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 year ended December 31, 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 November 8, 2021. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto’s website at 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 World Health Organization declared novel coronavirus COVID-19 ("COVID-19") a global pandemic in 2020 and at September 30, 2021, Peyto's management has incorporated the current and anticipated impacts of COVID-19 in its preparation of the MD&A.

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.

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 (mcfe) 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.

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas and oil & natural gas liquids in Alberta's deep basin. At December 31, 2020, the Company's total Proved plus Probable reserves were 5.0 trillion cubic feet equivalent (834 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 88 per cent to natural gas and 12 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.

QUARTERLY FINANCIAL INFORMATION

	2021			2020				2019
($000 except per share amounts)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue and realized hedging gains (losses) (net of royalties) [1]	**146,792**	127,727	161,258	116,018	86,986	71,178	92,787	111,389
Funds from operations	**104,608**	82,191	116,709	76,013	49,173	33,012	54,513	75,974
Per share – basic	**0.63**	0.50	0.71	0.46	0.30	0.20	0.33	0.46
Per share – diluted	**0.62**	0.50	0.71	0.46	0.30	0.20	0.33	0.46
Earnings (loss)	**29,271**	12,760	38,500	65,951	(11,285)	(22,538)	(67,684)	3,492
Per share – basic	**0.18**	0.08	0.23	0.40	(0.07)	(0.14)	(0.41)	0.02
Per share – diluted	**0.17**	0.08	0.23	0.40	(0.07)	(0.14)	(0.41)	0.02
Dividends	**1,671**	1,658	1,651	1,649	1,649	1,649	9,892	9,892
Per share	**0.01**	0.01	0.01	0.01	0.01	0.01	0.06	0.06
Payout ratio (%)	**2**	2	1	2	3	5	18	13
Capital expenditures	**90,170**	57,086	108,851	68,250	61,568	37,299	68,587	73,351
Total payout ratio (%)	**88**	71	95	92	129	118	144	110

[1] excludes revenue from sale of natural gas volumes from third-parties

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.

Total Payout Ratio

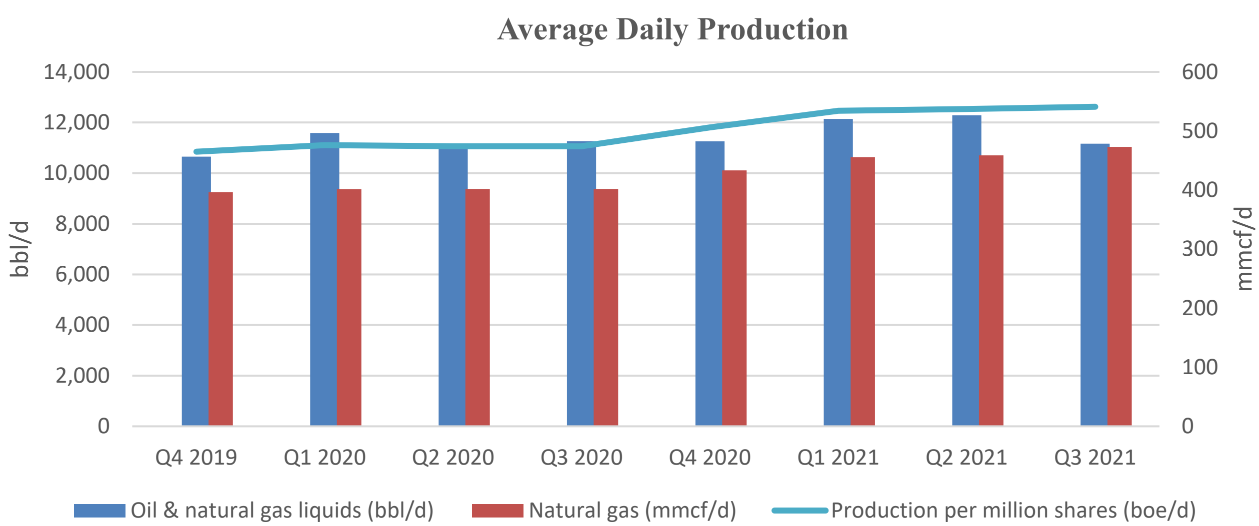
"Total payout ratio" is a non-GAAP measure which is calculated as the sum of dividends declared plus capital expenditures, divided by funds from operations. This ratio represents the percentage of the capital expenditures and dividends that is funded by cashflow. Management uses this measure, among others,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

RESULTS OF OPERATIONS

Production

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
Natural gas (mmcf/d)	**473.0**	401.7	**462.5**	401.7
Oil & natural gas liquids (bbl/d)	**11,164**	11,263	**11,860**	11,325
Barrels of oil equivalent (boe/d)	**89,998**	78,210	**88,943**	78,273
Thousand cubic feet equivalent (mmcfe/d)	**540**	469.3	**533.7**	469.6

Condensate and NGL production decreased 1 per cent from 11,263 bbl/d in the third quarter of 2020 to 11,164 in the third quarter of 2021. Natural gas production increased 18 per cent from 401.7 mmcf/d in the third quarter of 2020 to 473.0 mmcf/d in the third quarter of 2021. Total third quarter production increased 15 per cent from 469.3 mmcfe/d to 540.0 mmcfe/d. Production increases are attributable to Peyto's capital program.



Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
Oil, Condensate and Pentanes Plus (bbl/d)	**6,685**	6,493	**6,984**	6,564
Other Natural gas liquids(bbl/d)	**4,479**	4,770	**4,876**	4,761
Oil & Natural gas liquids (bbl/d)	**11,164**	11,263	**11,860**	11,325
Barrels per million cubic feet	**23.6**	28.0	**25.6**	28.2

The liquid production to sales gas ratio decreased 16 per cent from 28.0 bbl/mmcf in the third quarter of 2020 to 23.6 bbl/mmcf in the third quarter of 2021. As natural gas prices improve, Peyto is including more dry gas wells into the drilling program.

