

# PEYTO

**Exploration & Development Corp.**

# 2021



## HIGHLIGHTS

	Three Months Ended Dec 31			Twelve Months Ended Dec 31		
	2021	2020	% Change	2021	2020	% Change
<b>Operations</b>						
<b>Production</b>						
Natural gas (mcf/d)	517,606	433,226	19%	476,387	409,619	16%
Oil & NGLs (bbl/d)	11,038	11,256	-2%	11,653	11,308	3%
Thousand cubic feet equivalent (mcf/d @ 1:6)	583,834	500,764	17%	546,303	477,464	14%
Barrels of oil equivalent (boe/d @ 6:1)	97,306	83,461	17%	91,051	79,577	14%
Production per million common shares (boe/d)	582	506	15%	550	483	14%
<b>Product prices</b>						
Natural gas (\$/mcf)	3.58	2.19	63%	2.82	1.74	62%
Oil & NGLs (\$/bbl)	64.71	35.82	81%	53.39	31.25	71%
Operating expenses (\$/mcf)	0.32	0.31	3%	0.34	0.34	-
Transportation (\$/mcf)	0.23	0.15	53%	0.21	0.17	24%
Field netback (\$/mcf) <sup>(3)</sup>	3.34	2.07	61%	2.69	1.59	69%
General & administrative expenses (\$/mcf)	0.02	0.04	-50%	0.03	0.04	-25%
Interest expense (\$/mcf)	0.22	0.38	-42%	0.30	0.33	-9%
<b>Financial (\$000, except per share*)</b>						
Revenue and realized hedging gains (losses) <sup>(1)</sup>	236,360	124,524	90%	716,922	388,981	84%
Royalties	28,304	8,506	233%	73,091	22,014	232%
Funds from operations <sup>(2)</sup>	166,165	76,013	119%	469,672	212,710	121%
Funds from operations per share – basic <sup>(3)</sup>	0.99	0.46	115%	2.83	1.29	119%
Funds from operations per share - diluted <sup>(3)</sup>	0.96	0.46	109%	2.76	1.29	114%
Total dividends	16,779	1,649	918%	21,758	14,840	47%
Total dividends per share <sup>(3)</sup>	0.10	0.01	900%	0.13	0.09	44%
Payout ratio <sup>(3)</sup>	10	2	400%	5	7	-29%
Earnings (loss)	71,718	65,951	9%	152,248	(35,555)	528%
Earnings (loss) per share- basic	0.43	0.40	7%	0.92	(0.22)	518%
Earnings (loss) per share - diluted	0.42	0.40	5%	0.89	(0.22)	505%
Capital expenditures	108,951	68,250	60%	365,058	235,703	55%
Weighted average common shares outstanding (basic)	167,546,601	164,937,898	2%	166,107,837	164,894,920	1%
Weighted average common shares outstanding (diluted)	172,582,450	164,955,645	5%	170,137,599	164,895,698	3%
Net debt <sup>(4)</sup>				1,098,748	1,176,340	-7%
Shareholders' equity				1,766,006	1,677,473	5%
Total assets				3,784,195	3,601,057	5%

(1) excludes revenue from sale of natural gas volumes from third-parties

(2) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for funds from operations is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

(3) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

(4) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

## Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Peyto Exploration & Development Corp. ("Peyto" or the "Company") for the years ended December 31, 2021 and 2020. The financial statements have been prepared in accordance with the International Accounting Standards Board's ("IASB") most current International Financial Reporting Standards ("IFRS" or "GAAP") and International Accounting Standards ("IAS").

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of March 9, 2022. Additional information about Peyto, including the most recently filed annual information form is available at [www.sedar.com](http://www.sedar.com) and on Peyto's website at [www.Peyto.com](http://www.Peyto.com).

This MD&A contains certain forward-looking statements or information ("forward-looking statements") as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: the impact of economic conditions in North America and globally; industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the adequacy of the Company's critical accounting estimates; the availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances 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 from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: expected royalty rate, earnings, cash flow and revenue fluctuations; the Company's expectation that funds generated from operations, together with credit facility borrowings, are sufficient; the expectation that the majority of the Company's capital program will involve drilling, completing and tie-in of lower risk development gas wells; the Company's risk management; and the Company's critical accounting estimates.

The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Peyto's actual financial results, performance or achievement in future periods to differ materially from those expressed in, or implied by, these forward-looking statements, including but not limited to, risks associated with: imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; changes in general global economic conditions including, without limitations, the economic conditions in North America; increased competition; the lack of availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; environmental risks; changes in laws and regulations including, without limitation, the adoption of new environmental and tax laws and regulations and changes in how they are interpreted and enforced; the results of exploration and development drilling and related activities; the ability to access sufficient capital from internal and external sources; and stock market volatility. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2020 under the heading "Risk Factors" and herein under the heading "Risk Management".

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Peyto will derive there from. The forward-looking statements contained in this MD&A speak only as of the date hereof and Peyto does not assume any obligation to publicly update or revise them to reflect new information, future events or circumstances or otherwise, except as may be required pursuant to applicable securities laws.

Throughout this MD&A and in other materials disclosed by the Company, Peyto adheres to generally accepted accounting principles ("GAAP"), however the Company also employs certain non-GAAP measures to analyze financial performance, financial position, and cash flow including, but not limited to, "funds from operations", "net debt" "netback", "capital expenditures", and "average capital employed. These non-GAAP and other financial measures do not have any standardized meaning prescribed under International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance.

Readers are cautioned that the MD&A should be read in conjunction with Peyto's disclosure in the sections entitled "Non-GAAP and Other Financial Measures", and "Glossary" included at the end of this MD&A.

All references are to Canadian dollars unless otherwise indicated. Natural gas liquids volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent (mcf) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl may be misleading as an indication of value.

The World Health Organization declared novel coronavirus COVID-19 ("COVID-19") a global pandemic in 2020 and at December 31, 2021, Peyto's management has incorporated the current and anticipated impacts of COVID-19 in its preparation of the MD&A.

## **OVERVIEW**

Peyto is a Canadian energy company involved in the development and production of natural gas, oil and natural gas liquids in Alberta's deep basin. At December 31, 2021, the Company's total Proved plus Probable reserves were 5.4 trillion cubic feet equivalent (904 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 89 per cent to natural gas and 11 per cent to oil & natural gas liquids.

The Peyto model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects.
- Build an asset base which is made up of high-quality natural gas reserves.
- Over time, balance dividends paid to shareholders with earnings and cash flow, and balance funding for the capital program with cash flow, equity and available credit lines.

Operating results over the last twenty-three years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

## **ANNUAL FINANCIAL INFORMATION**

The following is a summary of selected financial information of the Company for the periods indicated. Reference should be made to the audited consolidated financial statements of the Company, which are available at [www.sedar.com](http://www.sedar.com).

Year Ended December 31 (\$000 except per share amounts)	2021	2020	2019
Total revenue and realized hedging gains (losses) <sup>(1)</sup>	<b>716,922</b>	388,981	489,822
Funds from operations <sup>(2)</sup>	<b>469,672</b>	212,710	323,131
Per share – basic <sup>(3)</sup>	<b>2.83</b>	1.29	1.96
Per share – diluted <sup>(3)</sup>	<b>2.76</b>	1.29	1.96
Earnings (loss)	<b>152,248</b>	(35,555)	133,495
Per share – basic	<b>0.92</b>	(0.22)	0.81
Per share – diluted	<b>0.89</b>	(0.22)	0.81
Capital Expenditures	<b>365,058</b>	235,703	206,431
Total assets	<b>3,784,195</b>	3,601,057	3,597,180
Total long-term debt <sup>(4)</sup>	<b>1,065,712</b>	1,170,000	1,120,000
Dividends per share <sup>(3)</sup>	<b>0.13</b>	0.09	0.24
Total payout ratio (%) <sup>(3)</sup>	<b>82</b>	118	76

(1) excludes revenue from sale of natural gas volumes from third-parties

(2) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for funds from operations is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

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(4) Refer to Note 4 "Current and long-term debt" in the financial statements. Long-term debt includes current and long-term portions.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue and realized hedging gains (losses) (net of royalties) <sup>(1)</sup>	<b>208,055</b>	146,792	127,727	161,258	116,018	86,986	71,178	92,787
Funds from operations <sup>(2)</sup>	<b>166,165</b>	104,608	82,191	116,709	76,013	49,173	33,012	54,513
Per share – basic <sup>(3)</sup>	<b>0.99</b>	0.63	0.50	0.71	0.46	0.30	0.20	0.33
Per share – diluted <sup>(3)</sup>	<b>0.96</b>	0.62	0.50	0.71	0.46	0.30	0.20	0.33
Earnings (loss)	<b>71,718</b>	29,271	12,760	38,500	65,951	(11,285)	(22,538)	(67,684)
Per share – basic	<b>0.43</b>	0.18	0.08	0.23	0.40	(0.07)	(0.14)	(0.41)
Per share – diluted	<b>0.42</b>	0.17	0.08	0.23	0.40	(0.07)	(0.14)	(0.41)
Dividends	<b>16,779</b>	1,671	1,658	1,651	1,649	1,649	1,649	9,892
Per share	<b>0.10</b>	0.01	0.01	0.01	0.01	0.01	0.01	0.06
Payout ratio (%) <sup>(3)</sup>	<b>10</b>	2	2	1	2	3	5	18
Capital expenditures	<b>108,951</b>	90,170	57,086	108,851	68,250	61,568	37,299	68,587
Total payout ratio (%) <sup>(3)</sup>	<b>76</b>	88	71	95	92	129	118	144

(1) excludes revenue from sale of natural gas volumes from third-parties

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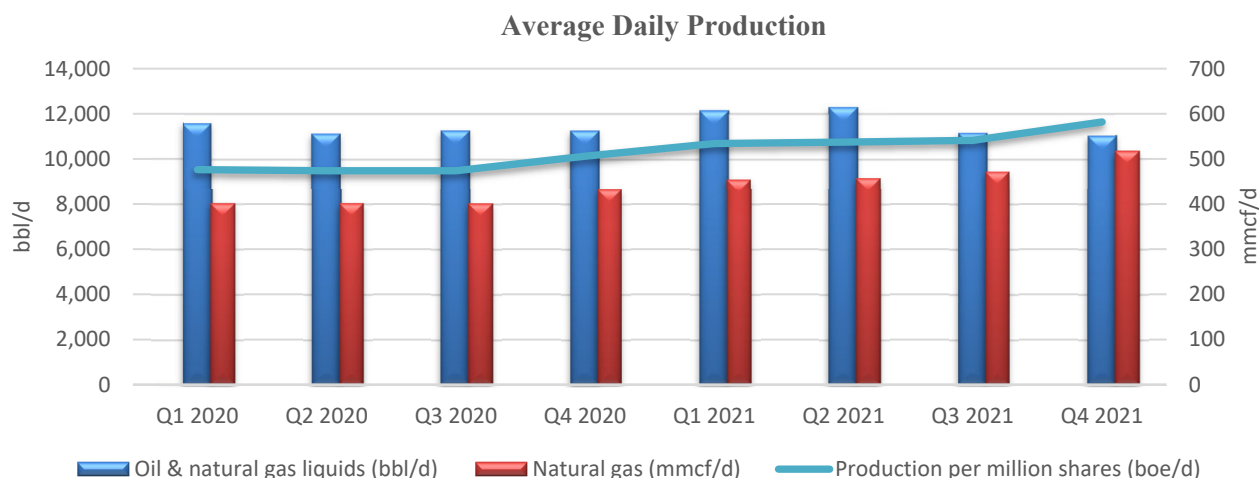
(3) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

## RESULTS OF OPERATIONS

### Production

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Natural gas (mmcf/d)	<b>517.6</b>	433.2	<b>476.4</b>	409.6
Oil & natural gas liquids (bbl/d)	<b>11,038</b>	11,256	<b>11,653</b>	11,308
Barrels of oil equivalent (boe/d)	<b>97,306</b>	83,461	<b>91,051</b>	79,577
Thousand cubic feet equivalent (mmcfe/d)	<b>583.8</b>	500.8	<b>546.3</b>	477.5

Natural gas production increased 19 per cent from 433.2 mmcf/d in the fourth quarter of 2020 to 517.6 mmcf/d in the fourth quarter of 2021. Condensate and NGL production decreased 2 per cent from 11,256 bbl/d in the fourth quarter of 2020 to 11,038 in the fourth quarter of 2021. Total fourth quarter production increased 17 per cent from 83,461 boe/d to 97,306 boe/d. Production for the year increased 14 per cent from 79,577 boe/d to 91,051 boe/d. Production increases are attributable to Peyto's capital program. Actual production may vary from production reported for accounting purposes due to prior period amendments resulting from working interest changes, timing of partner elections to participate in operations or changes to payout/penalty accounts.



#### Oil & Natural Gas Liquids Production by Component

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Oil, Condensate and Pentanes Plus (bbl/d)	<b>6,623</b>	6,336	<b>6,893</b>	6,507
Other Natural gas liquids(bbl/d)	<b>4,415</b>	4,920	<b>4,760</b>	4,801
Oil & Natural gas liquids (bbl/d)	<b>11,038</b>	11,256	<b>11,653</b>	11,308
Barrels per million cubic feet	<b>21.3</b>	26.0	<b>24.5</b>	27.6

The liquid production to sales gas ratio decreased 18 per cent from 26.0 bbl/mmcf in the fourth quarter of 2020 to 21.3 bbl/mmcf in the fourth quarter of 2021. The liquids to gas ratio will fluctuate in the future depending on the mix of rich and lean gas wells drilled as Peyto attempts to maximize overall returns.

