December 31, 2010, the outstanding units of the Trust ("**Trust Units**") were exchanged for common shares of Newco on a one-for-one basis; and (ii) on January 1, 2011, Newco acquired all of the assets and assumed all of the liabilities of the Trust, the Trust was dissolved and Peyto AdminCo, PEDC and Newco amalgamated. As a result of the Arrangement, the Corporation directly owns the same assets that were owned by the Trust and its subsidiaries immediately prior to the Arrangement. Unless otherwise indicated, all information presented for the pre-Arrangement period in this short form prospectus relates to the Trust. The principal and head office of the Corporation is located at Suite 1500, 250 - 2nd Street S.W., Calgary, Alberta, T2P 0C1 and the registered office of the Corporation is located at 2400, 525 - 8th Avenue S.W., Calgary, Alberta, T2P 1G1.

The Corporation does not have any subsidiaries.

Business of the Corporation

The Corporation is a Calgary, Alberta based energy company engaged in the acquisition, exploration, development and production of oil and natural gas in Western Canada. The Corporation's strategy is to enhance Shareholder value through the exploration, discovery and low cost development of oil and natural gas in the Western Canadian sedimentary basin. The Corporation's portfolio of assets includes exploration, exploitation and development opportunities located primarily in the Deep Basin of Alberta. Management's current philosophy is to fund the Corporation's growth and ongoing activities from a mix of internally generated cash flow, bank financing and equity financings.

For further details on the general development of the business of the Corporation, see "*General Development of the Business*" and "*Description of the Business and Operations*" in the AIF.

USE OF PROCEEDS

The net proceeds to the Corporation from this offering are estimated to be \$95,705,600 after deducting the fees of \$4,004,400 payable to the Underwriters and the estimated expenses of this offering of \$400,000. If the Over-Allotment Option is exercised in full, the net proceeds from this offering are estimated to be \$110,121,440 after deducting the fees of \$4,605,060 payable to the Underwriters and the estimated expenses of this offering of \$400,000. See "*Plan of Distribution*". The net proceeds of this offering will initially be used to partially repay outstanding bank indebtedness which totalled approximately \$510 million as at December 9, 2011, thereby freeing up borrowing capacity which may be used to fund a portion of the Corporation's ongoing capital program and for general purposes. The Corporation's 2012 capital program is expected to target a blend of horizontal multistage frac well development amongst existing successful play types and new tests of formations across the Corporation's core areas. The Corporation believes that no significant event needs to occur for the Corporation to achieve such business objectives, which remain subject to the normal risks and uncertainties that prevail in the oil and gas industry. The indebtedness being repaid was incurred by the Corporation purchasing properties and exploring for and developing on its existing properties. See "*General Development of the Business*" in the AIF.

While the Corporation intends to use the net proceeds as stated above, there may be circumstances that are not known at this time where a reallocation of the net proceeds may be advisable for business reasons that management believes are in the Corporation's best interests.

See "*Consolidated Capitalization of the Corporation*", "*Relationship Between the Corporation and Certain Underwriters*" and "*Risk Factors*".

PLAN OF DISTRIBUTION

Pursuant to an agreement dated as of November 28, 2011 between the Corporation and the Underwriters (the "**Underwriting Agreement**"), the Corporation has agreed to issue and sell an aggregate of 4,260,000 Common Shares to the Underwriters and the Underwriters have severally, and not jointly, agreed to purchase such Common Shares on or about December 16, 2011, or such other date as may be agreed upon among the parties to the Underwriting Agreement but not later than December 30, 2011, subject to the terms and conditions stated therein, at a price of \$23.50 per Common Share. In consideration for their services in connection with this offering, the Underwriters will be paid a fee of \$0.94 per Common Share. The terms of this offering, including the offering price of \$23.50 per Common Share, was determined by negotiation between the Corporation and BMO Nesbitt Burns Inc., on behalf of itself and on behalf of the other Underwriters.