Benchmark Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
AECO 7A monthly ($/GJ)	**3.36**	2.04	**2.94**	1.96
AECO 5A daily ($/GJ)	**3.41**	2.12	**3.11**	1.98
NYMEX (US$/MMbtu)	**4.28**	1.95	**3.53**	1.79
Emerson2 (US$/MMbtu)	**3.71**	1.78	**3.12**	1.71
Malin NGI (US$/MMbtu)	**4.12**	1.90	**3.30**	1.90
Ventura daily (US$/MMbtu)	**4.02**	1.80	**6.43**	1.70
Canadian WTI ($/bbl)	**88.92**	54.50	**81.08**	51.52
Conway C3 (US$/bbl)	**49.02**	19.54	**40.81**	17.04

Q3 2021 average CND/USD exchange rate of 1.26

Commodity Prices

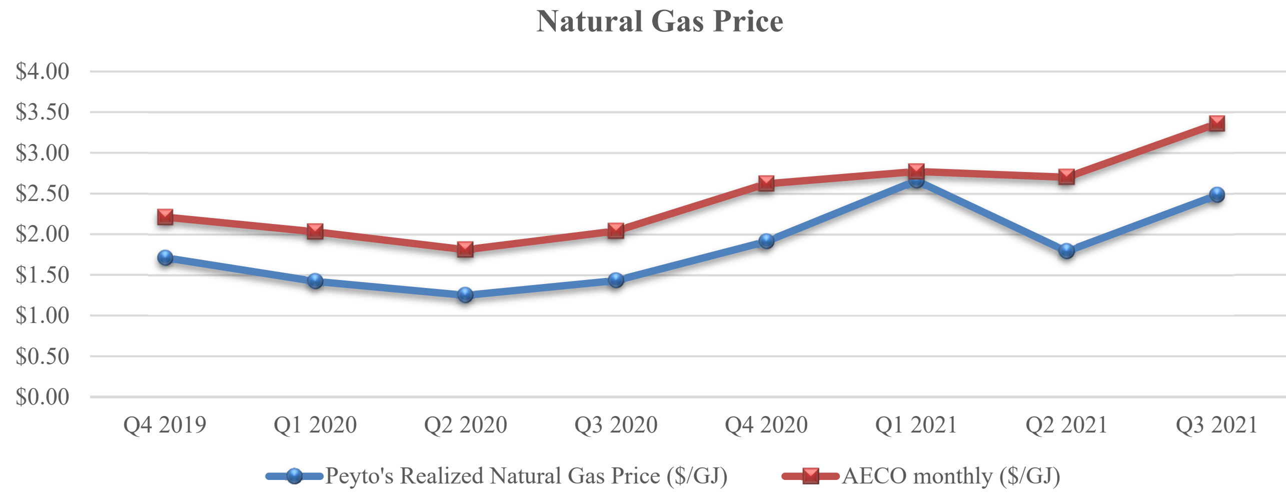
	Three Months ended September 30		Nine Months ended September 30	
($CAD)	**2021**	2020	**2021**	2020
Oil, Condensate, Pentanes Plus ($/bbl)	**83.60**	42.09	**76.40**	43.43
Other Natural gas liquids ($/bbl)	**37.97**	15.76	**31.32**	10.78
Realized Oil and NGL price– before hedging ($/bbl)	**65.29**	32.86	**57.87**	28.82
Hedging ($/bbl)	**(9.82)**	(1.78)	**(8.03)**	0.91
Realized Oil and NGL price– after hedging price ($/bbl)	**55.47**	31.08	**49.84**	29.73
Natural gas ($/mcf)	**5.20**	2.62	**4.49**	2.47
Diversification activities ($/mcf)	**(1.30)**	(1.01)	**(1.22)**	(0.89)
Hedging ($/mcf)	**(1.42)**	0.03	**(0.74)**	(0.01)
Realized price ($/mcf)	**2.48**	1.64	**2.53**	1.57
Total Hedging ($/mcfe)	**(1.45)**	(0.02)	**(0.82)**	0.02
Total Hedging ($/boe)	**(8.70)**	(0.13)	**(4.90)**	0.09

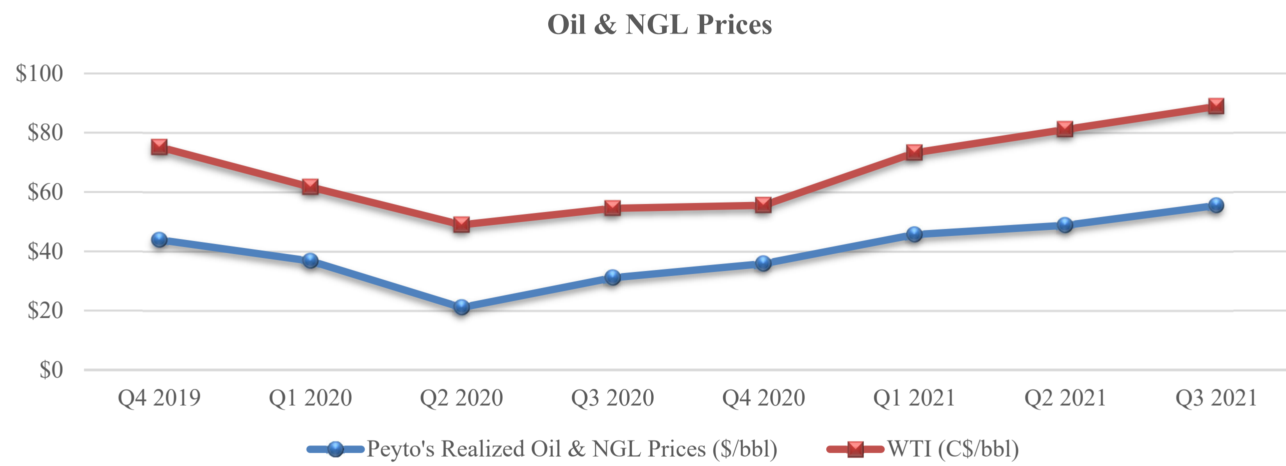
liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

Peyto's natural gas price, before hedging and diversification activities, averaged $5.20/mcf during the third quarter of 2021 an increase of 98 per cent from $2.62/mcf for the equivalent period in 2020. Oil & natural gas liquids prices, before hedging, averaged $65.29/bbl, an increase of 99 per cent from $32.86/bbl a year earlier.

Peyto actively marketed all components of its production stream in the third 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.