#### Benchmark Commodity Prices

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
AECO 7A monthly (\$/GJ)	<b>4.68</b>	2.62	<b>3.38</b>	2.12
AECO 5A daily (\$/GJ)	<b>4.41</b>	2.50	<b>3.44</b>	2.11
NYMEX (US\$/MMbtu)	<b>4.74</b>	2.47	<b>3.84</b>	1.99
Emerson2 (US\$/MMbtu)	<b>4.53</b>	2.23	<b>3.47</b>	1.84
Malin NGI (US\$/MMbtu)	<b>5.99</b>	2.88	<b>3.97</b>	2.05
Ventura daily (US\$/MMbtu)	<b>4.55</b>	2.30	<b>5.96</b>	1.85
Canadian WTI (\$/bbl)	<b>97.16</b>	55.53	<b>85.10</b>	52.53
Conway C3 (US\$/bbl)	<b>52.43</b>	23.29	<b>43.71</b>	18.60

Q4 2021 average CND/USD exchange rate of 1.26

## Commodity Prices

(\$CAD)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Oil, Condensate, Pentanes Plus (\$/bbl)	<b>94.80</b>	50.29	<b>80.84</b>	45.11
Other Natural gas liquids (\$/bbl)	<b>44.52</b>	16.96	<b>34.43</b>	12.37
Oil and NGL price – before hedging (\$/bbl)	<b>74.69</b>	36.45	<b>61.88</b>	30.73
Hedging (\$/bbl)	<b>(9.98)</b>	(0.63)	<b>(8.49)</b>	0.52
Oil and NGL price – after hedging (\$/bbl)	<b>64.71</b>	35.82	<b>53.39</b>	31.25
Natural gas (\$/mcf)	<b>6.37</b>	3.23	<b>4.89</b>	2.65
Diversification activities (\$/mcf)	<b>(1.41)</b>	(1.01)	<b>(1.16)</b>	(0.90)
Hedging (\$/mcf)	<b>(1.38)</b>	(0.03)	<b>(0.91)</b>	(0.01)
Realized price (\$/mcf)	<b>3.58</b>	2.19	<b>2.82</b>	1.74
Total Hedging (\$/mcf)	<b>(1.42)</b>	(0.04)	<b>(0.98)</b>	-
Total Hedging (\$/boe)	<b>(8.49)</b>	(0.25)	<b>(5.87)</b>	-

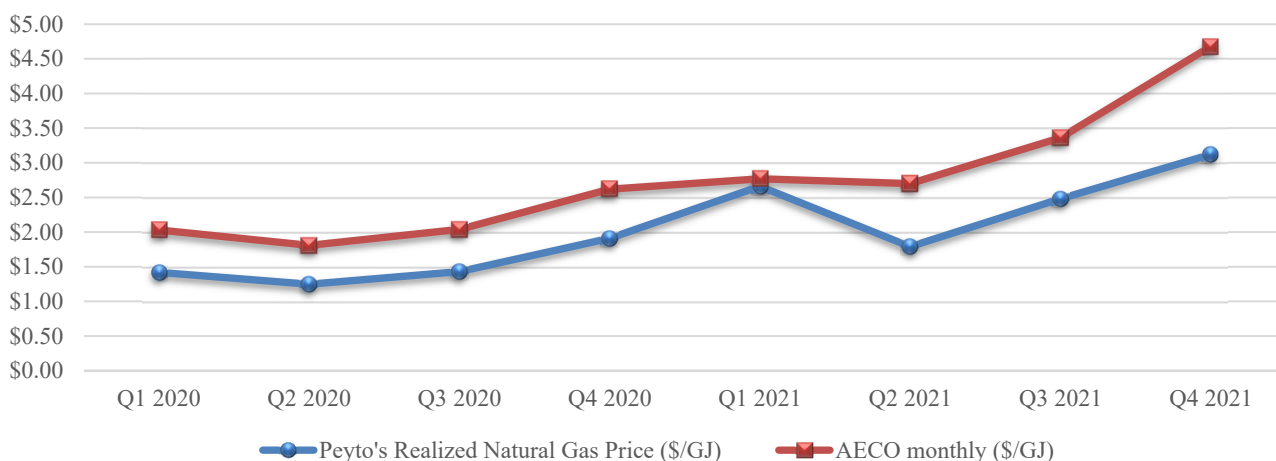
liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

Peyto's natural gas price, before hedging and diversification activities, averaged \$6.37/mcf during the fourth quarter of 2021 an increase of 97 per cent from \$3.23/mcf for the equivalent period in 2020. Oil & natural gas liquids prices, before hedging, averaged \$74.69/bbl, an increase of 105 per cent from \$36.45/bbl a year earlier. On an annual basis, natural gas prices before hedging and diversification activities increased 85 per cent from \$2.65/mcf to \$4.89/mcf while oil and natural gas liquids increased 101 per cent from \$30.73/bbl to \$61.88/bbl.

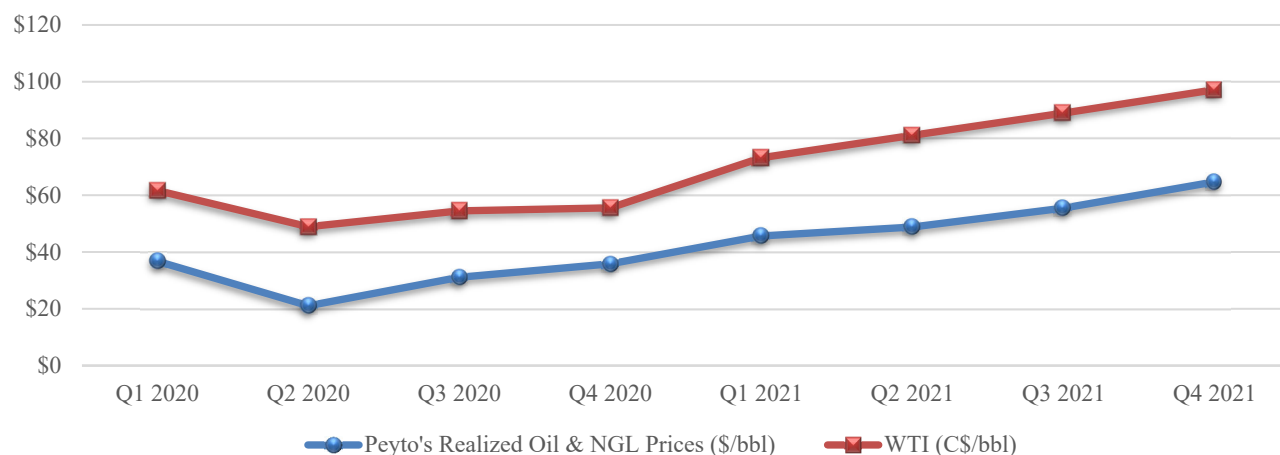
Peyto actively marketed all components of its production stream in the fourth quarter including natural gas, condensate, pentane, butane and propane. Peyto's market diversification activity resulted in natural gas being sold at various hubs including AECO, Ventura, Emerson 2, Malin and Henry Hub using both physical fixed price and temporary basis transactions to access those locations. Natural gas prices were left to float on daily pricing or locked in using fixed price swaps at those hubs and Peyto's realized price was benchmarked against those local prices, then adjusted for marketing arrangements (either physical or short-term synthetic) to those markets. This gas market diversification cost represents the total marketing and synthetic transportation cost, not just the difference between those markets and an AECO equivalent price.

The Company's liquids were also actively marketed with condensate being sold on a monthly index differential linked to West Texas Intermediate ("WTI") oil prices. Peyto's NGLs (a blend of pentanes plus, butane and propane) are fractionated by a third party in Fort Saskatchewan, Alberta however Peyto markets each product separately. Pentanes Plus were sold on a monthly index differential linked to WTI, with some volumes forward sold on fixed differentials to WTI. Butane was sold as a percent of WTI or a fixed differential to the Mount Belvieu, Texas market. Propane was sold on a fixed differential to the Conway, Kansas market. While some products were sold pursuant to annual term contracts to ensure delivery paths remain open, others were marketed on the daily spot market.

### Natural Gas Price



## Oil & NGL Prices

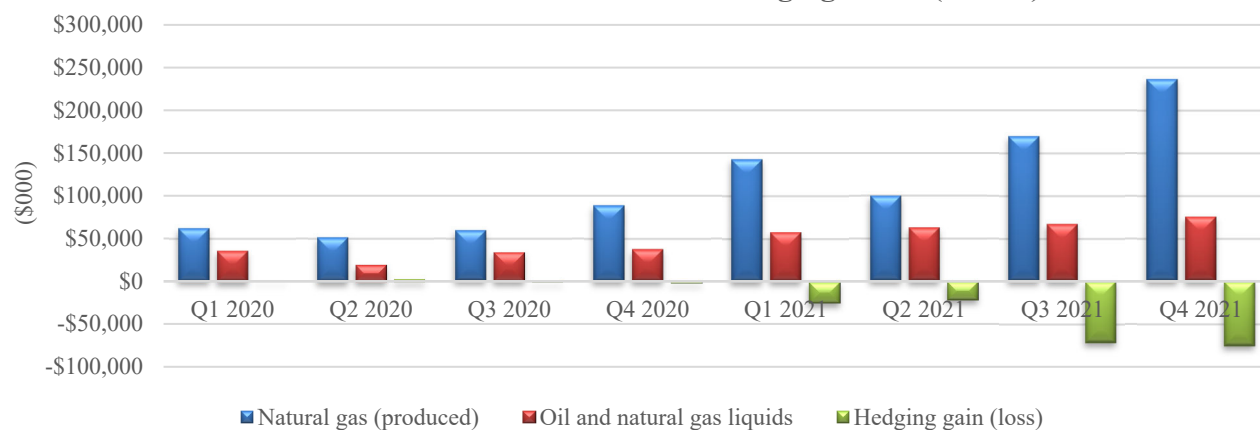


### Revenue from Produced Volumes and Realized Hedging Gains (Losses)

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Natural gas <sup>(1)</sup>	236,531	88,732	648,776	261,754
Oil & natural gas liquids	75,849	37,745	263,205	127,176
Hedging – gas	(65,884)	(1,301)	(158,929)	(2,120)
Hedging – oil and NGL	(10,136)	(652)	(36,130)	2,171
	<b>236,360</b>	<b>124,524</b>	<b>716,922</b>	<b>388,981</b>

<sup>(1)</sup> excludes revenue from sale of natural gas volumes from third-parties

### Revenue and Realized Hedging Gains (Losses)

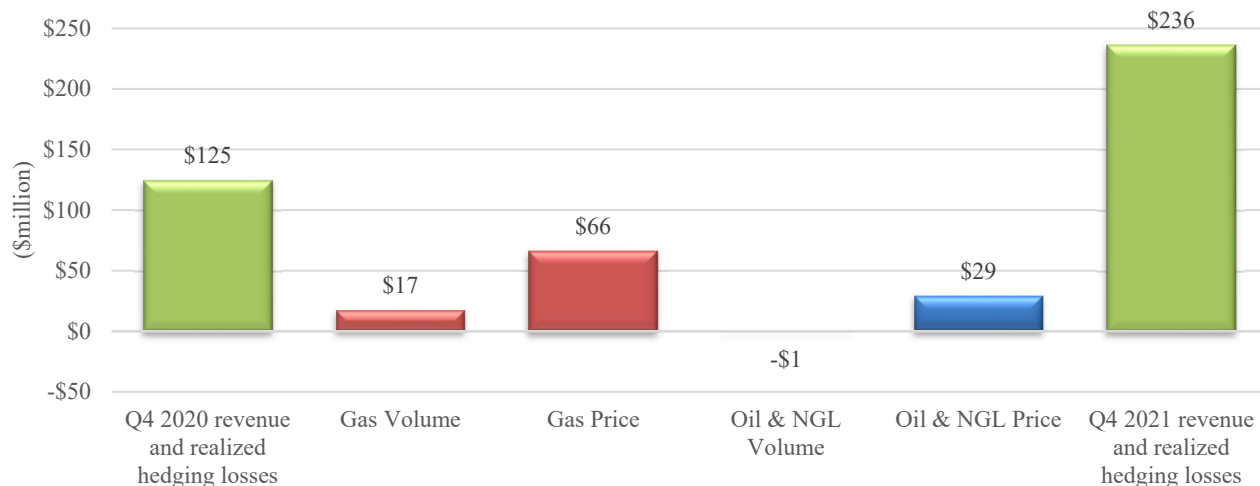


For the three months ended December 31, 2021, revenue from the sale of produced volumes and realized hedging losses increased 90 per cent to \$236.4 million from \$124.5 million for the same period in 2020. On an annual basis, revenue increased 84 per cent from \$389.0 million in 2020 to \$716.9 million in 2021. The increase in revenue from the sale of produced volumes and realized hedging losses for the quarter was a result of increased gas production volumes and commodity prices and lower natural gas liquids production volumes, as detailed in the following table:

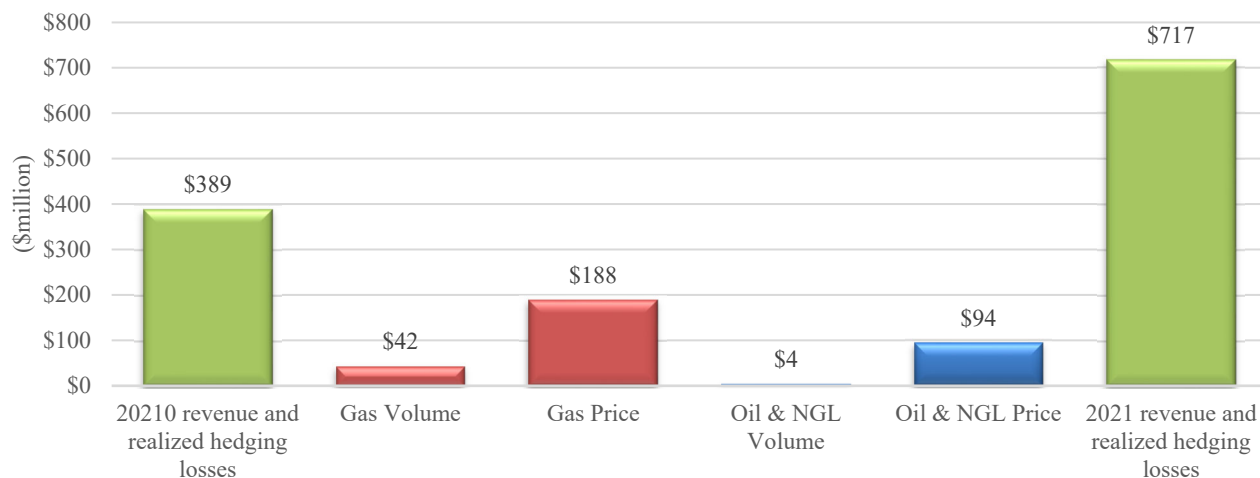


	Three Months ended December 31			Twelve Months ended December 31		
	2021	2020	\$million	2021	2020	\$million
December 31, 2020			<b>125</b>			<b>389</b>
change due to:						
<b>Natural gas</b>						
Volume (mmcf)	47,620	39,857	<b>17</b>	173,881	149,920	<b>42</b>
Price (\$/mcf)	\$3.58	\$2.19	<b>66</b>	\$2.82	\$1.74	<b>188</b>
<b>Oil &amp; NGL</b>						
Volume (mdbl)	1,016	1,036	<b>(1)</b>	4,253	4,139	<b>4</b>
Price (\$/bbl)	\$64.71	\$35.82	<b>29</b>	\$53.39	\$31.25	<b>94</b>
December 31, 2021			<b>236</b>			<b>717</b>

### Q4 Change in Revenue and Realized Hedging Losses



### 2021 Change in Revenue and Realized Hedging Losses



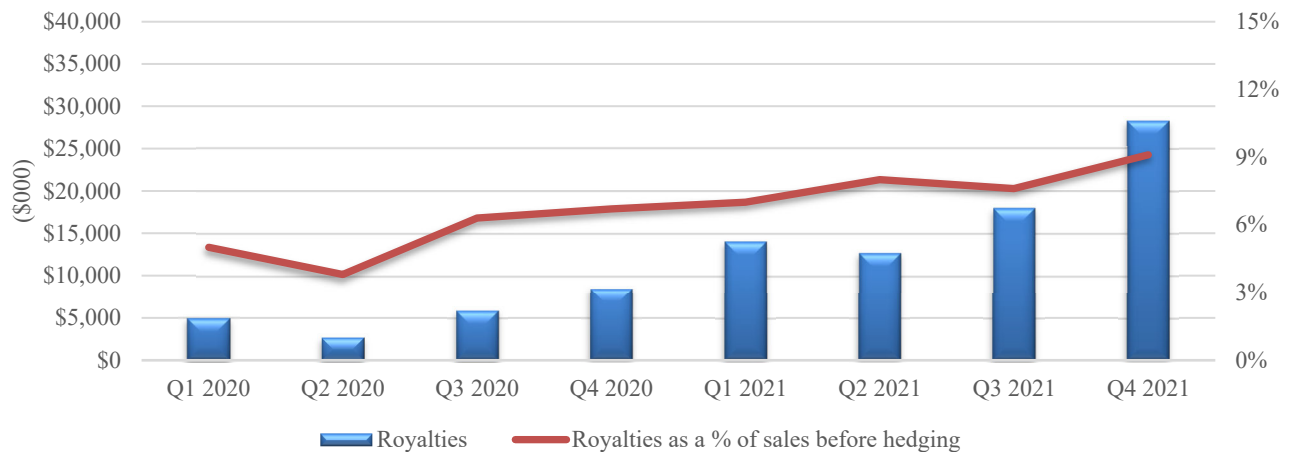
### Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. All Peyto's new natural gas wells qualify for the Crown incentive programs which have a 5 per cent initial royalty rate.