The Corporation has granted to the Underwriters the Over-Allotment Option to purchase up to an additional 639,000 Common Shares on the same terms and conditions as this offering, exercisable in whole or in part at any time until 30 days following closing of this offering to cover over-allotments, if any. If the Over-Allotment Option is exercised in full, the total offering, Underwriters' fee and net proceeds to the Corporation (before expenses of this offering) will be \$115,126,500, \$4,605,060 and \$110,521,440, respectively. This short form prospectus also qualifies for distribution the issuance of Common Shares pursuant to the exercise of the Over-Allotment Option. A purchaser who acquires Common Shares forming part of the Underwriters' over-allocation position acquires those Common Shares under this short form prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

The obligations of the Underwriters under the Underwriting Agreement are several, and not joint, and the Underwriters may terminate their obligations at their discretion upon the occurrence of certain stated events. If one or more of the Underwriters fails to purchase its allotment of Common Shares, the remaining Underwriter or Underwriters are obligated to purchase the Common Shares not purchased by the Underwriter or Underwriters which fail to purchase. Notwithstanding the foregoing, in the event one or more of the Underwriters who have an obligation to purchase in the aggregate more than 9.5% of the Common Shares offered hereunder fail to purchase their allotment of Common Shares, the remaining Underwriter or Underwriters have the right but not the obligation to purchase the Common Shares not purchased by the Underwriter or Underwriters which fail to purchase or the remaining Underwriter or Underwriters have the right to terminate their obligations under the Underwriting Agreement. The Underwriters are obligated to take up and pay for all the Common Shares hereunder if any Common Shares are acquired under the Underwriting Agreement.

The TSX has conditionally approved the listing of the Common Shares offered hereunder. Listing is subject to the Corporation fulfilling all of the listing requirements of the TSX on or before March 1, 2012.

The Corporation has been advised by the Underwriters that, in connection with this offering, the Underwriters may effect transactions that stabilize or maintain the market price of the Common Shares at levels other than those that might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

The Corporation has agreed that it will not, prior to 90 days after the date of closing of this offering, without the prior consent of BMO Nesbitt Burns Inc., on behalf of the Underwriters, which consent may not be unreasonably withheld, directly or indirectly, sell or offer to sell any Common Shares or otherwise issue, lend, transfer or dispose of any securities exchangeable, convertible or exercisable into Common Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Common Shares, whether any such transaction is settled by delivery of Common Shares or other such securities, in cash or otherwise, or announce any intention to do any of the foregoing, provided that the foregoing will not restrict the Corporation from granting incentive rights to acquire Common Shares to directors, officers and employees of the Corporation pursuant to the Corporation's two bonus plans and issuing Common Shares pursuant thereto including any private placements to participants in such plans and to satisfy currently outstanding instruments or contractual commitments.

Certificates for the Common Shares offered hereunder will be available for delivery at the closing of this offering, which is expected to take place on or about December 16, 2011 but in any event not later than December 30, 2011. The Common Shares offered hereunder (other than any Common Shares issuable on exercise of the Over-Allotment Option) are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for this short form prospectus. Except in certain limited circumstances, including where a share certificate requires the addition of a legend under applicable securities laws in the United States: (i) Common Shares issued hereunder will be represented by a global certificate issued in registered form to CDS or its nominee under the book-based system administered by CDS or will be deposited directly with CDS, (ii) no certificates evidencing Common Shares will be issued to purchasers of Common Shares hereunder, and (iii) purchasers of

Common Shares hereunder will receive only a customer confirmation from the Underwriter or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Common Shares is purchased.

The Underwriters propose to offer the Common Shares offered hereunder initially at the offering price specified herein. After a reasonable effort has been made to sell all of such Common Shares at the price specified, the Underwriters may subsequently reduce the selling price to purchasers from time to time in order to sell any of such Common Shares remaining unsold. In the event the offering price of the Common Shares offered hereunder is reduced, the compensation received by the Underwriters will be decreased by the amount of the aggregate price paid by the purchasers for such Common Shares is less than the gross proceeds paid by the Underwriters to the Corporation for such Common Shares. Any such reduction will not affect the proceeds received by the Corporation.