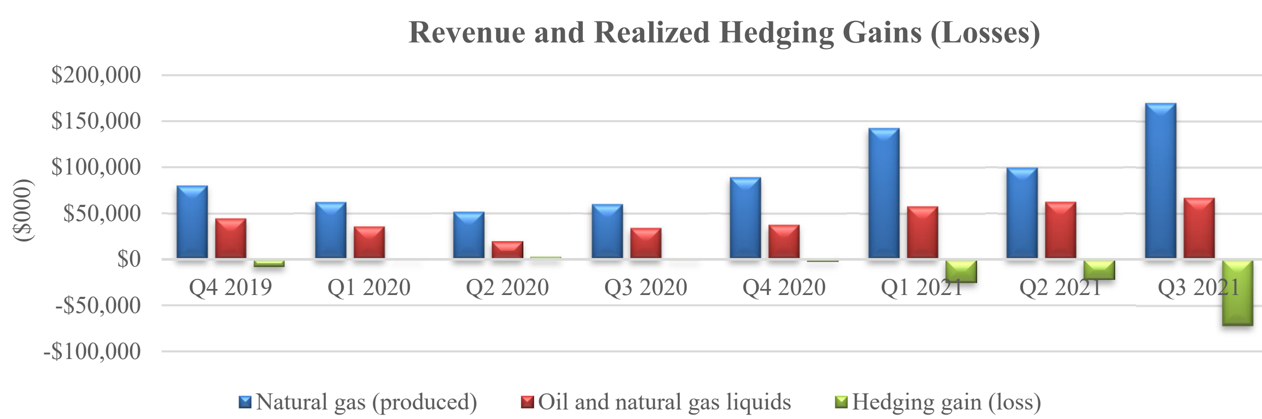




Revenue from Produced Volumes and Realized Hedging Gains (Losses)

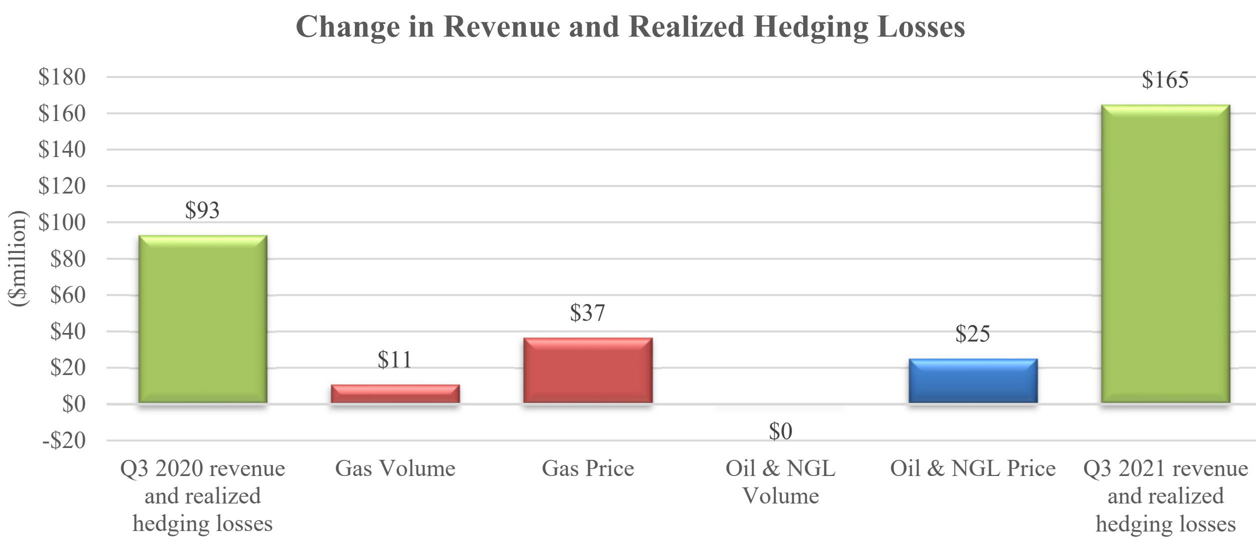
	Three Months ended September 30		Nine Months ended September 30	
($000)	**2021**	2020	**2021**	2020
Natural gas[1]	**169,789**	59,719	**412,245**	173,021
Oil & natural gas liquids	**67,063**	34,052	**187,355**	89,431
Hedging – gas	**(61,987)**	930	**(93,046)**	(819)
Hedging – oil and NGL	**(10,088)**	(1,848)	**(25,993)**	2,824
	164,777	92,853	**480,561**	264,457

[1] excludes revenue from sale of natural gas volumes from third-parties



For the three months ended September 30, 2021, revenue from the sale of produced volumes and realized hedging losses increased 77 per cent to $164.8 million from $92.9 million for the same period in 2020. The increase in revenue from the sale of produced volumes and realized hedging losses for the quarter was a result of increased production volumes and commodity prices, as detailed in the following table:

	Three Months ended September 30			Nine Months ended September 30		
	2021	2020	**$million**	2021	2020	**$million**
September 30, 2020			**93**			**265**
change due to:						
Natural gas						
Volume (mmcf)	43,517	36,955	**11**	126,261	110,064	**26**
Price ($/mcf)	$2.48	$1.64	**36**	$2.53	$1.57	**121**
Oil & NGL						
Volume (mbbl)	1,027	1,036	**-**	3,238	3,103	**4**
Price ($/bbl)	$55.47	$31.08	**25**	$49.84	$29.73	**65**
September 30, 2021			**165**			**481**



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 September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
Royalties ($000)	**17,985**	5,867	**44,786**	13,508
per cent of sales excluding hedging	**7.6**	6.3	**7.5**	5.1
$/mcfe	**0.36**	0.14	**0.31**	0.11
$/boe	**2.17**	0.82	**1.84**	0.63

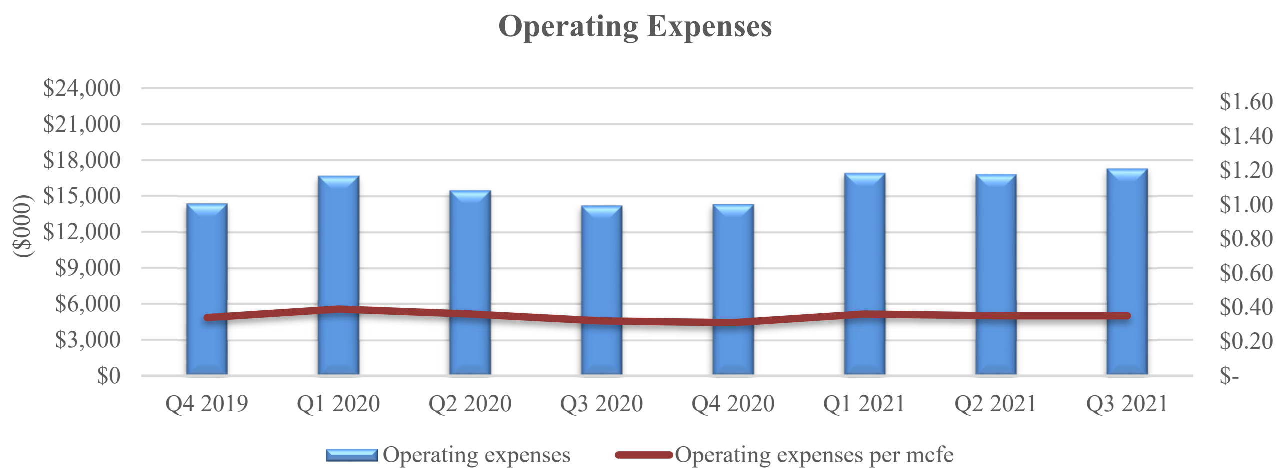
For the third quarter of 2021, royalties averaged $0.36/mcfe or approximately 8 per cent of Peyto's total petroleum and natural gas sales excluding hedging losses. The increase was due to higher AECO and WTI prices. The royalty rate expressed as a percentage of natural gas and natural gas liquid sales 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 $6.6 billion in capital projects, found and developed 4.0 TCFe of natural gas reserves and paid over $1.0 billion in royalties.