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Royalties (\$000)	<b>28,304</b>	8,506	<b>73,091</b>	22,014
per cent of sales excluding hedging	<b>9.1</b>	6.7	<b>8.0</b>	5.7
\$/mcf	<b>0.53</b>	0.18	<b>0.37</b>	0.13
\$/boe	<b>3.16</b>	1.11	<b>2.20</b>	0.76

For the fourth quarter of 2021, royalties averaged \$0.53/mcfe or approximately 9 per cent of Peyto's total petroleum and natural gas sales excluding hedging losses. The increase was due to higher AECO and WTI prices. The royalty rate expressed as a percentage of natural gas and natural gas liquid sales will fluctuate from period to period as the Alberta Reference Price can differ significantly from the commodity prices realized by Peyto. Royalties include the impact of gas cost allowance (“GCA”) which is a reduction of royalties payable to the Alberta Provincial Government (the “Crown”) to recognize capital and operating expenditures incurred in the gathering and processing of the Crown’s share of natural gas production. In its 23-year history, Peyto has invested over \$6.8 billion in capital projects, found and developed 4.5 TCFe of natural gas reserves and paid over \$1.0 billion in royalties.

### Royalties



### Operating Costs & Transportation

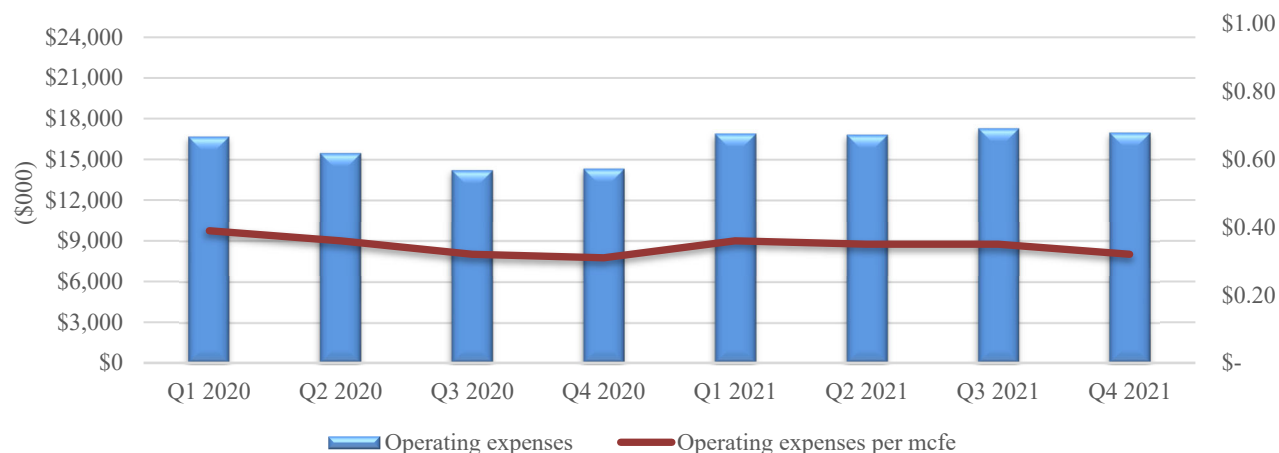
Peyto’s operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Payments to Government	<b>4,199</b>	4,164	<b>20,361</b>	16,995
Other expenses	<b>12,772</b>	10,148	<b>47,602</b>	43,641
Operating costs (\$000)	<b>16,971</b>	14,312	<b>67,963</b>	60,636
\$/mcf	<b>0.32</b>	0.31	<b>0.34</b>	0.34
\$/boe	<b>1.90</b>	1.86	<b>2.05</b>	2.08
Transportation (\$000)	<b>12,458</b>	6,717	<b>42,544</b>	29,002
\$/mcf	<b>0.23</b>	0.15	<b>0.21</b>	0.17
\$/boe	<b>1.39</b>	0.87	<b>1.28</b>	1.00

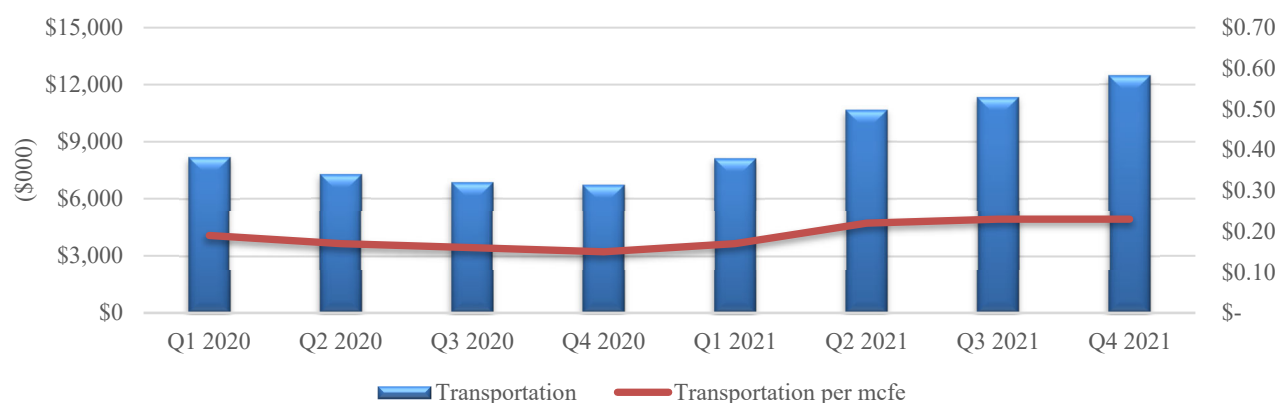
For the fourth quarter, operating expenses were \$17.0 million compared to \$14.3 million for the same quarter in 2020. On a unit-of-production basis, operating costs increased 3 per cent from \$0.31/mcfe to \$0.32/mcfe. On an annual basis, operating costs per mcfe were unchanged at \$0.34/mcfe. Approximately 25 to 30 per cent of operating expenses are related to government fees, taxes and levies. Peyto focuses on being the industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.

Transportation expenses increased 53 per cent on a unit-of production basis from \$0.15/mcfe in the fourth quarter 2020 to \$0.23/mcfe in the fourth quarter 2021 due to the addition of Empress and Emerson service. On an annual basis, transportation expenses increased 24 per cent on a unit-of production basis from \$0.17/mcfe in 2020 to \$0.21/mcfe in 2021. Physical transportation contracts to Emerson and Empress were entered into as part of Peyto's sales diversification strategy.

### Operating Expenses



### Transportation



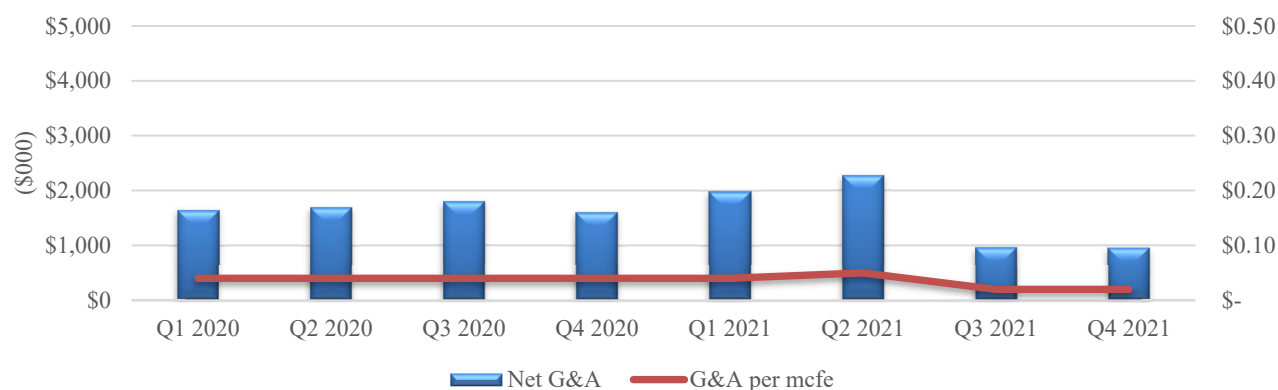
### General and Administrative Expenses

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
G&A expenses (\$000)	4,008	3,777	16,273	14,632
Overhead recoveries (\$000)	(3,054)	(2,176)	(10,102)	(7,903)
Net G&A expenses (\$000)	954	1,601	6,171	6,729
\$/mcfe	0.02	0.04	0.03	0.04
\$/boe	0.11	0.21	0.19	0.23

For the fourth quarter, general and administrative expenses before overhead recoveries was \$4.0 million compared to \$3.8 million for the same quarter of 2020. On an annual basis, general and administrative expenses before overhead recoveries were \$16.3 million compared to \$14.6 million in 2020. This increase was due primarily to increased employment and insurance costs. General and administrative expenses averaged \$0.08/mcfe before overhead recoveries of \$0.06/mcfe for net general and administrative expenses of \$0.02/mcfe in the fourth quarter of 2021 (\$0.09/mcfe before overhead recoveries of \$0.05/mcfe for net general and administrative expenses of \$0.04/mcfe in the fourth quarter of 2020).

Peyto capitalizes general and administrative costs and market and reserves-based compensation related to the execution of its capital program. Most these costs are related to the execution of Peyto's capital program. In 2021, Peyto capitalized \$9.2 million of expenses directly attributable to exploration and development activities compared to \$7.4 million in 2020.

## Net G&A Expense



### Performance and Stock Based Compensation

The Company awards performance-based compensation to employees, key consultants and directors. Performance and stock based compensation is comprised of stock options, deferred share units, and reserve value-based components.

#### Performance Based Compensation

The reserve value-based component is 4 per cent of the incremental increase in per share value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8 per cent. Compensation expense of \$7.7 million was recorded for the fourth quarter of 2021.

#### Stock Based Compensation

In 2019, the Company adopted a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. Stock options are to be granted periodically with a three-year vesting period. At the vesting, recipients have thirty days to exercise options after which any unexercised options are cancelled.

In 2020, the Company adopted a deferred share unit plan, whereby DSUs may be issued to members of the Board of Directors. Each DSU is a notional unit equal in value to one Common Share, which entitles the holder to receive a common share upon redemption. DSUs vest immediately but can only be converted to a share upon the holder ceasing to be a Director of the Company. The expense associated with the DSU plan is determined based on the 5-day VWAP of Common Shares at the grant date. The expense is recognized in the statement of operations in the quarter in which the units are granted, with a corresponding charge to contributed surplus in the statement of financial position.

Stock based compensation costs is calculated on 0.7 million rights relating to the market based bonus plan that vested and expired on December 31, 2021 (1 per cent of the total number of common shares outstanding), 9.1 million non-vested stock options (5 per cent of the total number of common shares outstanding) and 0.2 million vested DSU's (0.1 per cent of the total number of common shares outstanding). Stock based compensation costs for the fourth quarter of 2021 is \$1.8 million.

Peyto records a non-cash provision for compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 11 of the consolidated financial statements for more details). These plans limit the number of common shares that may be granted to 10 per cent of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

#### Stock Option Plan

		Weighted average exercise price
Balance, December 31, 2020	7,934,202	\$3.50
Stock options granted	4,818,720	6.52
Exercised	(3,210,244)	3.59
Forfeited	(232,199)	3.47
Expired	(137,342)	3.70
Balance, December 31, 2021	9,137,137	\$5.05

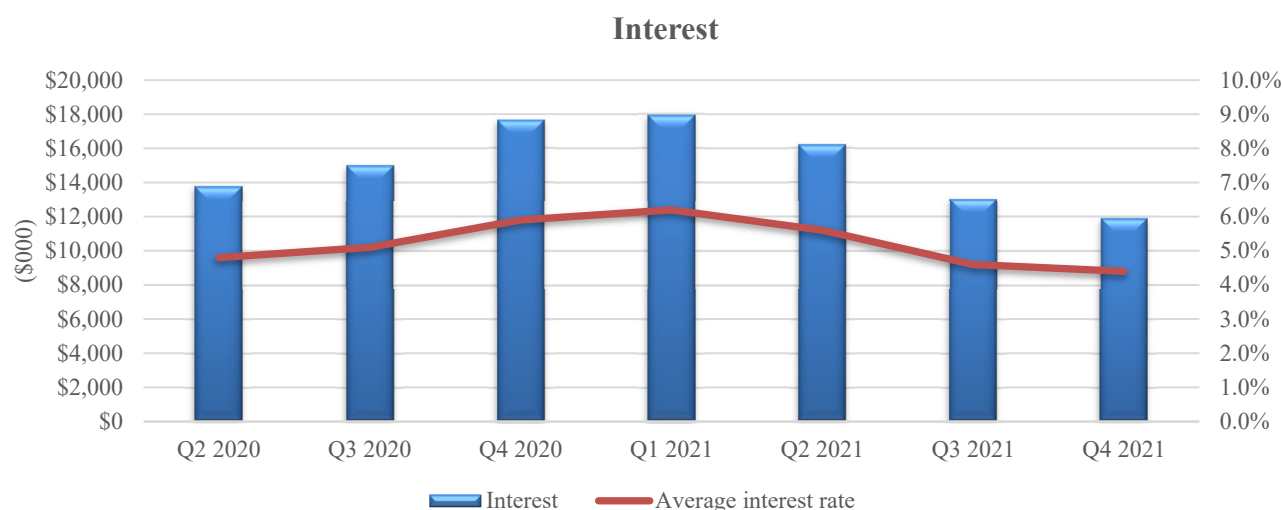
## Deferred Share Units

	Weighted average exercise price	
Balance, December 31, 2020	<b>107,874</b>	<b>\$1.48</b>
DSU granted	68,795	5.37
Balance December 31, 2021	<b>176,669</b>	<b>\$3.60</b>

## Interest Expense

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Interest expense (\$000)	<b>11,883</b>	17,664	<b>59,017</b>	58,871
\$/mcf	<b>0.22</b>	0.38	<b>0.30</b>	0.33
\$/boe	<b>1.33</b>	2.30	<b>1.78</b>	2.02
Average interest rate	<b>4.4%</b>	5.9%	<b>5.2%</b>	5.1%

Fourth quarter 2021 average interest rate was 4.4 per cent compared to 5.9 per cent for the fourth quarter 2020 due to a decrease in leverage resulting in lower stamping fees and interest costs. On an annual basis, average interest rate increased from 5.1 per cent to 5.2 per cent.