The Common Shares have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the "**1933 Act**"), or any state securities laws, and accordingly may not be offered or sold within the United States except in transactions exempt from the registration requirements of the 1933 Act and applicable state securities laws. The Underwriting Agreement permits the Underwriters to offer and resell the Common Shares offered hereunder that they have acquired pursuant to the Underwriting Agreement to certain qualified institutional buyers in the United States, provided such offers and sales are made in accordance with Rule 144A under the 1933 Act. Moreover, the Underwriting Agreement provides that the Underwriters will offer and sell the Common Shares outside the United States only in accordance with Rule 903 of Regulation S under the 1933 Act.

In addition, until 40 days after the commencement of this offering, any offer or sale of Common Shares offered hereunder within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the 1933 Act if such offer or sale is made otherwise than in accordance with an exemption from the registration requirements of the 1933 Act.

RELATIONSHIP BETWEEN THE CORPORATION AND CERTAIN UNDERWRITERS

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc. and HSBC Securities (Canada) Inc. are direct or indirect wholly-owned subsidiaries of Canadian chartered banks which are lenders to the Corporation, and to which the Corporation is indebted. See Note (1) to the table under "*Consolidated Capitalization of the Corporation*" for a description of the credit facilities of the Corporation. Consequently, the Corporation may be considered to be a "connected issuer" of these Underwriters for the purposes of securities regulations in certain provinces. The Corporation is in compliance with its obligations under its credit facilities. Since the execution of the credit facilities, no breach thereunder has been waived by the lenders thereunder. Neither the Corporation's financial position nor the value of security under the credit facilities has materially changed, in an adverse manner, since the indebtedness under the credit facilities was incurred. As at December 9, 2011, the Corporation had approximately \$510 million outstanding under its credit facilities.

The decision to distribute the Common Shares offered hereunder and the determination of the terms of distribution were made through negotiation between the Corporation and BMO Nesbitt Burns Inc., on behalf of itself and on behalf of the other Underwriters. The banks did not have any involvement in such decision or determination; however, the banks have been advised of the issuance and the terms thereof. As a consequence of this issuance, BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc. and HSBC Securities (Canada) Inc. will receive their respective share of the Underwriters' fee. All of the net proceeds of this offering will initially be used to repay a portion of the indebtedness of the Corporation to such banks. See "*Use of Proceeds*".

DESCRIPTION OF THE COMMON SHARES

A description of the Common Shares offered hereunder is contained under the heading "*Description of Share Capital*" in the AIF.

For additional information respecting Common Shares, including information respecting payment of cash dividends, see the heading "*Dividends and Distributions*" in the AIF.

CONSOLIDATED CAPITALIZATION OF THE CORPORATION

The following table sets forth the consolidated capitalization of the Corporation as at September 30, 2011, both before and after giving effect to this offering:

	As at September 30, 2011 (\$000, except share amounts)	As at September 30, 2011 After Giving Effect to this Offering ⁽²⁾ (\$000, except share amounts)
Long-term debt ⁽¹⁾	490,000	394,294
Common Shares	777,768 (133,061,301 Common Shares)	873,474 (137,321,301 Common Shares)

Notes:

- (1) At September 30, 2011, the Corporation had a syndicated \$625 million extendible revolving credit facility with a stated term date of April 29, 2012. The facility consisted of a \$20 million working capital sub-tranche and a \$605 million production line. On October 28, 2011, the Corporation's credit agreement was amended, increasing the credit facilities to \$725 million with a stated term of April 29, 2012. The facility consists of a \$30 million working capital sub-tranche and a \$695 million production line. The facility is 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 the Corporation, 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 one year term, at the end of which time the facility would be due and payable. The loan has, therefore, been classified as long-term on the balance sheet. Outstanding amounts on this facility bear interest at rates determined by the Corporation's debt to cash flow ratio that range from prime to prime plus 1.25% to 2.75% for 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.
- (2) Based on the issuance of 4,260,000 Common Shares for aggregate proceeds of \$100,110,000 less Underwriters' fees of \$4,004,400 and expenses of this offering estimated to be \$400,000 with the estimated net proceeds of \$95,705,600 applied against the Corporation's bank credit facility. If the Over-Allotment Option is exercised in full, the aggregate gross proceeds, Underwriters' fees, estimated expenses of this offering and net proceeds will be \$115,126,500, \$4,605,060, \$400,000 and \$110,121,440, respectively, with the net amount applied against the Corporation's bank credit facility.