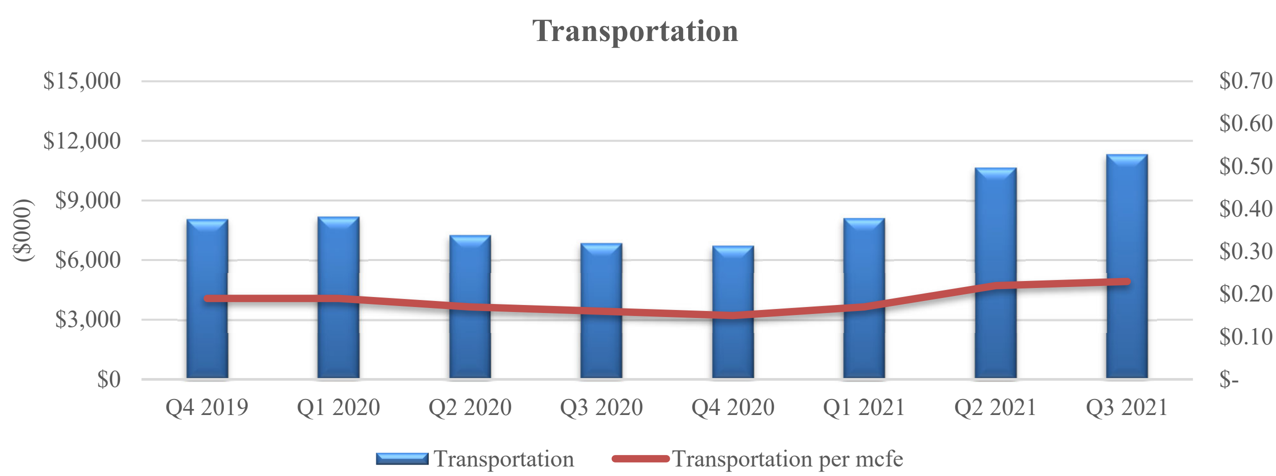
Operating Costs & Transportation
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
Payments to Government	**6,226**	4,007	**16,161**	12,831
Other expenses	**11,056**	10,184	**34,831**	33,493
Operating costs ($000)	**17,282**	14,191	**50,992**	46,324
$/mcfe	**0.35**	0.32	**0.35**	0.36
$/boe	**2.09**	1.97	**2.10**	2.16
Transportation ($000)	**11,323**	6,840	**30,086**	22,285
$/mcfe	**0.23**	0.16	**0.20**	0.17
$/boe	**1.37**	0.95	**1.24**	1.04

For the third quarter, operating expenses were $17.3 million compared to $14.2 million for the same quarter in 2020 due to increased power, chemical and lubricant costs along with an opportunity to advance some service and maintenance work during plant turnarounds that occurred through the summer. On a unit-of-production basis, operating costs increased 9 per cent from $0.32/mcfe to $0.35/mcfe. Approximately 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 44 per cent on a unit-of production basis from $0.16/mcfe in the third quarter 2020 to $0.23/mcfe in the third quarter 2021 due to the addition of Empress service.

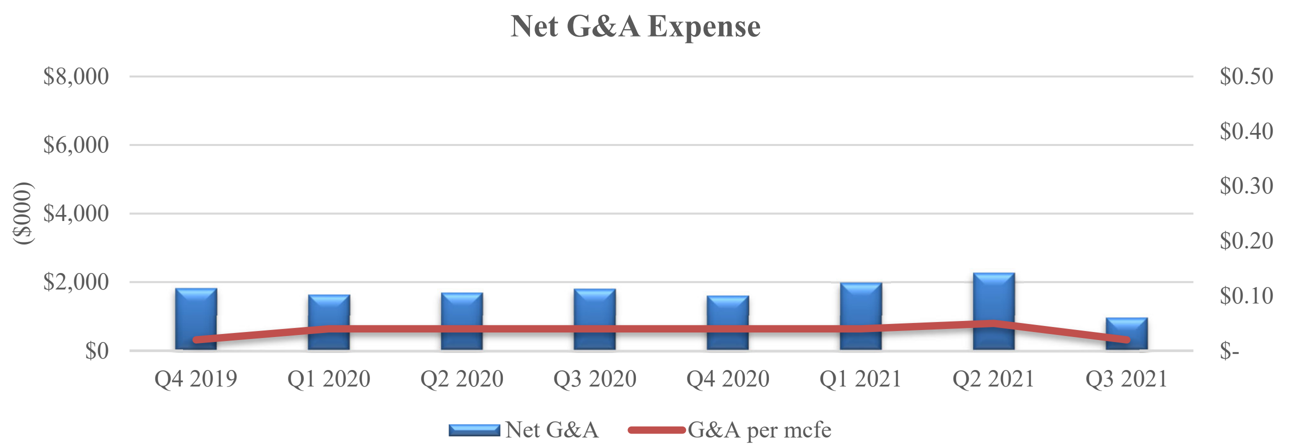




General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
G&A expenses ($000)	**3,964**	3,615	**12,265**	10,854
Overhead recoveries ($000)	**(3,003)**	(1,823)	**(7,049)**	(5,726)
Net G&A expenses ($000)	**961**	1,792	**5,216**	5,128
$/mcfe	**0.02**	0.04	**0.04**	0.04
$/boe	**0.12**	0.25	**0.22**	0.23

For the third quarter, general and administrative expenses before overhead recoveries was $4.0 million compared to $3.6 million for the same quarter of 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 third quarter of 2021 ($0.08/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.04/mcfe in the third quarter of 2020).