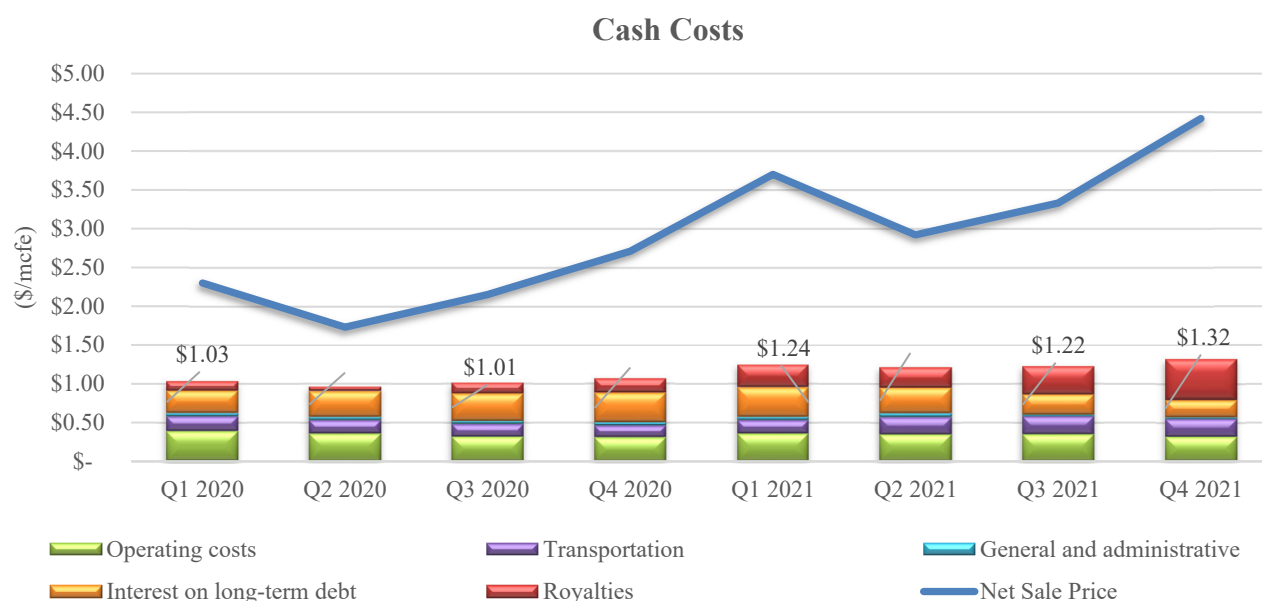
## Netbacks

(\$/mcf)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Gross Sale Price	<b>5.84</b>	2.75	<b>4.59</b>	2.23
Realized hedging gain (loss)	<b>(1.42)</b>	(0.04)	<b>(0.98)</b>	-
Net Sale Price	<b>4.42</b>	2.71	<b>3.61</b>	2.23
Less: Royalties	<b>0.53</b>	0.18	<b>0.37</b>	0.13
Operating costs	<b>0.32</b>	0.31	<b>0.34</b>	0.34
Transportation	<b>0.23</b>	0.15	<b>0.21</b>	0.17
Field netback <sup>(1)</sup>	<b>3.34</b>	2.07	<b>2.69</b>	1.59
General and administrative	<b>0.02</b>	0.04	<b>0.03</b>	0.04
Interest on long-term debt	<b>0.22</b>	0.38	<b>0.30</b>	0.33
Cash netback (\$/mcf) <sup>(2)</sup>	<b>3.10</b>	1.65	<b>2.36</b>	1.22
Cash netback (\$/boe) <sup>(2)</sup>	<b>18.60</b>	9.90	<b>14.18</b>	7.30

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for funds from operations is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

(2) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Netbacks are a non-GAAP measure that represent the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.



### Depletion, Depreciation and Impairment

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2021 fourth quarter provision for depletion, depreciation and amortization totaled \$73.5 million (\$1.37/mcfe) compared to \$59.8 million (\$1.39/mcfe) in the fourth quarter 2020. On a unit-of-production basis, depletion and depreciation costs averaged \$1.32/mcfe in 2021 compared to \$1.39/mcfe in 2020.

### Income Taxes

The current provision for deferred income tax expense is \$13.9 million compared to an expense of \$21.5 million in the fourth quarter of 2020. For the year ended December 31, 2021 a deferred income tax expense of \$39.2 million was recorded compared to a recovery of \$8.8 million for 2020. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type (\$ millions)	December 31, 2021	December 31, 2020	Annual deductibility
Canadian Oil and Gas Property Expense	169.7	160.3	10% declining balance
Canadian Development Expense	510.1	489.4	30% declining balance
Canadian Exploration Expense	104.4	102.5	100%
Undepreciated Capital Cost	277.0	250.2	Primarily 25% declining balance
Tax Losses Carried Forward	107.7	234.1	100%
Other	0.1	0.2	10% declining balance
<b>Total Federal Tax Pools</b>	<b>1,169.0</b>	<b>1,236.7</b>	
Additional Alberta Tax Pools	46.3	45.0	Primarily 100%

## MARKETING

### Commodity Price Risk Management

#### Financial Derivative Instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. To minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the fourth quarter of 2021, a realized hedging loss of \$76.0 million was recorded as compared to a \$2.0 million loss for the equivalent period in 2020. A summary of contracts outstanding in respect of the hedging activities are as follows:

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
November 1, 2021 to March 31, 2022	Fixed Price	125,000 GJ	\$2.94
April 1, 2022 to October 31, 2022	Fixed Price	115,000 GJ	\$2.18
November 1, 2022 to March 31, 2023	Fixed Price	190,000 GJ	\$3.16
April 1, 2023 to October 31, 2023	Fixed Price	180,000 GJ	\$2.55

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2020 to March 31, 2022	Fixed Price	20,000 mmbtu	\$2.28
November 1, 2021 to March 31, 2022	Fixed Price	87,500 mmbtu	\$3.37
April 1, 2022 to October 31, 2022	Fixed Price	45,000 mmbtu	\$3.69
November 1, 2022 to December 31, 2022	Fixed Price	35,000 mmbtu	\$4.16
November 1, 2022 to March 31, 2023	Fixed Price	40,000 mmbtu	\$4.15
January 1, 2023 to December 31, 2022	Fixed Price	25,000 mmbtu	\$3.51

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Malin</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2021 to March 31, 2022	Fixed Price	15,000 mmbtu	\$3.26
April 1, 2022 to October 31, 2022	Fixed Price	40,000 mmbtu	\$2.38
November 1, 2022 to March 31, 2023	Fixed Price	40,000 mmbtu	\$2.98

<b>Crude Oil</b>			<b>Average Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
January 1, 2022 to March 31, 2022	Fixed Price	800 bbl	\$61.89
January 1, 2022 to December 31, 2022	Fixed Price	300 bbl	\$64.05
April 1, 2022 to June 30, 2022	Fixed Price	300 bbl	\$62.98

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI CAD/bbl)</b>
January 1, 2022 to March 31, 2022	Fixed Price	2,400 bbl	\$93.03
January 1, 2022 to June 30, 2022	Fixed Price	600 bbl	\$87.30
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	\$81.96
April 1, 2022 to June 30, 2022	Fixed Price	1,000 bbl	\$93.13
July 1, 2022 to December 31, 2022	Fixed Price	800 bbl	\$90.44
January 1, 2023 to March 31, 2023	Fixed Price	100 bbl	\$85.25

<b>Propane</b>			<b>Average Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(USD/bbl)</b>
April 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$26.36
October 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$25.41

As at December 31, 2021, Peyto had committed to the future sale of 103,070,000 gigajoules (GJ) of natural gas at an average price of \$2.67 per GJ or \$3.08 per mcf, 37,675,000 mmbtu of natural gas at an average price of \$3.60 USD per mmbtu, 208,800 barrels of crude at an average price of \$63.17 USD per bbl, 900,300 barrels of crude at an average price of \$88.27 CAD per bbl and 45,000 barrels of propane at an average price of \$25.88 USD per bbl. Had these contracts closed on December 31, 2021, Peyto would have realized a hedging loss in the amount of \$73.4 million. Total hedged volumes represent approximately 3 per cent of Peyto's developed 2021 year end reserves.

Subsequent to December 31, 2021, Peyto entered into the following contracts:

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged- Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
November 1, 2022 to March 31, 2023	Fixed Price	5,000 GJ	\$3.77

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2022 to October 31, 2022	Fixed Price	5,000 mmbtu	\$3.80
November 1, 2022 to December 31, 2022	Fixed Price	35,000 mmbtu	\$4.28
November 1, 2022 to March 31, 2023	Fixed Price	25,000 mmbtu	\$4.91
January 1, 2023 to March 31, 2023	Fixed Price	45,000 mmbtu	\$3.53
April 1, 2023 to October 31, 2023	Fixed Price	30,000 mmbtu	\$3.50

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI CAD/bbl)</b>
April 1, 2022 to June 30, 2022	Fixed Price	1,500 bbl	\$111.51
July 1, 2022 to September 30, 2022	Fixed Price	400 bbl	\$106.80
July 1, 2022 to December 31, 2022	Fixed Price	400 bbl	\$97.76
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	\$100.70
January 1, 2023 to March 31, 2023	Fixed Price	300 bbl	\$94.35

### Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings and cash flow. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

### Currency Risk Management

The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. This risk is mitigated indirectly as the Canadian dollar tends to rise as commodity prices rise. Currently, Peyto has not entered into any agreements to further manage its currency risks.

### Interest Rate Risk Management

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently there are no agreements to manage the risk on the credit facility. At December 31, 2021, the increase or decrease in earnings for each 100 bps (1 per cent) change in weighted average borrowing rate paid on the outstanding revolving demand loan amounts to approximately \$1.7 million per quarter. Average debt outstanding for the quarter was \$1.098 billion (including \$416 million fixed rate debt).

## LIQUIDITY AND CAPITAL RESOURCES

Funds from operations is reconciled to cash flows from operating activities below:

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Cash flows from operating activities	<b>150,226</b>	52,884	<b>457,874</b>	203,053
Change in non-cash working capital	<b>8,212</b>	23,129	<b>4,071</b>	9,657
Performance based compensation	<b>7,727</b>	-	<b>7,727</b>	-
Funds from operations <sup>(1)</sup>	<b>166,165</b>	76,013	<b>469,672</b>	212,710
Funds from operations per basic share <sup>(2)</sup>	<b>0.99</b>	0.46	<b>2.83</b>	1.29
Funds from operations per dilutive share <sup>(2)</sup>	<b>0.96</b>	0.46	<b>2.76</b>	1.29

<sup>(1)</sup> Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for funds from operations is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

<sup>(2)</sup> Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

For the fourth quarter ended December 31, 2021, funds from operations totaled \$166.2 million or \$0.99 per share, compared to 76.0 million or \$0.46 per share during the same quarter in 2020. For the year ended December 31, 2021 funds from operations was \$469.7 million or \$2.83 per share, compared to \$212.7 million or \$1.29 per share for 2020. The increase in funds from operation was due to an increase in commodity prices and production volumes.

Peyto's policy is to balance dividends to shareholders with earnings and cash flow, and to balance funding for the capital program with cash flow, equity and available credit lines. Earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates



uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success, hedging and diversification activities and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

#### **Current and Long-Term Debt**

(\$000)	<b>December 31, 2021</b>	December 31, 2020
Long-term senior secured notes	415,712	415,000
Bank credit facility	650,000	755,000
<b>Balance, end of the period</b>	<b>1,065,712</b>	<b>1,170,000</b>

On November 5, 2021, the Company finalized an agreement with its syndicate of lenders and term debt note holders to amend and extend its \$950 million senior secured covenant-based credit facility and note purchase agreements. This new facility has a maturity date of October 13, 2023. The bank facility is made up of a \$40 million working capital sub-tranche and a \$910 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 175 basis points and 365 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 35 to 73 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

<b>Financial covenant</b>	Limit
Total Debt to EBITDA	Less than 4.00
Senior Debt to EBITDA	Less than 3.50
Interest coverage	Greater than 3.0

Peyto's financial covenants include financial measures defined within our revolving credit facility agreement that are not defined under IFRS. These financial measures are defined by our amended credit facility agreement as follows:

- Total Debt: includes long-term debt and subordinated debt plus bank overdraft and letters of credit.
- Senior Debt: includes long-term debt plus bank overdraft and letters of credit.
- EBITDA: trailing twelve-month net income before non-cash items, interest, and income taxes.

<b>Financial covenant</b>	Limit	<b>December 31, 2021</b>	December 31, 2020
Total Debt to EBITDA	Less than 4.0	2.04	4.35
Senior Debt to EBITDA	Less than 3.5	2.04	4.35
Interest coverage	Greater than 3.0	8.89	4.60

Peyto is in compliance with all financial covenants at December 31, 2021.

On October 29, 2021, the Company closed an issuance of USD \$40 million of senior secured notes. The notes were issued by way of a private placement, pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.98% and mature on October 29, 2028. Interest will be paid semi-annually in arrears. Proceeds from the notes have been used to repay the CDN \$50 million, 4.88% notes that was due September 6, 2022.

Outstanding secured senior notes are as follows:

Senior Secured Notes	Date Issued	Rate	Maturity Date
\$100 million (CAD)	October 24, 2016	3.70%	October 24, 2023
\$65 million (CAD)	May 1, 2015	4.26%	May 1, 2025
\$100 million (CAD)	January 3, 2012	4.39%	January 3, 2026
\$100 million (CAD)	January 2, 2018	3.95%	January 2, 2028
\$40 million (USD)	October 29, 2021	3.98%	October 29, 2028

The total amount of capital invested in 2022 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long-term return objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

### Net Debt

(\$000)	As at	As at
	December 31, 2021	December 31, 2020
Bank credit facility - drawn	650,000	755,000
Senior unsecured notes	415,712	415,000
Current assets	(144,370)	(82,651)
Current liabilities	239,620	95,060
Financial derivative instruments	(61,091)	(4,962)
Current portion of lease obligation	(1,123)	(1,107)
Net debt <sup>(1)</sup>	1,098,748	1,176,340

<sup>(1)</sup> Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

### Capital

**Authorized:** Unlimited number of voting common shares

### Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount (\$000)
Balance, December 31, 2020	164,940,975	1,649,635
Common shares issued under stock option plan	3,210,244	14,873
Balance, December 31, 2021	168,151,219	1,664,508

### Capital Expenditures

Net capital expenditures for the fourth quarter of 2021 totaled \$109.0 million. Exploration and development related activity represented \$81.6 million (75 per cent), while expenditures on facilities, gathering systems and equipment totaled \$23.0 million (21 per cent) and land, acquisitions and seismic totaled \$4.3 million (4 per cent). The following table summarizes capital expenditures for the period:

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Land	3,373	-	4,499	100
Seismic	696	1,702	3,926	7,905
Drilling	54,540	29,031	159,240	105,091
Completions	27,091	22,080	86,714	70,521
Equipping & Tie-ins	8,989	7,321	24,780	23,162
Facilities & Pipelines	14,002	7,045	49,787	26,053
Acquisitions/Dispositions	260	1,071	36,112	2,871
Total Capital Expenditures	108,951	68,250	365,058	235,703

## Dividends

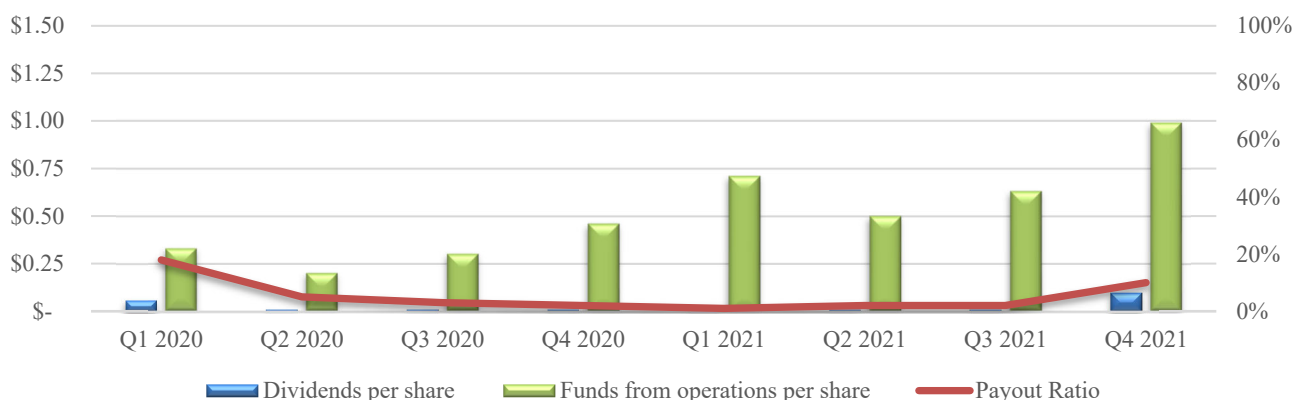
	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Funds from operations (\$000) <sup>(1)</sup>	166,165	76,013	469,672	212,710
Total dividends declared (\$000)	16,779	1,649	21,758	14,840
Total dividends per common share (\$)	0.10	0.01	0.13	0.09
Payout ratio (%) <sup>(2)</sup>	10	2	5	7

(1) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for funds from operations is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

(2) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

Peyto's policy is to balance dividends to shareholders with earnings and cash flow; and funding for the capital program with cash flow, equity and available credit lines. The Board of Directors is prepared to adjust the payout ratio levels (dividends declared divided by funds from operations) to achieve the desired dividends while maintaining an appropriate capital structure.