DIVIDENDS

Prior to completion of the Arrangement, the following cash distributions were paid by the Corporation's predecessor, the Trust, to Unitholders for the periods indicated:

For the Month Ended	Distributions per Unit	Payment Date
January 31, 2010	\$0.12	February 15, 2010
February 28, 2010	\$0.12	March 15, 2010
March 31, 2010	\$0.12	April 15, 2010
April 30, 2010	\$0.12	May 14, 2010
May 31, 2010	\$0.12	June 15, 2010
June 30, 2010	\$0.12	July 15, 2010
July 31, 2010	\$0.12	August 13, 2010
August 31, 2010	\$0.12	September 15, 2010
September 30, 2010	\$0.12	October 15, 2010
October 31, 2010	\$0.12	November 15, 2010
November 30, 2010	\$0.12	December 15, 2010
December 31, 2010	\$0.12	January 14, 2011

The following cash dividends were paid by the Corporation to Shareholders for the periods indicated:

Record Date	Dividends per Common Share	Payment Date
January 31, 2011	\$0.06	February 15, 2011
February 28, 2011	\$0.06	March 15, 2011
March 31, 2011	\$0.06	April 15, 2011
April 30, 2011	\$0.06	May 13, 2011
May 31, 2011	\$0.06	June 15, 2011
June 30, 2011	\$0.06	July 15, 2011
July 31, 2011	\$0.06	August 15, 2011
August 31, 2011	\$0.06	September 15, 2011
September 30, 2011	\$0.06	October 14, 2011
October 31, 2011	\$0.06	November 15, 2011

The Corporation has also declared a dividend of \$0.06 per Common Share payable on December 15, 2011 to Shareholders of record on November 30, 2011. Cash dividends by the Corporation are payable on or about the 15th day of each month to Shareholders of record on the last day of the preceding month.

The Board of Directors of the Corporation reviews the dividend policy from time to time. The actual amount distributed through dividends is at the discretion of the Board of Directors and is principally dependant upon the commodity price environment and the amount of cash flow withheld to fund the Corporation's capital expenditure program and annual contribution to the Corporation's reclamation fund. In times of high commodity prices, the Corporation withholds a greater percentage of cash flow so that more of the capital program can be funded internally. There can be no assurance that the Corporation can maintain consistent dividends over time. See "*Risk Factors - Dividends*" in the AIF.

The Corporation's credit facilities provide that if the Corporation is in default under the credit facilities, the indebtedness may be accelerated by the lenders, and the ability to pay dividends to Shareholders may be restricted. Dividends are only permitted under the credit facilities when no event of default under the credit facilities has occurred and is continuing.

Closing of this offering is expected to occur on or about December 16, 2011 but in any event not later than December 30, 2011. Subscribers who purchase Common Shares pursuant to this offering and who hold such Common Shares on December 31, 2011 will be eligible to receive dividends commencing with the dividend per Common Share expected to be declared payable on January 13, 2012 to Shareholders of record on December 31, 2011.

PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares are listed and posted for trading on the TSX under the trading symbol "PEY". The Common Shares commenced trading on the TSX on January 7, 2011 following completion of the Arrangement. The following table sets forth the high and low trading prices and the aggregate volume of trading of the Common Shares, as reported by the TSX for the periods indicated:

Period	High (\$)	Low (\$)	Volume
<u>2011</u>			
January (7 to 31)	19.73	18.19	11,089,493
February	20.15	18.54	10,685,167
March	20.92	17.83	8,400,438
April	20.99	18.59	5,787,568
May	21.14	19.18	5,457,426
June	22.05	20.45	9,209,696
July	23.80	21.48	5,499,917
August	23.60	20.04	9,358,945

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
September	22.32	19.26	7,544,503
October	22.35	18.59	8,563,663
November	24.53	21.00	8,610,726
December (1 to 8)	26.33	24.21	2,455,507

On November 28, 2011, the last completed trading day on which the Common Shares traded prior to announcement of this offering, the closing price of the Common Shares on the TSX was \$23.95. On December 8, 2011, the closing price of the Common Shares on the TSX was \$25.08.

In connection with the Arrangement, Unitholders exchanged their Trust Units for Common Shares. Prior to the Arrangement, the Trust Units were listed and traded on the TSX. The trading symbol for the Trust Units was "PEY.UN".

The following table sets forth the high and low trading prices and the aggregate volume of trading of the Trust Units, as reported by the TSX in 2010 and up to January 6, 2011, the last day of trading for the Trust Units.

<u>Period</u>	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume</u>
<u>2010</u>			
January	14.99	12.73	8,223,206
February	14.00	12.46	7,268,285
March	14.22	13.06	8,134,114
April	13.95	13.20	8,932,026
May	14.24	11.80	9,048,662
June	16.03	13.98	7,939,436
July	15.90	14.26	4,088,943
August	15.71	13.51	5,660,482
September	16.05	13.99	8,288,415
October	16.01	15.05	5,923,487
November	18.15	15.44	10,595,626
December	19.75	17.00	10,295,727
<u>2011</u>			
January (1 to 6)	19.41	18.72	1,591,966

PRIOR SALES

The Corporation has not sold or issued any Common Shares or securities convertible into Common Shares during the period between the commencement of the Arrangement and the date hereof other than as set forth below:

1. an aggregate of 131,875,382 Common Shares were issued pursuant to the Arrangement on December 31, 2010 in exchange for an aggregate of 131,875,382 Trust Units;
2. an aggregate of 655,581 Common Shares on January 6, 2011 at \$18.95 per Common Share for gross proceeds of approximately \$12.4 million pursuant to a private placement;
3. an aggregate of 279,723 Common Shares in January 2011 for gross proceeds of approximately \$4.9 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan; and
4. an aggregate of 250,615 Common Shares on March 25, 2011 at \$18.86 per Common Share for gross proceeds of \$4.6 million pursuant to a private placement.

The Trust did not sell or issue any Trust Units or securities convertible into Trust Units during the period between January 1, 2010 and the completion of the Arrangement on January 1, 2011 other than as set forth below:

1. an aggregate of 196,420 Trust Units on January 6, 2010 at \$13.89 per Trust Unit for gross proceeds of approximately \$2.7 million pursuant to a private placement;

2. an aggregate of 56,010 Trust Units in February 2010 for gross proceeds of approximately \$0.76 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
3. an aggregate of 128,051 Trust Units in March 2010 for gross proceeds of approximately \$1.6 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
4. an aggregate of 115,925 Trust Units in April 2010 for gross proceeds of approximately \$1.5 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
5. an aggregate of 5,566,000 Trust Units on April 27, 2010 at \$13.45 per Trust Unit for gross proceeds of \$74.9 million pursuant to a bought deal prospectus offering;
6. an aggregate of 77,344 Trust Units in May 2010 for gross proceeds of approximately \$1.0 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
7. an aggregate of 416,531 Trust Units in June 2010 for gross proceeds of approximately \$5.3 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
8. an aggregate of 69,375 Trust Units in July 2010 for gross proceeds of approximately \$1.0 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
9. an aggregate of 400,172 Trust Units in August 2010 for gross proceeds of approximately \$5.8 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
10. an aggregate of 190,654 Trust Units in September 2010 for gross proceeds of approximately \$2.6 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
11. an aggregate of 444,558 Trust Units in October 2010 for gross proceeds of approximately \$6.1 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
12. an aggregate of 476,325 Trust Units in November 2010 for gross proceeds of approximately \$7.0 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan;
13. an aggregate of 8,314,500 Trust Units on November 30, 2010 at \$17.30 per Trust Unit for gross proceeds of \$143.8 million pursuant to a bought deal prospectus offering; and
14. an aggregate of 503,325 Trust Units in December 2010 for gross proceeds of \$8.2 million pursuant to the Trust's amended distribution reinvestment and optional unit purchase plan.