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.

The reserve value-based component is 4 per cent of the incremental increase in 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 $Nil was recorded for the third quarter of 2021.

Under the market-based component, rights with a three-year vesting period were allocated to employees and key consultants. On December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out by the issuance of equity. This compensation component was replaced by the adopted stock option plan in 2019. All outstanding rights will vest on December 31, 2021.

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.

Based on the weighted average trading price of the common shares for the period ended September 30, 2021, compensation costs related to 0.7 million non-vested rights (1 per cent of the total number of common shares outstanding), with an average grant price of $7.23 are $0.1 million for the third quarter of 2021, 9.1 million non-vested stock options (6 per cent of the total number of common shares outstanding), with an average grant price of $4.03 are $1.3 million for the third quarter of 2021 and $0.2 million vested DSU's (0.09 per cent of the total number of common shares outstanding), with an average grant price of $3.20 are $0.1 million for the third quarter of 2021. 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 9 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.

Outstanding Under Market Based Bonus Plan

Valuation and Vesting Date	Rights Granted	Rights Forfeited	Rights Outstanding	Average Grant Price
December 31, 2021	825,000	119,033	705,967	$7.23

Stock Options Plan

Valuation and Vesting Date	Stock Options Granted	Stock Options Forfeited	Options Outstanding	Average Grant Price
May 15, 2022	825,000	112,233	712,767	$5.72
August 15, 2022	864,167	91,266	772,901	$3.18
November 15, 2021	889,633	77,932	811,701	$3.07
November 15, 2022	889,633	77,933	811,700	$3.07
January 1, 2022	275,000	24,970	250,030	$3.75
January 1, 2023	275,000	24,970	250,030	$3.75
July 8, 2022	275,000	22,399	252,601	$1.91
July 8, 2023	275,000	22,408	252,592	$1.91
August 20, 2022	275,000	18,999	256,001	$3.03
August 20, 2023	275,000	19,008	255,992	$3.03
November 19, 2021	292,000	7,103	284,897	$2.79
November 19, 2022	292,000	7,094	284,906	$2.79
November 19, 2023	292,000	7,103	284,897	$2.79
January 1, 2022	432,850	10,000	422,850	$2.92
January 1, 2023	432,850	10,000	422,850	$2.92
January 1, 2024	432,850	10,000	422,850	$2.92
May 20, 2022	425,416	-	425,416	$5.92
May 20 2023	425,417	-	425,417	$5.92
May 20, 2024	425,417	-	425,417	$5.92
August 20, 2022	366,670	-	366,670	$6.53
August 20, 2023	366,670	-	366,670	$6.53
August 20, 2024	366,670	-	366,670	$6.53

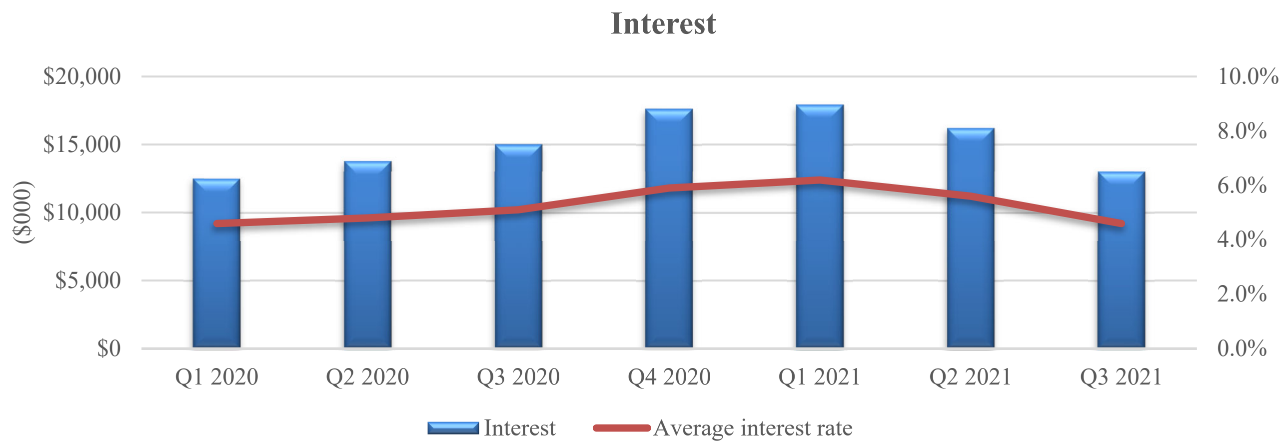
Deferred Share Units

Valuation and Vesting Date	Units Granted	Units Forfeited	Units Outstanding	Average Grant Price
July 8, 2020	46,466	-	46,466	$1.91
August 20, 2020	29,290	-	29,290	$3.03
November 19, 2020	31,810	-	31,810	$2.79
November 19, 2020	31,133	-	31,133	$2.92
May 20, 2021	15,248	-	15,248	$5.91
August 20, 2021	13,780	-	13,780	$6.53

Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
Interest expense ($000)	**13,009**	14,990	**47,134**	41,237
$/mcfe	**0.26**	0.35	**0.32**	0.32
$/boe	**1.57**	2.08	**1.94**	1.92
Average interest rate	**4.6%**	5.1%	**5.4%**	4.8%

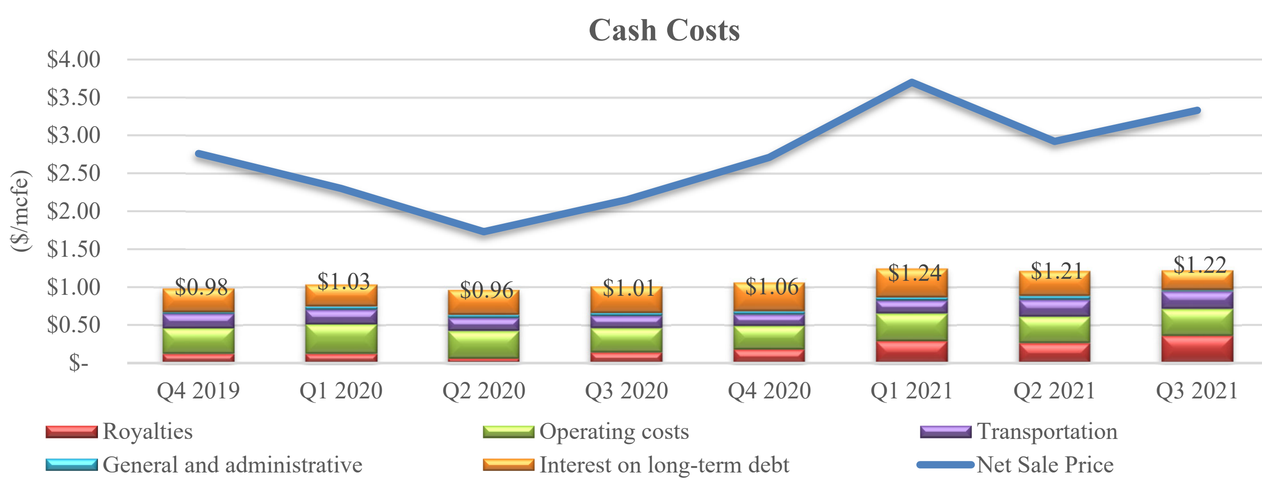
Third quarter 2021 average interest rate was 4.6% compared to 5.1% for the third quarter 2020 due to a decrease in leverage resulting in lower stamping fees and interest costs.