### Dividend Payout Ratio



### Contractual Obligations

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments at December 31, 2021:

(\$000)	2022	2023	2024	2025	2026	Thereafter
Interest payments <sup>(1)</sup>	14,852	16,827	13,127	11,743	8,163	9,962
Transportation commitments	70,019	63,718	40,217	39,685	29,208	347,875
Operating leases	2,200	2,200	2,200	2,200	2,200	-
Methanol	4,164	-	-	-	-	-
Total	91,235	82,745	55,544	53,628	39,571	357,837

<sup>(1)</sup> Fixed interest payments on senior secured notes

### RELATED PARTY TRANSACTIONS

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company. The dollar value of the transactions between Peyto and the related reporting entities is summarized below:

(\$000)	Expense		Accounts Payable	
	Year ended December 31		As at December 31	
	2021	2020	2021	2020
	13.6	105.3	81.9	5.5

## RISK MANAGEMENT

Investors who purchase common shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is dependent on current Alberta, Henry Hub, Ventura, and Emerson market prices and Canadian/US currency exchange rates. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

Peyto routinely monitors its financial forecasts, capital spending, balance sheet and dividend policy and has the ability to make operational and financial changes to help ensure Peyto remains compliant with all financial covenants. If necessary, Peyto can request temporary relief from financial covenants from lenders. In the event Peyto does not comply with its financial covenants and lenders do not grant covenant relief, Peyto's access to capital could be restricted or repayment required.

The value of Peyto's common shares is based on, among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost-efficient counterparties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. Peyto operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations and looks to both Alberta provincial authorities and Canada's federal authorities for direction and regulation regarding environmental and climate change legislation.

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect Peyto's financial condition, results of operations and cash flows. Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of hydrocarbons and encourage the use of renewable

fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. Peyto cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Peyto's business, financial condition, results of operations and cash flow by decreasing Peyto's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of crude oil and natural gas operations on the environment, environmental damage relating to spills of crude oil products during production and transportation, and Indigenous rights, have affected certain investors' sentiments towards investing in the crude oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they are no longer funding or investing in crude oil and natural gas assets or companies, or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust ESG policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, Management and employees of Peyto. Failing to implement the policies and practices, as requested by institutional investors, may result in such investors reducing their investment in Peyto, or not investing in Peyto at all. Any reduction in the investor base interested or willing to invest in the crude oil and natural gas industry and more specifically, Peyto, may result in limiting Peyto's access to capital, increasing the cost of capital, and decreasing the price and liquidity of Peyto's securities even if Peyto's operating results, underlying asset values, or cash flows have not changed.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, Peyto must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

Breaches of Peyto's cyber-security and loss of, or unauthorized access to, electronic data may adversely impact Peyto's operations and financial position. Peyto has become increasingly dependent upon the availability, capacity, reliability, and security of our information technology infrastructure and our ability to expand and continually update this infrastructure to conduct daily operations. Peyto depends on various information technology systems to estimate reserve quantities, process and record financial data, manage Peyto's land base, manage financial resources, analyze seismic information, administer contracts with operators and lessees, and communicate with employees and third-party partners.

Further, Peyto is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of Peyto's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities, or Peyto's competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, credit card and banking details, or approval of wire transfer requests by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years.

Increasingly, social media is used as a vehicle to carry out cyber-phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to penetrate Peyto's systems and obtain confidential information. Peyto provides employees with social media guidelines that align with its Code of Business Conduct and Ethics Policy. Despite these efforts, as social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that Peyto may not be able to properly regulate social media use and preserve adequate records of business activities.

If Peyto becomes a victim to a cyber-phishing attack it could result in a loss or theft of Peyto's financial resources or critical data and information, or could result in a loss of control of Peyto's technological infrastructure or financial resources. Peyto's employees are often the targets of such cyber-phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "Trojan horse" programs to Peyto's computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

Peyto maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts regular cyber-security risk assessments and training and education programs for its employees. Peyto also employs encryption protection of its confidential information on all computers and other electronic devices. Despite Peyto's efforts to mitigate such cyber-phishing attacks through education and training, cyber-phishing activities remain a serious problem that may damage its information technology infrastructure. Peyto applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems,

including a written incident response plan for responding to a cybersecurity incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on Peyto's performance and earnings, as well as its reputation, and any damages sustained may not be adequately covered by Peyto's current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on Peyto's business, financial condition, and results of operations.

## **CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

### **Internal Control over Financial Reporting**

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

## **CRITICAL ACCOUNTING ESTIMATES**

### **Reserve Estimates**

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2021 were evaluated by independent petroleum engineers GLJ Ltd.

### **Depletion and Depreciation Estimate**

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis.

### **Impairment of Long-Lived Assets**

Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

### **Decommissioning Provision**

The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

### **Reserve Value Performance Based Compensation**

The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2022. A quarterly provision for the reserve value-based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

### **Income Taxes**

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

### **Accounting Changes**

Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

## **ADDITIONAL INFORMATION**

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and [www.Peyto.com](http://www.Peyto.com).

## **NON-GAAP AND OTHER FINANCIAL MEASURES**

Throughout this MD&A and in other materials disclosed by the Company, Peyto employs certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance.

## Non-GAAP Financial Measures

### Funds from Operations

“Funds from operations” is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance-based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company’s ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto’s ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Cash flows from operating activities	150,226	52,884	457,874	203,053
Change in non-cash working capital	8,212	23,129	4,071	9,657
Performance based compensation	7,727	-	7,727	-
Funds from operations	166,165	76,013	469,672	212,710

### Net Debt

“Net debt” is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance-based compensation. It is used by management to analyze the financial position and leverage of the Company. Net debt is reconciled to long-term debt which is the most directly comparable GAAP measure.

(\$000)	As at	As at
	December 31, 2021	December 31, 2020
Bank credit facility - drawn	650,000	755,000
Senior unsecured notes	415,712	415,000
Current assets	(144,370)	(82,651)
Current liabilities	239,620	95,060
Financial derivative instruments	(61,091)	(4,962)
Current portion of lease obligation	(1,123)	(1,107)
Net debt	1,098,748	1,176,340

### Netback

Netback” is a non-GAAP measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Peyto computes “field netback” as commodity sales from production less royalties, operating, and transportation expense and “cash netback” as “field netback” less interest and general and administration expense. Netbacks are per unit of production measures used to assess Peyto’s performance and efficiency. The primary factors that produce Peyto’s strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.

## Non-GAAP Financial Ratios

### Funds from Operations per Share

Peyto presents funds from operations per share by dividing funds from operations by the Company's diluted or basic weighted average common shares outstanding. “Funds from operations” is a non-GAAP financial measure. Management believes that funds from operations per share provides investors an indicator of funds generated from the business that could be allocated to each shareholder's equity position.



(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Cash flows from operating activities	<b>150,226</b>	52,884	<b>457,874</b>	203,053
Change in non-cash working capital	<b>8,212</b>	23,129	<b>4,071</b>	9,657
Performance based compensation	<b>7,727</b>	-	<b>7,727</b>	-
Funds from operations	<b>166,165</b>	76,013	<b>469,672</b>	212,710
Funds from operations per basic share	<b>0.99</b>	0.46	<b>2.83</b>	1.29
Funds from operations per dilutive share	<b>0.96</b>	0.46	<b>2.76</b>	1.29

### Netback per MCFE and BOE

Netback” is a non-GAAP measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Peyto computes “field netback per mcf” as commodity sales from production less royalties, operating, and transportation expense divided by production and “cash netback” as “field netback” less interest and general and administration expense divided by production. Netbacks are per unit of production measures used to assess Peyto’s performance and efficiency. The primary factors that produce Peyto’s strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.

(\$/mcf)	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Gross Sale Price	<b>5.84</b>	2.75	<b>4.59</b>	2.23
Realized hedging gain (loss)	<b>(1.42)</b>	(0.04)	<b>(0.98)</b>	-
Net Sale Price	<b>4.42</b>	2.71	<b>3.61</b>	2.23
Less: Royalties	<b>0.53</b>	0.18	<b>0.37</b>	0.13
Operating costs	<b>0.32</b>	0.31	<b>0.34</b>	0.34
Transportation	<b>0.23</b>	0.15	<b>0.21</b>	0.17
Field netback	<b>3.34</b>	2.07	<b>2.69</b>	1.59
General and administrative	<b>0.02</b>	0.04	<b>0.03</b>	0.04
Interest on long-term debt	<b>0.22</b>	0.38	<b>0.30</b>	0.33
Cash netback (\$/mcf)	<b>3.10</b>	1.65	<b>2.36</b>	1.22
Cash netback (\$/boe)	<b>18.60</b>	9.90	<b>14.18</b>	7.30

### Payout Ratio

“Payout ratio” is a non-GAAP measure which is calculated as dividends declared divided by funds from operations. This ratio represents the percentage of dividends that is funded by cashflow. Management uses this measure, among others, to assess the sustainability of Peyto’s dividend.

	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Funds from operations (\$000)	<b>166,165</b>	76,013	<b>469,672</b>	212,710
Total dividends declared (\$000)	<b>16,779</b>	1,649	<b>21,758</b>	14,840
Total dividends per common share (\$)	<b>0.10</b>	0.01	<b>0.13</b>	0.09
Payout ratio (%)	<b>10</b>	2	<b>5</b>	7

### Return on Equity

Peyto calculates ROE, expressed as a percentage, as Earnings divided by the Equity. Peyto uses ROE as a measure of long-term financial performance, to measure how effectively Management utilizes the capital it has been provided by shareholders and to demonstrate to shareholders the returns generated over the long term.

### Return on Average Capital Employed

Peyto calculates ROCE, expressed as a percentage, as EBIT divided by Total Assets less Current Liabilities per the Financial Statements. Peyto uses ROCE as a measure of long-term financial performance, to measure how effectively Management utilizes the capital (debt and equity) it has been provided and to demonstrate to shareholders the returns generated over the long term.

## Total Payout Ratio

"Total payout ratio" is a non-GAAP measure which is calculated as the sum of dividends declared plus capital expenditures, divided by funds from operations. This ratio represents the percentage of the capital expenditures and dividends that is funded by cashflow. Management uses this measure, among others, to assess the sustainability of Peyto's dividend and capital program.

Year Ended December 31 (\$000 except per share amounts)	2021	2020	2019
Dividends Declared	21,758	14,840	39,570
Capital Expenditures	365,058	235,703	206,431
Funds from operations	469,672	212,710	323,131
Total payout ratio (%)	82	118	76

## Supplementary Financial Measures

"Diversification activities" are the costs of the basis and the gains/losses on the physical fixed price natural gas sales contracts divided the Company's natural gas production.

"DD&A expense per mcf and boe" is comprised of DD&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"Dividend as a per cent of funds from operations" is comprised of dividends declared, as determined in accordance with IFRS, divided by funds from operations.

"Dividends declared per share" is comprised of dividends declared, as determined in accordance with IFRS, divided by the number of shares outstanding at the dividend record date.

"Funds from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.

"Funds from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.

"G&A expense per mcf and boe" is comprised of G&A expense, as determined in accordance with IFRS, divided by the Company's total production.

"G&A expense before share-based compensation expense per mcf and boe" is comprised of G&A expense as determined in accordance with IFRS, excluding share-based compensation expense, divided by the Company's total production.

"Interest and financing expense per mcf and boe" is comprised of interest and financing expense, as determined in accordance with IFRS, divided by the Company's total production.

"Operating expense per mcf and boe" is comprised of operating expense, as determined in accordance with IFRS, divided by the Company's total production.

"Production per million common shares" is comprised of the Company's total production divided by the weighted average number of shares outstanding at the end of the period.

"Realized oil, condensate and pentanes plus price" is comprised of condensate commodity sales from production, as determined in accordance with IFRS, divided by the Company's condensate production.

"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"Realized NGLs price" is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production.

"Royalties as a percentage of commodity sales from production" is comprised of royalties, as determined in accordance with IFRS, divided by commodity sales from production as determined in accordance with IFRS.

"Royalties per mcf and boe" is comprised of royalties, as determined in accordance with IFRS, divided by the Company's total production.

"Sale price" is comprised of total commodity sales from production including hedging gains or losses, as determined in accordance with IFRS, divided by the Company's total production.

"Transportation expense per mcf and boe" is comprised of transportation expense, as determined in accordance with IFRS, divided by the Company's total production

## **GLOSSARY**

The following is a list of abbreviations that may be used in this MD&A:

### Measurement

bbl barrel

bbl/d barrels per day

Mbbl thousand barrels

MMbbl million barrels

boe (1) barrels of oil equivalent

boe/d (1) barrels of oil equivalent per day

Mboe (1) thousands of barrels of oil equivalent

MMboe (1) millions of barrels of oil equivalent

Mcf thousand cubic feet

Mcf/d thousand cubic feet per day

MMcf million cubic feet

MMcf/d million cubic feet per day

Bcf billion cubic feet

MMBtu million British thermal units

GJ gigajoule

## Quarterly information

	2021				2020
	Q4	Q3	Q2	Q1	Q4
<b>Operations</b>					
Production					
Natural gas (mcf/d)	517,606	473,008	458,696	455,593	433,226
Oil & NGLs (bbl/d)	11,038	11,164	12,289	12,138	11,256
Barrels of oil equivalent (boe/d @ 6:1)	97,306	89,998	88,738	88,070	83,461
Thousand cubic feet equivalent (mcf/d @ 6:1)	583,834	539,990	532,430	528,419	500,764
Liquid to gas ratio (bbl per mmcf)	21.3	23.6	26.8	26.6	26.0
Average product prices					
Natural gas (\$/mcf)	3.58	2.48	2.06	3.06	2.19
Oil & natural gas liquids (\$/bbl)	64.71	55.47	48.77	45.63	35.82
\$/mcf					
Average sale price (\$/mcf)	4.42	3.33	2.92	3.70	2.71
Average royalties paid (\$/mcf)	0.53	0.36	0.26	0.29	0.18
Average operating expenses (\$/mcf)	0.32	0.35	0.35	0.36	0.31
Average transportation costs (\$/mcf)	0.23	0.23	0.22	0.17	0.15
Field netback (\$/mcf) <sup>(3)</sup>	3.34	2.39	2.09	2.88	2.07
General & administrative expense (\$/mcf)	0.02	0.02	0.05	0.04	0.04
Interest expense (\$/mcf)	0.22	0.26	0.33	0.38	0.38
Cash netback (\$/mcf) <sup>(3)</sup>	3.10	2.11	1.71	2.46	1.65
<b>Financial (\$000 except per share)</b>					
Revenue and realized hedging gains (losses) <sup>(1)</sup>	236,360	164,777	140,457	175,327	124,524
Royalties	28,304	17,985	12,370	14,069	8,506
Funds from operations <sup>(2)</sup>	166,165	104,608	82,191	116,709	76,013
Funds from operations per share <sup>(3)</sup>	0.99	0.63	0.50	0.71	0.46
Funds from operations per diluted share <sup>(3)</sup>	0.96	0.62	0.50	0.71	0.46
Total dividends	16,779	1,671	1,658	1,651	1,649
Total dividends per share <sup>(3)</sup>	0.10	0.01	0.01	0.01	0.01
Payout ratio <sup>(3)</sup>	10%	2%	2%	1%	2%
Earnings (loss)	71,718	29,271	12,760	38,500	65,951
Earnings (loss) per share	0.43	0.18	0.08	0.23	0.40
Earnings (loss) per diluted share	0.42	0.17	0.08	0.23	0.40
Capital expenditures	108,951	90,170	57,086	108,851	68,250
Total payout ratio (%) <sup>(3)</sup>	76%	88%	71%	95%	92%
Weighted average shares outstanding (basic)	167,546,601	166,440,704	165,343,937	165,069,227	164,937,898
Weighted average shares outstanding (diluted)	172,582,450	169,512,566	168,635,872	167,255,237	164,955,645

(1) excludes revenue from sale of natural gas volumes from third-parties

(2) Non-GAAP measure that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. The most directly comparable GAAP measure for funds from operations is cash flow from operating activities. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A.

