

**FOR IMMEDIATE RELEASE JANUARY 3, 2012**

**TSX SYMBOL: PEY**

**PEYTO EXPLORATION & DEVELOPMENT CORP. ANNOUNCES  
CLOSING OF PRIVATE PLACEMENT OF SENIOR NOTES**

CALGARY, ALBERTA- Peyto Exploration & Development Corp. (TSX:PEY) (“Peyto”) announced today that it has issued CDN \$100 million of senior secured notes pursuant to a note purchase and private shelf agreement with Prudential Investment Management, Inc. The notes were issued by way of private placement and rank equally with Peyto's obligations under its bank facility. The notes have a coupon rate of 4.39% and mature on January 3, 2019. Interest will be paid semi-annually in arrears. Proceeds from the notes will be used to repay a portion of Peyto's outstanding bank debt.

The private shelf agreement with Prudential provides for the issuance, on an uncommitted basis, of an additional US \$25 million of senior notes on or prior to January 3, 2015.

Peyto's total borrowing capacity remains at \$725 million; however Peyto's bank facility has been reduced to \$625 million in conjunction with the private placement of the CND \$100 million of notes. Peyto's syndicate of lenders has been rebalanced to reflect this change and now consists of Bank of Montreal, Union Bank, Canada Branch, Royal Bank of Canada, Canadian Imperial Bank of Commerce, HSBC Bank Canada, Alberta Treasury Branches and Canadian Western Bank.

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*Certain information set forth in this document, including the use of proceeds from the senior notes, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Peyto's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive therefrom. The Toronto Stock Exchange has neither approved nor disapproved the information contained herein.*