Netbacks

	Three Months ended September 30		Nine Months ended September 30	
($/mcfe)	**2021**	2020	**2021**	2020
Gross Sale Price	**4.78**	2.17	**4.13**	2.04
Realized hedging gain (loss)	**(1.45)**	(0.02)	**(0.82)**	0.02
Net Sale Price	**3.33**	2.15	**3.31**	2.06
Less: Royalties	**0.36**	0.14	**0.31**	0.11
Operating costs	**0.35**	0.32	**0.35**	0.36
Transportation	**0.23**	0.16	**0.20**	0.17
Field netback	**2.39**	1.53	**2.45**	1.42
General and administrative	**0.02**	0.04	**0.04**	0.04
Interest on long-term debt	**0.26**	0.35	**0.32**	0.32
Cash netback ($/mcfe)	**2.11**	1.14	**2.09**	1.06
Cash netback ($/boe)	**12.68**	6.83	**12.55**	6.37

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 third quarter provision for depletion, depreciation and amortization totaled $62.2 million ($1.25/mcfe) compared to $57.8 million ($1.34/mcfe) in the third quarter 2020.

Income Taxes
The current provision for deferred income tax expense is $9.2 million compared to a recovery of $3.4 million in the third quarter of 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)	September 30, 2021	December 31, 2020	Annual deductibility
Canadian Oil and Gas Property Expense	170.9	160.3	10% declining balance
Canadian Development Expense	581.5	489.4	30% declining balance
Canadian Exploration Expense	105.2	102.5	100%
Undepreciated Capital Cost	290.1	250.2	Primarily 25% declining balance
Tax Losses Carried Forward	71.3	234.1	100%
Other	-	0.2	20% declining balance
Total Federal Tax Pools	**1,219.0**	**1,236.7**	
Additional Alberta Tax Pools	45.0	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 third quarter of 2021, a realized hedging loss of $72.1 million was recorded as compared to a $1.0 million loss for the equivalent period in 2020. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
April 1, 2021 to October 31, 2021	Fixed Price	75,000 GJ	$2.00
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	160,000 GJ	$2.98
April 1, 2023 to October 31, 2023	Fixed Price	140,000 GJ	$2.43

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
April 1, 2021 to October 31, 2021	Fixed Price	50,000 GJ	$2.22

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Average Price (Nymex USD/mmbtu)
April 1, 2020 to March 31, 2022	Fixed Price	20,000 mmbtu	$2.28
April 1, 2021 to October 31, 2021	Fixed Price	187,500 mmbtu	$2.69
November 1, 2021 to March 31, 2022	Fixed Price	77,500 mmbtu	$3.04
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	$2.56

Natural Gas Period Hedged - Malin	Type	Daily Volume	Average Price (Nymex USD/mmbtu)
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

Crude Oil Period Hedged - WTI	Type	Daily Volume	Average Price (WTI USD/bbl)
April 1, 2021 to December 31, 2021	Fixed Price	1,000 bbl	$58.45
July 1, 2021 to December 31, 2021	Fixed Price	900 bbl	$58.26
October 1, 2021 to December 31, 2021	Fixed Price	1,100 bbl	$58.38
April 1, 2022 to June 30, 2022	Fixed Price	300 bbl	$62.98
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

Crude Oil Period Hedged - WTI	Type	Daily Volume	Price (WTI CAD/bbl)
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	$81.96
January 1, 2022 to March 31, 2022	Fixed Price	500 bbl	$88.93
January 1, 2022 to June 30, 2022	Fixed Price	300 bbl	$84.43
October 1, 2021 to December 31, 2021	Fixed Price	2,000 bbl	$86.93

Propane Period Hedged	Type	Daily Volume	Average Price (USD/bbl)
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

Natural Gas Period – NYMEX Covered Call Options	Type	Daily Volume	Strike Price Nymex USD/mmbtu
April 1, 2021 to October 31, 2021	Call	50,000 mmbtu	$2.88

As at September 30, 2021, Peyto had committed to the future sale of 101,480,000 gigajoules (GJ) of natural gas at an average price of $2.59 per GJ or $2.98 per mcf, 24,365,000 mmbtu of natural gas at an average price of $2.82 USD per mmbtu, 484,800 barrels of crude at an average price of $60.03 USD per bbl, 611,800 barrels of crude at an average price of $84.27 CAD per bbl and 91,000 barrels of propane at an average price of $25.88 USD per bbl. Had these contracts closed on September 30, 2021, Peyto would have realized a hedging loss in the amount of $250.5 million. Total hedged volumes represent approximately 6 per cent of Peyto's developed 2020 year end reserves.