(3) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for an explanation of composition.

## Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

### Opinion

We have audited the consolidated financial statements of Peyto Exploration & Development Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2021. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

### ***Property, Plant and Equipment - Oil and gas properties - Refer to Notes 2 and 3 to the financial statements***

#### *Key Audit Matter Description*

The Company's property, plant and equipment includes oil and gas properties. Oil & gas properties are depleted using the unit-of-production basis ("depletion") based on total estimated proved plus probable oil and natural gas reserves. The Company engages an independent reservoir engineer to estimate oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's proved plus probable oil and natural gas reserves used to determine depletion requires management to make significant estimates and assumptions related to future oil and natural gas prices, reserves, and future operating and development costs.

Given the significant judgments made by management related to future oil and natural gas prices, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgement in applying audit procedures and in evaluating the results of those procedures.

#### *How the Key Audit Matter Was Addressed in the Audit*

Our audit procedures related to future oil and natural gas prices, reserves, and future operating and development costs used to determine depletion included the following, among others:

- Evaluated future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.
- Evaluated the Company's independent reservoir engineer by examining reports and assessing their scope of work and findings and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.
- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

#### **Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

#### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants  
Calgary, Alberta  
March 9, 2022

# Peyto Exploration & Development Corp.

## Consolidated Balance Sheets

(Amounts in \$ thousands)

	December 31 2021	December 31 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash	5,718	9,310
Accounts receivable (Note 12)	118,948	56,445
Prepaid expenses	19,704	16,896
	<b>144,370</b>	82,651
Long-term derivative financial instruments (Note 14)	-	6,475
Property, plant and equipment, net (Note 3)	3,639,825	3,511,931
	<b>3,639,825</b>	3,518,406
	<b>3,784,195</b>	3,601,057
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	168,998	87,342
Dividends payable (Note 7)	8,408	1,649
Current portion of lease obligation (Note 6)	1,123	1,107
Derivative financial instruments (Note 14)	61,091	4,962
	<b>239,620</b>	95,060
Long-term debt (Note 4)	1,065,712	1,170,000
Long-term derivative financial instruments (Note 14)	12,280	-
Decommissioning provision (Note 5)	204,220	182,456
Lease obligation (Note 6)	5,440	6,563
Deferred income taxes (Note 13)	490,917	469,505
	<b>1,778,569</b>	1,828,524
<b>Equity</b>		
Shareholders' capital (Note 7)	1,664,508	1,649,635
Contributed surplus (Note 11)	13,123	10,487
Retained earnings	143,217	12,727
Accumulated other comprehensive income (loss)	(54,842)	4,624
	<b>1,766,006</b>	1,677,473
	<b>3,784,195</b>	3,601,057

Approved by the Board of Directors

(signed) "Michael MacBean"  
Director

(signed) "Darren Gee"  
Director



# Peyto Exploration & Development Corp.

## Consolidated Income Statements

(Amounts in \$ thousands)

	Year ended December 31	
	2021	2020
<b>Revenue</b>		
Natural gas and natural gas liquid sales <i>(Note 12)</i>	911,981	388,930
Royalties	(73,091)	(22,014)
Sales of natural gas from third parties	-	11,060
Natural gas and natural gas liquid sales, net of royalties	<b>838,890</b>	377,976
Realized (loss) gain on derivative financial instruments <i>(Note 14)</i>	(195,059)	51
Unrealized (loss) gain derivative financial instruments <i>(Note 14)</i>	2,345	(2,345)
Other income	1,536	259
<b>Total revenue, other income, and derivative financial instruments</b>	<b>647,712</b>	375,941
<b>Expenses</b>		
Natural gas purchased from third parties	-	10,338
Operating <i>(Note 8)</i>	67,963	60,636
Transportation	42,544	29,002
General and administrative	6,171	6,729
Performance based compensation <i>(Note 10)</i>	7,727	-
Stock based compensation <i>(Note 11)</i>	5,975	6,080
Interest <i>(Note 9)</i>	59,017	58,871
Unrealized loss on foreign exchange	1,176	-
Accretion of decommissioning provision <i>(Note 5)</i>	3,932	3,372
Loss (gain) on disposition of capital assets	(1,509)	1,871
Depletion, depreciation, and impairment <i>(Note 3)</i>	263,293	243,380
	<b>456,289</b>	420,279
<b>Earnings (loss) before taxes</b>	<b>191,423</b>	(44,338)
<b>Income tax</b>		
Deferred income tax (recovery) <i>(Note 13)</i>	39,175	(8,783)
<b>Earnings (loss) for the year</b>	<b>152,248</b>	(35,555)
<b>Earnings (loss) per share</b> <i>(Note 7)</i>		
<b>Basic</b>	<b>\$0.92</b>	(\$0.22)
<b>Diluted</b>	<b>\$0.89</b>	(\$0.22)
<b>Weighted average number of common shares outstanding</b> <i>(Note 7)</i>		
Basic	<b>166,107,837</b>	164,894,920
Diluted	<b>170,137,599</b>	164,894,920

**Peyto Exploration & Development Corp.**  
**Consolidated Statements of Comprehensive Income**

(Amounts in \$ thousands)

	<b>Year ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>Earnings for the year</b>	<b>152,248</b>	<b>(35,555)</b>
<b>Other comprehensive income</b>		
Change in unrealized gain (loss) on derivative financial instruments	(258,517)	6,476
Deferred tax (expense) recovery	17,764	(2,288)
Realized loss (gain) on derivative financial instruments	181,287	3,472
<b>Comprehensive (loss) Income</b>	<b>92,782</b>	<b>(27,895)</b>

# Peyto Exploration & Development Corp.

## Consolidated Statements of Changes in Equity

(Amounts in \$ thousands)

	Year ended December 31	
	2021	2020
<b>Shareholders' capital, Beginning of Year</b>	<b>1,649,635</b>	1,649,369
Common shares issued under stock option plan	14,873	266
<b>Shareholders' capital, End of Year</b>	<b>1,664,508</b>	1,649,635
<b>Contributed surplus, Beginning of Year</b>	<b>10,487</b>	4,462
Stock-based compensation expense	5,975	6,080
Recognized under stock-based compensation plans	(3,339)	(55)
<b>Contributed surplus, End of Year</b>	<b>13,123</b>	10,487
<b>Retained earnings (deficit), Beginning of Year</b>	<b>12,727</b>	63,122
Earnings for the year	152,248	(35,555)
Dividends ( <i>Note 7</i> )	(21,758)	(14,840)
<b>Retained earnings (deficit), End of Year</b>	<b>143,217</b>	12,727
<b>Accumulated other comprehensive income (loss), Beginning of Year</b>	<b>4,624</b>	(3,036)
Other comprehensive income (loss)	(59,466)	7,660
<b>Accumulated other comprehensive income (loss), End of Year</b>	<b>(54,842)</b>	4,624
<b>Total Equity</b>	<b>1,766,006</b>	1,677,473

# Peyto Exploration & Development Corp.

## Consolidated Statements of Cash Flows

(Amounts in \$ thousands)

	Year ended December 31	
	2021	2020
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Earnings (loss)	152,248	(35,555)
Items not requiring cash:		
Deferred income tax (recovery)	39,175	(8,783)
Depletion and depreciation, and impairment	263,293	243,380
Loss (gain) on disposition of capital assets	(1,509)	1,871
Unrealized loss on foreign exchange	1,176	-
Accretion of decommissioning provision	3,932	3,372
Stock-based compensation	5,975	6,080
Unrealized loss (gain) on derivative financial instruments	(2,345)	2,345
Change in non-cash working capital related to operating activities	(4,071)	(9,657)
	<b>457,874</b>	<b>203,053</b>
<b>Financing activities</b>		
Common shares issued under stock option plan	11,535	211
Cash dividends paid	(15,000)	(16,488)
Lease interest ( <i>Note 6</i> )	247	286
Principal repayment of lease ( <i>Note 6</i> )	(1,354)	(1,354)
Repayment of bank debt	(105,000)	50,000
Repayment of senior notes	(50,000)	-
Issuance of senior notes	49,537	-
	<b>(110,035)</b>	<b>32,655</b>
<b>Investing activities</b>		
Additions to property, plant and equipment	(365,058)	(235,703)
Change in prepaid capital	(4,310)	10,477
Change in non-cash working capital relating to investing activities	17,937	(7,357)
	<b>(351,431)</b>	<b>(232,583)</b>
<b>Net increase in cash</b>	<b>(3,592)</b>	<b>3,125</b>
<b>Cash, beginning of year</b>	<b>9,310</b>	<b>6,185</b>
<b>Cash, end of year</b>	<b>5,718</b>	<b>9,310</b>

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

Cash interest paid	<b>58,905</b>	59,994
Cash taxes paid	-	-

# **Peyto Exploration & Development Corp.**

## **Notes to Consolidated Financial Statements**

**As at December 31, 2021 and 2020**

(Amounts in \$ thousands, except as otherwise noted)

### **1. Nature of operations**

Peyto Exploration & Development Corp and its subsidiary (together “Peyto” or the “Company”) is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 300, 600 – 3<sup>rd</sup> Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 9, 2022.

### **2. Basis of presentation**

These consolidated financial statements (“consolidated financial statements”) as at and for the years ended December 31, 2021 and December 31, 2020 represent the Company’s results and financial position in accordance with International Financial Reporting Standards (“IFRS”).

#### **a) Summary of significant accounting policies**

The precise determination of many assets and liabilities is dependent upon future events and the preparation of periodic consolidated financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The consolidated financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company’s basis of presentation as disclosed.

#### **b) Significant accounting estimates and judgements**

The timely preparation of the consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Climate change and the evolving worldwide demand for alternative sources of energy that are not sourced from fossil fuels could result in a change in assumptions used in determining the recoverable amount and could affect the carrying value of the related assets. As these issues become more of a regulatory focus by governments, future financial performance may be impacted. This also presents uncertainty and risk with respect to the Company, its performance and estimates and assumptions. The timing in which global energy markets transition from carbon based sources to alternative energy or when new regulatory practices may be implemented is highly uncertain. Changes to assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

#### **Depletion and Recoverability of oil & gas properties**

Depletion, reserve-based bonus and recoverability of oil & gas properties are based on estimates of proved plus probable reserves and future development costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and production costs, required capital expenditures and the related future cash flows are subject to measurement uncertainty, and the impact in the consolidated financial statements of future periods could be material.

The recoverability of oil & gas properties carrying values is assessed at the CGU level. The determination of cash generating units (“CGU”) requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU are determined by, shared infrastructure, commodity type, similar exposure to market risks and materiality.

In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. Management has determined that Peyto's asset base represents one CGU. The properties contained in the CGU are in close proximity to each other, with similar cost structure and marketing arrangements. Peyto applies information on estimates of future commodity prices, expected production volumes, quantity of reserves and resources, future development costs, future operating costs, discount rates and income taxes when determining an acceptable range of recoverable amounts.

Oil & gas properties are reviewed for impairment at a CGU level quarterly or when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal ("FVLCD") or its value in use ("VIU"). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCD is the amount that would be realized from the disposition of an asset or CGU in an arm's length transaction between knowledgeable and willing parties. FVLCD is based on the discounted after-tax cash flows of reserves using forward prices and costs, consistent with Company's independent qualified reserves evaluators and may consider an evaluation of comparable asset transactions.

Key estimates used in determining cash flows from the Company's reserves include:

- Reserves- Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Crude oil and natural gas prices- Forward price estimates are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate- The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

#### **Decommissioning provision**

Decommissioning provision is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

#### **Derivative financial instruments**

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities is reliant upon forward prices. Any change in the forward price curves could result in a change to the estimated valuation of the instruments.

#### **Stock-based compensation**

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

#### **Income Taxes**

Tax regulations and legislation are subject to change and differing interpretations requiring management judgement. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgement. Deferred tax liabilities are recognized when it is considered probable that the tax on temporary differences will be payable to tax authorities in future periods, which requires management judgement. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the regulations and legislation may result in a material increase or decrease in Company's provision for income taxes.

**c) Presentation currency**

All amounts in these consolidated financial statements are expressed in Canadian dollars, as this is the functional and presentation currency of the Company.

**d) Cash Equivalents**

Cash equivalents include term deposits or a similar type of instrument, with a maturity of three months or less when purchased.

**e) Jointly controlled operations and assets**

Certain activities of the Company are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of Peyto reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

Processing and gathering recoveries related to joint operations reduces operating expenses.

**f) Exploration and evaluation assets**

**Pre-license costs**

Costs incurred prior to obtaining the legal right to explore for hydrocarbon resources are expensed in the period in which they are incurred. The Company has no pre-license costs.

**Exploration and evaluation costs**

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. All such costs are subject to technical feasibility, commercial viability and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. The Company has no exploration or evaluation assets.

**g) Property, plant and equipment**

All property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment charges.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning provision and borrowing costs for qualifying assets. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Costs include expenditures on the construction, installation or completion of infrastructure such as well sites, pipelines and facilities including activities such as drilling, completion and tie-in costs, equipment and installation costs, associated geological and human resource costs, including unsuccessful development or delineation wells.

**Oil and natural gas asset swaps**

For exchanges or parts of exchanges that involve assets, the exchange is accounted for at fair value. Assets are then de-recognized at their current carrying amount.

**Depletion and depreciation**

Oil and natural gas properties are depleted on a unit-of-production basis over proved plus probable reserves. All costs related to oil and natural gas properties (net of salvage value) and estimated costs of future development of proved plus probable undeveloped reserves are depleted using the unit-of-production method based on proved plus probable reserves as determined by independent reservoir engineers. For purposes of the depletion calculation, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Gas processing facilities are depreciated using a declining balance method over useful life of 20 years.