ELIGIBILITY FOR INVESTMENT

In the opinion of Burnet, Duckworth & Palmer LLP, counsel to the Corporation, and Macleod Dixon LLP, counsel to the Underwriters, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (together, the "**Tax Act**") in force on the date hereof, provided the Common Shares are listed on a designated stock exchange for purposes of the Tax Act (which includes the TSX) on the closing date of the Offering, Common Shares acquired on the closing date of the Offering will be "qualified investments" under the Tax Act for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds ("**RRIFs**"), deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts ("**TFSAs**" and collectively, "**Deferred Plans**").

Notwithstanding that the Common Shares may be qualified investments for a trust governed by a TFSA, the holder of a TFSA that governs a trust which holds Common Shares will be subject to a penalty tax if such Common Shares are a "prohibited investment" for the purposes of the Tax Act. Common Shares will generally be a "prohibited investment" if the holder does not deal at arm's length with the Corporation for the purposes of the Tax Act or if the holder has a "significant interest" (within the meaning of the Tax Act) in the Corporation or in a corporation, partnership or trust with which the Corporation does not deal at arm's length for the purposes of the Tax Act. Draft legislation released by the Department of Finance on August 16, 2011 would extend the prohibited investment rules discussed above in respect of holders of TFSAs to annuitants under RRSPs and RRIFs. If

adopted, these proposals would generally apply to transactions occurring after March 22, 2011. Holders of TFSAs or annuitants under RRSPs or RRIFs should consult their own tax advisors to ensure that Common Shares would not be a "prohibited investment" in their particular circumstances.

Prospective investors who intend to hold the Common Shares in Deferred Plans should consult their own tax advisors regarding their particular circumstances and the requirements and rules regarding holding and transferring securities therein.

RISK FACTORS

An investment in the Common Shares is subject to certain risks. Investors should carefully consider the risks described under "Risk Factors" in the AIF and the risk factors set forth below prior to making an investment in the Common Shares.

Market Price of Common Shares

The trading price of securities of oil and gas issuers is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospects of the issuers involved. The market price of the Common Shares could be subject to significant fluctuations in response to variations in the Corporation's operating results, financial condition, liquidity and other internal factors. Factors that could affect the market price of the Common Shares that are unrelated to the Corporation's performance include domestic and global commodity prices and market perceptions of the attractiveness of particular industries. The price at which the Common Shares will trade cannot be accurately predicted.

Use of Proceeds of the Offering

As set out under "*Use of Proceeds*" in this short form prospectus, the Corporation intends to partially repay outstanding bank indebtedness which totalled approximately \$510 million as at December 9, 2011, thereby freeing up borrowing capacity which may be used to fund a portion of the Corporation's capital program. However, although these allocations are based on the current expectation of management of the Corporation, there may be circumstances that are not known at this time where a reallocation of the net proceeds of this offering may be advisable for business reasons that management believes are in the Corporation's best interests.

INTEREST OF EXPERTS

Certain legal matters in connection with the issuance of the Common Shares offered hereunder will be passed upon on behalf of the Corporation by Burnet, Duckworth & Palmer LLP, and on behalf of the Underwriters by Macleod Dixon LLP. As of the date hereof, each of the partners and associates of Burnet, Duckworth & Palmer LLP, as a group, and the partners and associates of Macleod Dixon LLP, as a group, own less than 1% of the outstanding Common Shares.