Subsequent to September 30, 2021, Peyto entered into the following contracts:

Natural Gas Period Hedged- Monthly Index	Type	Daily Volume	Price (AECO CAD/GJ)
November 1, 2022 to March 31, 2023	Fixed Price	30,000 GJ	$3.93
April 1, 2023 to October 31, 2023	Fixed Price	40,000 GJ	$2.95

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Average Price (Nymex USD/mmbtu)
November 1, 2021 to March 31, 2022	Fixed Price	10,000 mmbtu	$5.97
April 1, 2022 to October 31, 2022	Fixed Price	30,000 mmbtu	$3.98
November 1, 2022 to March 31, 2023	Fixed Price	30,000 mmbtu	$4.17

Crude Oil Period Hedged - WTI	Type	Daily Volume	Price (WTI CAD/bbl)
January 1, 2022 to March 31, 2022	Fixed Price	600 bbl	$97.10
April 1, 2022 to June 30, 2022	Fixed Price	100 bbl	$94.10
July 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$91.30

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 September 30, 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 $1.8 million per quarter. Average debt outstanding for the quarter was $1.13 billion (including $415 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

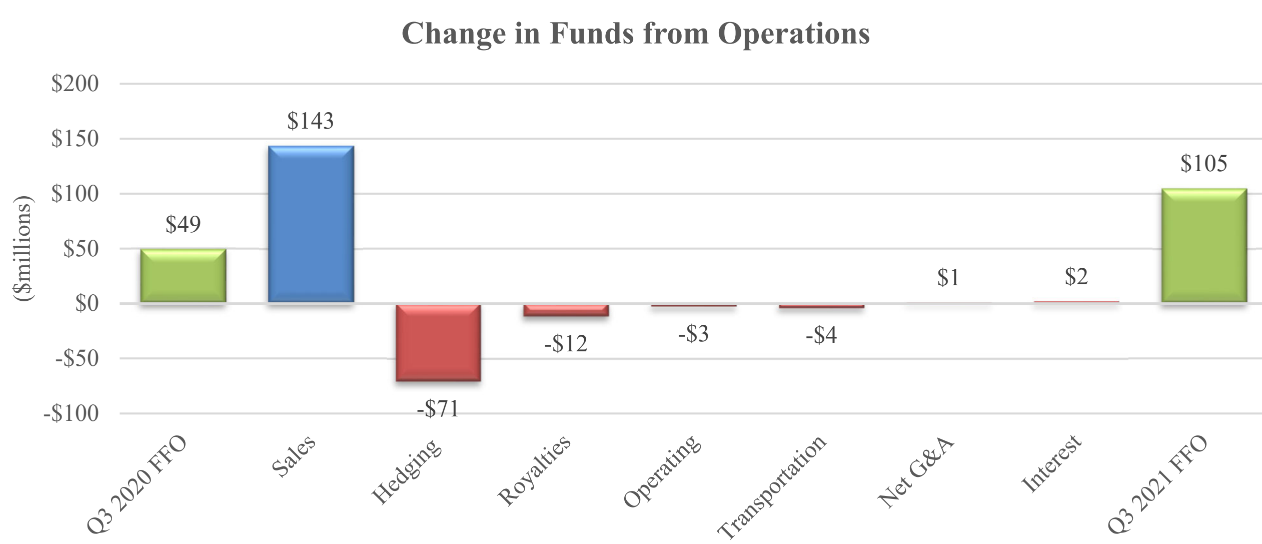
Funds from operations is reconciled to cash flows from operating activities below:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2021**	2020	**2021**	2020
Cash flows from operating activities	**101,982**	48,074	**307,648**	150,169
Change in non-cash working capital	**2,626**	1,099	**(4,139)**	(13,472)
Funds from operations	**104,608**	49,173	**303,509**	136,697
Funds from operations per basic share	**0.63**	0.30	**1.83**	0.83
Funds from operations per dilutive share	**0.62**	0.30	**1.80**	0.83

For the third quarter ended September 30, 2021, funds from operations totaled $104.6 million or $0.63 per share, compared to 49.2 million or $0.30 per share during the same quarter in 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 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)	**September 30, 2021**	December 31, 2020
Long-term senior secured notes	365,000	415,000
Current senior secured notes	50,000	-
Bank credit facility	700,000	755,000
Balance, end of the period	**1,115,000**	1,170,000

On June 29, 2020, the Company finalized an agreement with its syndicate of lenders and term debt note holders to revise its credit and note purchase agreements to reflect a reduction in the size of its credit facility and provide financial covenant relief until March 2022. The credit facility and long-term notes are now secured by a floating debenture on Peyto's assets.

The Company has a syndicated $950 million extendible secured revolving credit facility with a stated term date of October 13, 2022. 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 200 basis points and 600 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 50 to 150 basis points.

The Company received relief from its previous financial covenants with respect to senior and total debt to EBITDA and interest coverage until March 2022. Peyto is subject to the following financial covenants as in the June 29, 2020 amended credit facility and note purchase agreements:

Total Debt to EBITDA
Total Debt to EBITDA to be less than 4.75 for the Fiscal Quarter ending September 30, 2021.

Senior Debt to EBITDA
Senior Debt to EBITDA to be less than 4.25 for the Fiscal Quarter ending September 30, 2021.

Interest Coverage Ratio
EBITDA to be greater than 2.50:1:00 up to and including the Fiscal Quarter ending September 30, 2021

Total Debt to Capitalization Ratio
Total Debt not to exceed 55% of shareholders' equity and total debt.

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.

Financial covenant	Limit	**September 30, 2021**	December 31, 2020
Total Debt to EBITDA	Less than 4.75	2.48	4.35
Senior Debt to EBITDA	Less than 4.25	2.48	4.35
Interest coverage	Greater than 2.5	6.97	4.60
Total Debt to (Total Debt + Equity)	Less than 0.55	0.41	0.41

Peyto is in compliance with all financial covenants as at September 30, 2021.

Outstanding secured senior notes are as follows:

Senior Secured Notes	Date Issued	Rate*	Maturity Date
$50 million	September 6, 2012	4.88%	September 6, 2022
$100 million	October 24, 2016	3.70%	October 24, 2023
$65 million	May 1, 2015	4.26%	May 1, 2025
$100 million	January 3, 2012	4.39%	January 3, 2026
$100 million	January 2, 2018	3.95%	January 2, 2028

* In any fiscal quarter where senior debt to EBITDA exceeds 3.0x, the interest rate on the notes will increase by a range between 85 and 285 basis points.

The total amount of capital invested in 2021 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.

On October 29, 2021, the Company closed an issuance of USD $40 million of senior secured notes. 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 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 senior notes which mature on September 6, 2022.