**h) Corporate assets**

Corporate assets not related to oil and natural gas exploration and development activities are recorded at historical costs and depreciated over their useful life. These assets are not significant or material in nature.

**i) Impairment of non-financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of fair value less costs to sell or value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of a CGU. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a after- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Impairment charges of continuing operations are recognized in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment charges may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depletion, had no impairment charge been recognized for the asset in prior years.

**j) Lease obligations and right of use assets**

A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset ("ROU") is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Peyto does not recognize leases for short-term leases with a lease term of 12 months or less, or leases for low-value assets.

ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on lease assets is recognized in depletion, depreciation, and amortization expense.

**k) Financial instruments**

The Company has classified each financial instrument into the following categories: "Amortized Cost, Fair Value through Other Comprehensive Income and Fair Value through Profit and Loss". On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

The Company has made the following classifications:

<b>Financial Assets &amp; Liabilities</b>	<b>Category</b>
Cash	Fair value through profit or loss
Accounts Receivable	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Dividends Payable	Amortized cost
Long Term Debt	Amortized cost
Derivative Financial Instruments (non-hedged)	Fair value through profit or loss ("FVTPL")
Derivative Financial Instruments (hedged)	Fair value through other comprehensive income ("FVOCI")



### **Impairment of Financial Assets**

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivable are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Peyto and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized in the statements of income.

### **Derivative financial instruments**

Derivative financial instruments are utilized by the Company to manage economic risk to market risk against volatility in commodity prices. All derivative financial instruments are initiated within the guidelines of the Company's risk management policy. This includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company's policy is not to utilize derivative instruments for speculative purposes. The estimated fair value of all derivative financial instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

All derivative financial instruments, other than those designated as effective hedging instruments, are classified as FVTPL and are recorded at fair value. Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded in the consolidated balance sheets as either an asset or liability with changes in fair value recognized in earnings (loss) as unrealized gain or loss on derivative financial instruments. Realized gains and losses on these instruments are recorded in the consolidated income statements in the period they occur. Derivative instruments that have been designated as effective hedging instruments are further classified as either fair value or cash flow hedges (see "Hedging").

### **Embedded derivatives**

An embedded derivative is a component of a contract that causes some of the cash flows of the combined instrument to vary in a way similar to a stand-alone derivative. This causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable, such as interest rate, financial instrument price, commodity price, foreign exchange rate, a credit rating or credit index, or other variables to be treated as a financial derivative. The Company has no contracts containing embedded derivatives.

### **Normal purchase or sale exemption**

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 *Financial Instruments: Presentation* ("IAS 32"), which is known as the 'normal purchase or sale exemption'. The Company recognizes such contracts in its balance sheet only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

## **1) Hedging**

At the inception of a derivative transaction, if the Company elects to use hedge accounting, formal designation and documentation is required. The documentation must include: identification of the hedged item or transaction, the hedging instrument, the nature of the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item.

A hedge is assessed at inception and at the end of each reporting period to ensure that it is highly effective in offsetting changes in fair values or cash flows of the hedged item. For a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in net loss with the offsetting gain or loss on the hedged item. When fair value hedge accounting is discontinued, the carrying amount of the hedging instrument is deferred and amortized to net loss over the remaining maturity of the hedged item.

For a cash flow hedge, the effective portion of the gain or loss is recorded in other comprehensive income. Any hedge or portion of a hedge that is ineffective is immediately recognized in net loss. Hedge accounting is discontinued on a prospective basis when the hedging relationship no longer qualifies for hedge accounting. Any gain or loss on the hedging instrument resulting from the discontinuation of a cash flow hedge is deferred in other comprehensive income until the forecasted transaction date. If the forecasted transaction date is no longer expected to occur, the gain or loss is recognized in net loss in the period of discontinuation.

The Company has chosen to designate its existing derivative financial instruments as cash flow hedges.

**m) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost of producing oil and natural gas is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

**n) Provisions**

**General**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

**Decommissioning provision**

Decommissioning provision is recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a risk-free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment.

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

**o) Taxes**

**Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in Canada.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

#### **Deferred income tax**

The Company follows the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. Deferred income tax assets are only recognized to the extent it is probable that sufficient future taxable income will be available to allow the deferred income tax asset to be realized. Accumulated deferred income tax balances are adjusted to reflect changes in income tax rates that are enacted or substantively enacted with the adjustment being recognized in earnings in the period that the change occurs, except for items recognized in equity.

#### **p) Revenue recognition**

Revenue associated with the sale of natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Peyto satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession.

Peyto principally satisfies its performance obligations at a point in time. Joint venture partners are not considered customers and therefore processing and gathering recoveries related to joint operations are netted against operating expenses.

At times, Peyto may purchase commodity products from third parties to fulfill sales commitments; Peyto subsequently sells these products to its customers. These transactions are presented as sales and purchases of natural gas from third parties on the statements of income.

#### **q) Gains and losses on disposition**

For all dispositions, either through sale or exchange, gains and losses are calculated as the difference between the sale or exchange value in the transaction and the carrying amount of the assets disposed. Gains and losses on disposition are recognized in earnings in the same period as the transaction date.

#### **r) Borrowing costs**

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are substantially ready for their intended use, which is when they are capable of commercial production. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

#### **s) Share-based payments**

Peyto has three share-based plans: market-based bonus, stock options and deferred share units. Each share-based compensation plan is equity-settled. Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

The Black Scholes model is used to value the equity settled awards. The model incorporates the period-end share price, expected life, dividends, volatility, discount rate and managements estimate around forfeitures.

#### **t) Earnings per share**

Basic earnings per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive common shares related to the Company's share-based compensation plans which could have a dilutive impact on earnings during the year. The number of shares included is computed using the treasury stock method, whereby the common shares are assumed to be purchased at the average market price.

**u) Share capital**

Common shares are classified within equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from Share capital.

**v) Government Grants**

Government grants are recognized when there is reasonable assurance that Peyto will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statements of income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

**3. Property, plant and equipment**

Cost	
<b>At December 31, 2019</b>	<b>5,910,267</b>
Additions	234,621
Decommissioning provision additions	13,571
Prepaid capital	(10,447)
<b>At December 31, 2020</b>	<b>6,148,012</b>
Additions	367,483
Decommissioning provision additions	17,832
Prepaid capital	4,310
<b>At December 31, 2021</b>	<b>6,537,637</b>
Accumulated depletion and depreciation	
<b>At December 31, 2019</b>	<b>(2,393,352)</b>
Depletion and depreciation	(239,129)
Impairment	(79,700)
Impairment recovery, net of depletion	76,100
<b>At December 31, 2020</b>	<b>(2,636,081)</b>
Depletion and depreciation	(261,731)
<b>At December 31, 2021</b>	<b>(2,897,812)</b>
Carrying amount at December 31, 2020	3,511,931
<b>Carrying amount at December 31, 2021</b>	<b>3,639,825</b>

During 2021 Peyto capitalized \$9.2 million (2020- \$7.4 million) of general and administrative expense directly attributable to exploration and development activities.

During the period ended March 31, 2020 Peyto recorded an impairment of \$79.7 million (\$61.4 million net of deferred tax expense). At December 31, 2020 due to the increase in the outlook of future oil and natural gas prices as well as an increase in the market capitalization since March 31, 2020 indicators of impairment reversal were identified. A recovery of \$76.1 million net of depletion was recognized as depletion, depreciation and impairment. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital of 10 per cent after tax.

The benchmark prices used in the Company's forecast at March 31, 2020 are as follows

	2020	2021	2022	2023	2024	2025	2026
AECO natural gas (Cdn\$/MMBtu)	1.90	2.26	2.38	2.47	2.55	2.63	2.69
	2020	2021	2022	2023	2024	2025	2026
Henry Hub (US\$/MMBtu)	2.10	2.60	2.80	2.90	3.00	3.10	3.16
Cdn\$/US\$ <sup>(1)</sup>	0.71	0.73	0.75	0.75	0.75	0.75	0.75
	2020	2021	2022	2023	2024	2025	2026
WTI (US\$/BBL)	31.00	42.00	50.00	55.00	58.00	59.16	60.34
Cdn\$/US\$ <sup>(1)</sup>	0.71	0.73	0.75	0.75	0.75	0.75	0.75

<sup>(1)</sup> Source: Insite Petroleum Consultants Ltd. price forecast, effective March 31, 2020.

Prices subsequent to 2026 have been adjusted for estimated annual inflation of 2%.

At December 31, 2021, the Company identified no indicators of impairment and therefore a test was not performed.

On February 1, 2021, the Company acquired assets in the Deep Basin for cash consideration of \$35.0 million. The acquisition resulted in an increase in PP&E of approximately \$48.0 million including \$13 million in decommissioning liabilities. The assets acquired include a working interest in production, reserves and a gas processing facility. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

On March 5, 2021, the Company acquired assets in the Deep Basin for cash consideration of \$0.75 million. The acquisition resulted in an increase in PP&E of approximately \$1.5 million including \$0.75 million in decommissioning liabilities. The assets acquired include a working interest in production and reserves. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

#### 4. Current and long-term debt

	December 31, 2021	December 31, 2020
Bank credit facility	650,000	755,000
Long-term senior Secured notes	415,712	415,000
<b>Balance, end of the year</b>	<b>1,065,712</b>	<b>1,170,000</b>

On November 5, 2021, the Company finalized an agreement with its syndicate of lenders and term debt note holders to amend and extend its \$950 million senior secured covenant-based credit facility and note purchase agreements. This new facility has a maturity date of October 13, 2023, is made up of a \$40 million working capital tranche, a \$910 million production line, and is available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 175 basis points and 365 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 35 to 73 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 4.0 times trailing twelve-month net income before non-cash items, interest and income taxes;
- Long-term debt plus bank overdraft and letters of credit not to exceed 3.5 times trailing twelve-month net income before non-cash items, interest and income taxes.
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense.

Outstanding senior notes are as follows:

Senior Secured Notes	Date Issued	Rate	Maturity Date
\$100 million (CAD)	October 24, 2016	3.70%	October 24, 2023
\$65 million (CAD)	May 1, 2015	4.26%	May 1, 2025
\$100 million (CAD)	January 3, 2012	4.39%	January 3, 2026
\$100 million (CAD)	January 2, 2018	3.95%	January 2, 2028
\$40 million (USD)	October 29, 2021	3.98%	October 29, 2028

On October 29, 2021, Peyto has issued USD\$40 million of senior secured notes. The notes have a coupon rate of 3.98% and mature on October 29, 2028. The notes have been issued by way of a private placement pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. Interest will be paid semi-annually in arrears. Proceeds from the notes have been used to repay the CDN \$50 million, 4.88% notes that was due September 6, 2022.

Peyto is in compliance with all financial covenants at December 31, 2021.

Total interest expense for 2020 was \$59.0 million (2020 - \$58.9 million) and the weighted average borrowing rate for 2020 was 5.2% (2020 - 5.1%).

## 5. Decommissioning provision

The Company makes provision for the future cost of decommissioning wells and facilities on a discounted basis based on the timing of abandonment and reclamation of these assets.

The Company has estimated the net present value of its total decommissioning provision to be \$204.2 million as at December 31, 2021 (2020 - \$182.5 million) based on a total escalated future undiscounted liability of \$374.3 million (2020 - \$337.3 million). At December 31, 2021 management estimates that these payments are expected to be made over the next 50 years (2020 - 50 years) with the majority of payments being made in years 2024 to 2072. The Bank of Canada's long-term bond rate of 2.00 per cent (2020 - 2.00 per cent) and an inflation rate of 2.0 per cent (2020 - 2.0 per cent) were used to calculate the present value of the decommissioning provision.

The following table reconciles the change in decommissioning provision:

<b>Balance, December 31, 2019</b>	<b>165,513</b>
New or increased provisions	5,265
Accretion of discount	3,372
Change in discount rate and estimates	8,306
<b>Balance, December 31, 2020</b>	<b>182,456</b>
New or increased provisions	21,177
Accretion of discount	3,932
Change in discount rate and estimates	(3,345)
<b>Balance, December 31, 2021</b>	<b>204,220</b>
Current	-
Non-current	<b>204,220</b>

## 6. Leases

The ROU asset and lease obligation recognized at January 1, 2019 relates to the Company's head office lease in Calgary.

### Right of use Asset

<b>Balance as at December 31, 2020</b>	<b>6,052</b>
Depreciation	(1,009)
<b>Balance at December 31, 2021</b>	<b>5,043</b>

The ROU asset is included in Property plant & equipment, refer to Note 3.

### Lease Obligation

<b>Lease obligation at December 31, 2020</b>	<b>7,670</b>
Lease interest expense	247
Principal repayment of lease	(1,354)
<b>Lease obligation at December 31, 2021</b>	<b>6,563</b>
Current portion of lease obligation at December 31, 2021	<b>1,123</b>
Non-current portion of lease obligation at December 31, 2021	<b>5,440</b>

The variable lease payments not included in the measurement of the office lease obligation is \$0.8 million for the period ended December 31, 2021. The variable lease payments are recognized through general and administration expense.

During the period ended December 31, 2021, \$23.6 million (2020- \$19.0 million) was recorded in property, plant, and equipment in relation to short-term leases.

The following sets forth future commitments associated with its lease obligation:

	<b>As at December 31, 2021</b>
Less than 1 year	1,428
1-3 years	4,286
4 years	1,429
Total lease payment	7,143
Amount representing interest	(580)
Present value of lease payments	6,563
Current portion of lease obligation	1,123
Non-current portion of lease obligation	5,440

## 7. Equity

### Share capital

**Authorized:** Unlimited number of voting common shares

### Issued and Outstanding

	<b>Number of Common Shares</b>	<b>Amount \$</b>
<b>Common Shares (no par value)</b>		
<b>Balance, December 31, 2019</b>	<b>164,874,175</b>	<b>1,649,369</b>
Common shares issued	66,800	266
<b>Balance, December 31, 2020</b>	<b>164,940,975</b>	<b>1,649,635</b>
Common shares issued	3,210,244	14,873
<b>Balance, December 31, 2021</b>	<b>168,151,219</b>	<b>1,664,508</b>

## Per share amounts

Basic and dilutive earnings per share have been calculated based upon the weighted average number of basic common shares outstanding.

	As at December 31	
	2021	2020
Weighted average common shares basic	166,107,837	164,894,920
Weighted average common shares diluted	170,137,599	164,895,698

## Dividends

During the year ended December 31, 2021, Peyto declared dividends of \$21.8 million (2020 - \$14.8 million). a

Dividends declared	2021	2020
January	-	0.02
February	-	0.02
March	0.01	0.02
April	-	-
May	-	-
June	0.01	0.01
July	-	-
August	-	-
September	0.01	0.01
October	-	-
November	0.05	-
December	0.05	0.01
<b>Total</b>	<b>\$0.13</b>	<b>\$0.09</b>

## 8. Operating expenses

The Company's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering recoveries related to jointly owned production reduces gross field expenses to Peyto's operating expenses.

	Years ended December 31	
	2021	2020
Gross field expenses	77,759	67,985
Cost recoveries related to processing and gathering of partner production	(9,796)	(7,349)
<b>Total operating expenses</b>	<b>67,963</b>	<b>60,636</b>

## 9. Interest expense

	Years ended December 31	
	2021	2020
Interest expense	59,017	59,871
Capitalized interest	-	(1,000)
	<b>59,017</b>	<b>58,871</b>



## 10. Performance-based compensation

### Reserve value-based bonus

The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative costs and interest, of proved producing reserves calculated using a realized price at December 31 of the current year and a discount rate of 8%. The company recognized \$7.7 million for 2021 (2020 - \$nil).