Reserve and resource estimates contained in the AIF and incorporated by reference in this short form prospectus are based upon reports prepared by InSite Petroleum Consultants Ltd., as independent consultants, with respect to reserves and resources of the Corporation. As of the date hereof, the partners, as a group, of InSite Petroleum Consultants Ltd. own, directly or indirectly, less than 1% of the outstanding Common Shares.

In addition, none of the aforementioned persons or companies, nor any director, officer, or employee of any of the aforementioned persons or companies, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation, except for Stephen J. Chetner, a director and Corporate Secretary of the Corporation, who is a partner at Burnet, Duckworth & Palmer LLP, a law firm that renders legal services to the Corporation.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Corporation are Deloitte & Touche LLP, Chartered Accountants, 700, 850 - 2nd Street S.W., Calgary, Alberta, T2P 0R8. Deloitte & Touche LLP is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

The transfer agent and registrar for the Common Shares is Valiant Trust Company at its principal offices in Calgary and Toronto.

LEGAL PROCEEDINGS

There are no outstanding legal proceedings material to the Corporation to which the Corporation is a party or in respect of which any of its respective properties are subject, nor are any such proceedings known by the Corporation to be contemplated, except as described in this short form prospectus, including the AIF and the audited consolidated financial statements and notes thereto of the Corporation as at and for the fiscal years ended December 31, 2010 and 2009 which are incorporated by reference in this short form prospectus.

STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in several of the provinces provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment thereto contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revision of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of such purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of such purchaser's province for the particulars of these rights or consult with a legal advisor.

CONSENT OF INDEPENDENT AUDITOR

We have read the short form prospectus of Peyto Exploration & Development Corp. (the "**Corporation**") dated December 9, 2011 (the "**Prospectus**") qualifying the distribution of 4,260,000 common shares of the Corporation. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents.

We consent to the incorporation by reference in the above-mentioned Prospectus of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at December 31, 2010 and 2009 and the consolidated statements of earnings, comprehensive income, retained earnings and accumulated other comprehensive income and cash flows for the years then ended. Our report is dated March 8, 2011.

We also consent to the incorporation by reference in the above-mentioned Prospectus of our report to the unitholders of Peyto Energy Trust (the "**Trust**") on the consolidated balance sheets of the Trust as at December 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, accumulated earnings and accumulated other comprehensive income and cash flows for the years then ended. Our report is dated February 19, 2010.

We also consent to the incorporation by reference in the above-mentioned Prospectus of our report to the Board of Directors of Peyto Exploration (2011) Ltd. on the balance sheet of Peyto Exploration (2011) Ltd. as at October 28, 2010. Our report is dated November 1, 2010.

Calgary, Alberta
December 9, 2011

"Deloitte & Touche LLP"
Chartered Accountants

CERTIFICATE OF THE CORPORATION

Dated: December 9, 2011

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than the Province of Québec.

PEYTO EXPLORATION & DEVELOPMENT CORP.

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

(signed) "*Kathy Turgeon*"
Vice-President, Finance and Chief Financial Officer

On behalf of the Board of Directors

(signed) "*Scott Robinson*"
Director

(signed) "*Stephen Chetner*"
Director

CERTIFICATE OF UNDERWRITERS

Dated: December 9, 2011

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces of Canada, other than the Province of Québec.

BMO Nesbitt Burns Inc.

By: (signed) "*Eric L. Toews*"

CIBC World Markets Inc.

By: (signed) "*Denis R. Rajotte*"

RBC Dominion Securities Inc.

By: (signed) "*Rob King*"

Peters & Co. Limited

By: (signed) "*J.G. (Jeff) Lawson*"

Scotia Capital Inc.

By: (signed) "*Drew Ross*"

Stifel Nicolaus Canada Inc.

By: (signed) "*Terris N. Chorney*"

FirstEnergy Capital Corp.

By: (signed) "*Jamie N. Ha*"

TD Securities Inc.

By: (signed) "*Robi Contrada*"

HSBC Securities (Canada) Inc.

By: (signed) "*Jay Lewis*"

Haywood Securities Inc.

By: (signed) "*Kent Porteous*"