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

As of November 5, 2021, Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

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

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 below to long-term debt which is the most directly comparable GAAP measure:

($000)	**As at September 30, 2021**	As at December 31, 2020	As at September 30, 2020
Bank credit facility - drawn	**700,000**	755,000	755,000
Senior unsecured notes	**365,000**	415,000	415,000
Current assets	**(133,427)**	(82,651)	(83,119)
Current liabilities	**401,936**	95,060	139,511
Financial derivative instruments	**(200,716)**	(4,962)	(41,541)
Current portion of lease obligation	**(1,193)**	(1,107)	(1,097)
Net debt	**1,131,600**	1,176,340	1,183,754

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	2,115,146	10,749
Balance, September 30, 2021	**167,056,121**	**1,660,384**

Capital Expenditures

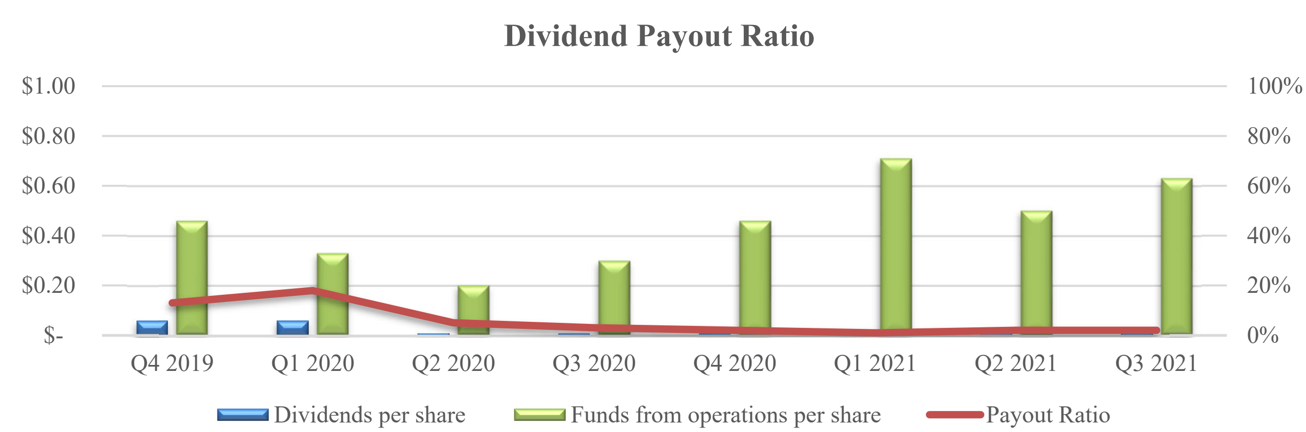
Net capital expenditures for the third quarter of 2021 totaled $90.2 million. Exploration and development related activity represented $69.5 million (77 per cent), while expenditures on facilities, gathering systems and equipment totaled $18.7 million (21 per cent) and land, acquisitions and seismic totaled $2.0 million (2 per cent). The following table summarizes capital expenditures for the period:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2021**	2020	**2021**	2020
Land	**548**	-	**1,127**	100
Seismic	**1,391**	1,007	**3,229**	6,203
Drilling	**43,288**	27,974	**104,700**	76,061
Completions	**26,229**	20,121	**59,622**	48,440
Equipping & Tie-ins	**6,902**	6,019	**15,791**	15,841
Facilities & Pipelines	**11,778**	4,947	**35,786**	19,009
Acquisitions/Dispositions	**34**	1,500	**35,852**	1,800
Total Capital Expenditures	**90,170**	61,568	**256,107**	167,454

Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2021	2020	**2021**	2020
Funds from operations ($000)	**104,608**	49,173	**303,509**	136,697
Total dividends ($000)	**1,671**	1,649	**4,979**	13,191
Total dividends per common share ($)	**0.01**	0.01	**0.03**	0.08
Payout ratio (%)	**2**	3	**2**	10

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.



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 September 30, 2021:

($000)	2021	2022	2023	2024	2025	Thereafter
Interest payments [1]	3,235	17,249	14,809	11,109	9,725	12,070
Transportation commitments	17,756	85,391	55,377	35,475	35,017	371,808
Operating leases	531	2,200	2,200	2,200	2,200	2,200
Methanol	-	5,767	-	-	-	-
Total	21,522	110,607	72,386	48,784	46,942	386,078

(1) 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	
Three Months ended September 30		Nine Months ended September 30		As at September 30	
2021	2020	**2021**	2020	**2021**	2020
181.1	6.0	**361.0**	100.9	**207**	-

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 it's 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.

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 September 30, 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, 2020 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

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 2021. 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 and www.peyto.com.

Quarterly information

	2021			2020	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	473,008	458,696	455,593	433,226	401,680
Oil & NGLs (bbl/d)	11,164	12,289	12,138	11,256	11,263
Barrels of oil equivalent (boe/d @ 6:1)	89,998	88,738	88,070	83,461	78,210
Thousand cubic feet equivalent (mcfe/d @ 6:1)	539,990	532,430	528,419	500,764	469,259
Liquid to gas ratio (bbl per mmcf)	23.6	26.8	26.6	26.0	28.0
Average product prices					
Natural gas ($/mcf)	2.48	2.06	3.06	2.19	1.64
Oil & natural gas liquids ($/bbl)	55.47	48.77	45.63	35.82	31.08
$/mcfe					
Average sale price ($/mcfe)	3.33	2.92	3.70	2.71	2.15
Average royalties paid ($/mcfe)	0.36	0.26	0.29	0.18	0.14
Average operating expenses ($/mcfe)	0.35	0.35	0.36	0.31	0.32
Average transportation costs ($/mcfe)	0.23	0.22	0.17	0.15	0.16
Field netback ($/mcfe)	2.39	2.09	2.88	2.07	1.53
General & administrative expense ($/mcfe)	0.02	0.05	0.04	0.04	0.04
Interest expense ($/mcfe)	0.26	0.33	0.38	0.38	0.35
Cash netback ($/mcfe)	2.11	1.71	2.46	1.65	1.14
Financial ($000 except per share)					
Revenue and realized hedging gains (losses)[1]	164,777	140,457	175,327	124,524	92,853
Royalties	17,985	12,370	14,069	8,506	5,867
Funds from operations	104,608	82,191	116,709	76,013	49,173
Funds from operations per share	0.63	0.50	0.71	0.46	0.30
Funds from operations per diluted share	0.62	0.50	0.71	0.46	0.30
Total dividends	1,671	1,658	1,651	1,649	1,649
Total dividends per share	0.01	0.01	0.01	0.01	0.01
Payout ratio	2%	2%	1%	2%	3%
Earnings (loss)	29,271	12,760	38,500	65,951	(11,285)
Earnings (loss) per share	0.18	0.08	0.23	0.40	(0.07)
Earnings (loss) per diluted share	0.17	0.08	0.23	0.40	(0.07)
Capital expenditures	90,170	57,086	108,851	68,250	61,568
Total payout ratio (%)	88%	71%	95%	92%	129%
Weighted average shares outstanding	166,440,704	165,343,937	165,069,227	164,937,898	164,892,979

[1] excludes revenue from sale of third-party volumes