## 11. Stock-based compensation

In 2019, the Company adopted a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. In addition, the shareholders of the Company approved the issuance of common shares to fulfill the Company's obligation under previously granted rights pursuant to its market-based bonus plan, as a transition between the market-based bonus and the newly adopted stock option plan. The stock option plan replaced the market-based bonus plan on a go forward basis. These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

### Equity compensation arrangements

The following tables summarize the Company's equity compensation arrangements:

		Weighted Average Exercise price \$	Weighted Average Remaining Contractual life- Years
Stock options	9,173,137	5.05	1.19
DSU	176,669	3.06	3.60

### Market based bonus plan

The following tables summarize the rights outstanding under the market-based bonus plan at December 31, 2021:

		Weighted average exercise price \$
<b>Balance, December 31, 2020</b>	<b>726,200</b>	<b>6.77</b>
Rights under market-based bonus plan granted	(705,967)	6.77
Forfeited	(20,233)	(6.77)
<b>Balance, December 31, 2021</b>	<b>-</b>	<b>-</b>

### Stock option plans

The following tables summarize the stock options outstanding at December 31, 2021:

		Weighted average exercise price \$
<b>Balance, December 31, 2020</b>	<b>7,934,202</b>	<b>3.50</b>
Stock options granted	4,818,720	6.52
Exercised	(3,210,244)	3.59
Forfeited	(232,199)	3.47
Expired	(137,342)	3.70
<b>Balance, December 31, 2021</b>	<b>9,137,137</b>	<b>5.05</b>

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the period ended December 31, 2021, the weighted-average fair value per option was \$1.19. The following tables summarize the assumptions used in the Black-Scholes model:

	<b>December 31, 2021</b>
Share price	\$2.87
Exercise price	\$2.87
Expected volatility	57.59%
Average option life	2 year
Risk-free interest rate	1.10%
Forfeiture rate	0.17%

Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

At December 31, 2021, no stock options are exercisable.

The following tables summarize the DSU's outstanding at December 31, 2021:

		<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2020</b>	<b>107,874</b>	<b>1.48</b>
DSU granted	68,795	5.37
<b>Balance December 31, 2021</b>	<b>176,669</b>	<b>3.60</b>

## 12. Revenue and receivables

Peyto derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

	<b>Years ended December 31</b>	
	<b>2021</b>	2020
Natural gas sales	648,775	261,754
Natural gas liquid sales	263,206	127,176
<b>Natural gas and natural gas liquid sales</b>	<b>911,981</b>	<b>388,930</b>
	<b>December 31,</b>	December 31,
	<b>2021</b>	2020
Accounts receivable from customers	106,831	52,519
Accounts receivable from realized derivative financial instruments	3,481	766
Accounts receivable from joint venture partners and other	8,636	3,160
<b>Accounts Receivable</b>	<b>118,948</b>	<b>56,445</b>

### 13. Income taxes

	<b>2021</b>	<b>2020</b>
Earnings before income taxes	<b>191,423</b>	(44,338)
Statutory income tax rate	23.00%	24.00%
Expected income taxes	44,027	(10,641)
Increase (decrease) in income taxes from:		
True-up tax pools	(4,735)	65
Rate change	(31)	681
Other	(86)	1,112
<b>Total income tax (recovery) expense</b>	<b>39,175</b>	<b>(8,783)</b>
Deferred income tax expense	<b>39,175</b>	(8,783)
Current income tax expense	-	-
<b>Total income tax expense</b>	<b>39,175</b>	<b>(8,738)</b>
Differences between tax base and reported amounts for depreciable assets	<b>(581,525)</b>	(564,611)
Derivative financial instruments	<b>16,875</b>	(887)
Share issuance costs	<b>21</b>	35
Performance based bonuses	<b>1,645</b>	-
Provision for decommission provision	<b>46,971</b>	41,965
Charitable donations	-	28
Tax loss carry-forwards recognized	<b>25,096</b>	53,965
<b>Deferred income taxes</b>	<b>490,917</b>	<b>(469,505)</b>

At December 31, 2021, the Company has tax pools of approximately \$1,169.0 million (2020 - \$1,236.7 million) available for deduction against future income.

### 14. Financial instruments

#### Financial instrument classification and measurement

Financial instruments of the Company carried on the balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at December 31, 2021 except for derivative financial instruments.

The fair value of the Company's cash and derivative financial instruments are quoted in active markets. The Company classifies the fair value of these transactions according to the following hierarchy.

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company's cash and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

#### Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, dividend payable, long term debt and derivative financial instruments. At December 31, 2021 and 2020, cash and derivative financial instruments, are carried at fair value. Accounts receivable and current liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

#### Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk

management is to manage and control exposures within acceptable limits, while maximizing returns. The Company's objectives, processes and policies for managing market risks have not changed from the previous year.

## Commodity price risk management

### Financial derivative instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these contracts with well-established counterparties for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of petroleum and natural gas prices. The Company believes the derivative financial instruments that do apply hedge accounting are effective, both at inception and over the term of the instrument, as the term and notional amount do not exceed the Company's firm commitment or forecasted transactions and the underlying basis of the instruments correlate highly with the Company's exposure.

Following is a summary of all derivative financial instruments in place at December 31, 2021:

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged- Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
November 1, 2021 to March 31, 2022	Fixed Price	125,000 GJ	\$2.55 to \$4.26
April 1, 2022 to October 31, 2022	Fixed Price	115,000 GJ	\$2.07 to \$2.26
November 1, 2022 to March 31, 2023	Fixed Price	190,000 GJ	\$2.30 to \$4.03
April 1, 2023 to October 31, 2023	Fixed Price	180,000 GJ	\$2.05 to \$3.00

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2020 to March 31, 2022	Fixed Price	20,000 mmbtu	\$2.28
November 1, 2021 to March 31, 2022	Fixed Price	87,500 mmbtu	\$2.86 to \$5.98
April 1, 2022 to October 31, 2022	Fixed Price	45,000 mmbtu	\$2.56 to \$4.19
November 1, 2022 to December 31, 2022	Fixed Price	35,000 mmbtu	\$3.97 to \$4.35
November 1, 2022 to March 31, 2023	Fixed Price	40,000 mmbtu	\$4.05 to \$4.31
January 1, 2023 to December 31, 2023	Fixed Price	25,000 mmbtu	\$3.42 to \$3.55

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - Malin</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2021 to March 31, 2022	Fixed Price	15,000 mmbtu	\$3.21 to \$3.30
April 1, 2022 to October 31, 2022	Fixed Price	40,000 mmbtu	\$2.35 to \$2.40
November 1, 2022, to March 31, 2023	Fixed Price	40,000 mmbtu	\$2.90 to \$3.10

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
January 1, 2022 to March 31, 2022	Fixed Price	800 bbl	\$58.65 to \$65.25
January 1, 2022 to December 31, 2022	Fixed Price	300 bbl	\$63.75 to \$64.65
April 1, 2022 to June 30, 2022	Fixed Price	300 bbl	\$62.10 to \$64.00

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI CDN/bbl)</b>
January 1, 2022 to March 31, 2022	Fixed Price	2,400 bbl	\$85.65 to \$98.35
January 1, 2022 to June 30, 2022	Fixed Price	600 bbl	\$83.45 to \$90.50
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	\$79.75 to \$85.50
April 1, 2022 to June 30, 2022	Fixed Price	1,000 bbl	\$89.50 to \$95.00
July 1, 2022 to December 31, 2022	Fixed Price	800 bbl	\$87.75 to \$92.00
January 1, 2023 to March 31, 2023	Fixed Price	100 bbl	\$85.25

<b>Propane Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (USD/bbl)</b>
April 1, 2021, to March 31, 2022	Fixed Price	250 bbl	\$26.36
October 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$25.41

As at December 31, 2021, Peyto had committed to the future sale of 103,070,000 gigajoules (GJ) of natural gas at an average price of \$2.67 per GJ or \$3.08 per mcf, 37,675,000 mmbtu at an average price of \$3.60 US per mmbtu, 208,800 barrels of crude at an average price of \$63.17 USD per bbl, 900,300 barrels of crude at an average price of \$88.27 CAD per bbl and 45,000 barrels of propane at an average price of \$25.88 USD per bbl. Had these contracts closed on December 31, 2021, Peyto would have realized a loss in the amount of \$73.4 million. If the gas price on September 30, 2021, were to increase by \$0.10/GJ, the unrealized loss would increase by approximately \$27.7 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to December 31, 2021, Peyto entered into the following contracts:

<b>Natural Gas Period Hedged – Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (AECO CAD)</b>
November 1, 2022 to March 31, 2023	Fixed Price	5,000 GJ	\$3.77

<b>Natural Gas Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (Nymex USD/mmbtu)</b>
April 1, 2022 to October 31, 2022	Fixed Price	5,000 mmbtu	\$3.80
November 1, 2022 to December 31, 2022	Fixed Price	35,000 mmbtu	\$4.00 to \$4.78
November 1, 2022 to March 31, 2023	Fixed Price	25,000 mmbtu	\$4.71 to \$5.10
January 1, 2023 to December 31, 2023	Fixed Price	45,000 mmbtu	\$3.42 to \$3.77
April 1, 2023 to October 31, 2023	Fixed Price	30,000 mmbtu	\$3.35 to \$3.60

<b>Crude Oil Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Price (WTI CDN/bbl)</b>
April 1, 2022 to June 30, 2022	Fixed Price	1,500 bbl	\$96.75 to \$151.00
July 1, 2022 to September 30, 2022	Fixed Price	400 bbl	\$100.15 to \$121.50
July 1, 2022 to December 31, 2022	Fixed Price	400 bbl	\$94.30 to \$105.75
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	\$100.70
January 1, 2023 to March 31, 2023	Fixed Price	300 bbl	\$91.00 to \$101.05

### Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently, the Company has not entered into any agreements to manage this risk. If the weighted average borrowing rate were to increase by 100 bps (1%) it is estimated that the Company's earnings before income tax for the year ended December 31, 2021, would decrease by \$7.2 million. An opposite change in interest rates would result in an opposite impact on earnings before income tax.

### Credit risk

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company generally extends unsecured credit to purchasers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. Credit limits exceeding \$2,000,000 per month are not granted to non-investment grade counterparties unless the Company receives either i) a parental guarantee from an investment grade parent; or ii) an irrevocable letter of credit for two months revenue. The Company has not previously experienced any material credit losses on the collection of accounts receivable. Of the Company's revenue for the year ended December 31, 2021, approximately 62% was received from four companies (18%,18%,14% and 12%) (December 31, 2020 –62% was received from three

companies 35%,16% and 12%) Of the Company's accounts receivable at December 31, 2021, approximately 36% was receivable from three companies (11%, 11%, and 14%) (December 31, 2020 approximately 56% was receivable from four companies (10%, 14%,15% and 17%) maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and no accounts have been written off.

The Company's accounts receivable was aged as follows at December 31, 2021:

	December 31, 2021	December 31, 2020
Current (less than 30 days)	114,901	55,779
31-60 days	2,699	284
61-90 days	198	49
Over 90 days	1,150	333
	<b>118,948</b>	<b>56,445</b>

The Company may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with counterparties that have investment grade credit ratings.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative instrument transactions are limited to high credit-quality financial institutions, which are all members of our syndicated credit facility.

The Company assesses quarterly if there should be any impairment of financial assets. At December 31, 2021 and 2020, there was no impairment of any of the financial assets of the Company.

### Liquidity risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete our existing capital expenditure program, are continuously monitored, and adjusted as input variables change. These variables include, but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to certain losses.

The following are the contractual maturities of financial liabilities as at December 31, 2021:

	< 1 Year	1-2 Years	3-5 Years	Thereafter
Accounts payable and accrued liabilities	168,998	-	-	-
Dividends payable	8,407	-	-	-
Long-term debt <sup>(1)</sup>	-	650,000	-	-
Secured senior notes	-	100,000	165,000	150,712

(1) Revolving credit facility (see Note 4)

### Capital disclosures

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor, and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue common shares, raise debt, adjust its capital spending or change dividends paid to manage its current and projected debt levels. The Company monitors capital based on the following measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and impairment (“EBITDA”) ratios, payout ratios and net debt levels. To facilitate the management of these ratios, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. Currently, all ratios are within acceptable parameters. The annual budget is approved by the Board of Directors.

There were no changes in the Company’s approach to capital management from the previous year.

	<b>December 31 2021</b>	<b>December 31 2020</b>
Equity	1,766,006	1,677,473
Long-term debt	1,065,712	1,170,000
Working capital deficit	95,250	12,409
	<b>2,926,968</b>	<b>2,859,882</b>

## 15. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company or the related entities. The dollar value of the transactions between Peyto and the related reporting entities is summarized below:

Expense		Accounts Payable	
Year ended December 31		As at December 31	
2021	2020	2021	2020
<b>13.6</b>	105.3	<b>81.9</b>	5.5

The Company has determined that the key management personnel consists of key employees, officers and directors. In addition to the salaries and directors’ fees paid to these individuals, the Company also provides compensation in the form of stock options and reserved based bonus to some of these individuals. Compensation expense of \$2.0 million is included in general and administrative expenses, \$2.7 million in stock-based compensation expense and \$3.5 in performance based compensation expense relating to key management personnel for the year 2021 (2020 - \$1.9 million is included in general and administrative expenses, \$2.7 million in stock-based compensation expense).

## 16. Commitments

In addition to those recorded on the Company’s balance sheet, the following is a summary of Peyto’s contractual obligations and commitments as at December 31, 2021:

	2022	2023	2024	2025	2026	Thereafter
Interest payments <sup>(1)</sup>	14,852	16,827	13,127	11,743	8,163	9,962
Transportation commitments	70,019	63,718	40,217	39,685	29,208	347,875
Operating leases	2,200	2,200	2,200	2,200	2,200	-
Methanol	4,164	-	-	-	-	-
<b>Total</b>	<b>91,235</b>	<b>82,745</b>	<b>55,544</b>	<b>53,628</b>	<b>39,571</b>	<b>357,837</b>

(1) Fixed interest payments on senior secured notes

## **17. Subsequent Event**

On February 28, 2022, the Company closed a Corporate Acquisition for cash consideration of \$22 million. The assets acquired include working interest in production, reserves, undeveloped land and a gas processing facility.



**Officers**

Darren Gee  
Chief Executive Officer

Jean-Paul Lachance  
President and COO

Kathy Turgeon  
Vice President, Finance and CFO

Scott Robinson  
Vice President, Business Development

David Thomas  
Vice President, Exploration

Lee Curran  
Vice President, Drilling and Completions

Todd Burdick  
Vice President, Production

Derick Czember  
Vice President, Land

Riley Frame  
Vice President, Engineering

Stephen Chetner  
Corporate Secretary

**Directors**

Don Gray, Chairman  
Brian Davis  
Michael MacBean, Lead Independent Director  
Darren Gee  
Gregory Fletcher  
Kathy Turgeon  
John Rossall

**Auditors**

Deloitte LLP

**Solicitors**

Burnet, Duckworth & Palmer LLP

**Bankers**

Bank of Montreal  
Canadian Imperial Bank of Commerce  
ATB Financial  
National Bank of Canada  
Royal Bank of Canada  
The Bank of Nova Scotia  
The Toronto-Dominion Bank  
Wells Fargo Bank, N.A., Canadian Branch  
Canadian Western Bank  
Bank of China (Canada)  
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