

## 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.

(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) 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

(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.

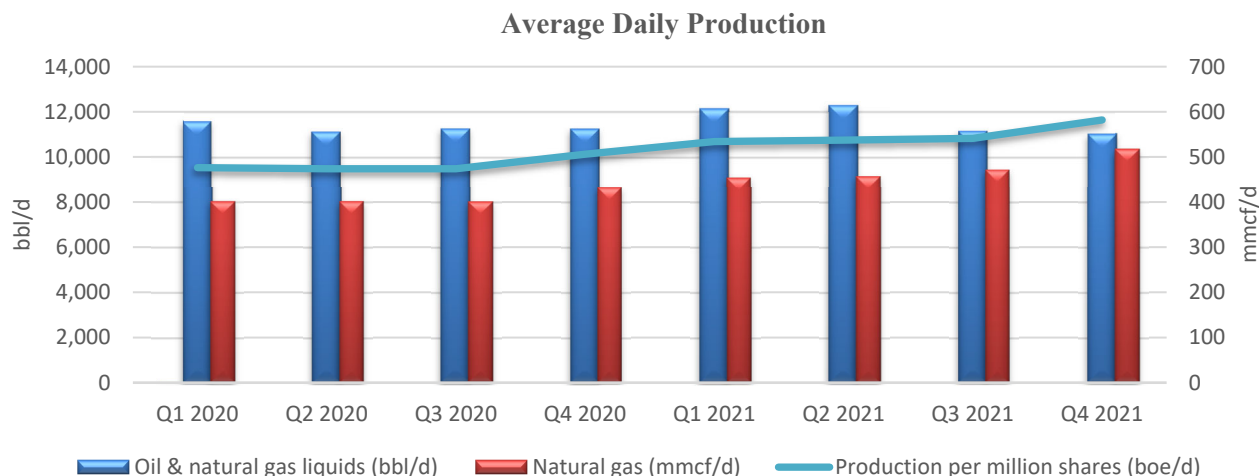
(3) Non-GAAP ratio that does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other entities. Includes a non-GAAP financial measure component of funds from operations. Refer to the section entitled "Non-GAAP and Other Financial Measures"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

## 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>	-

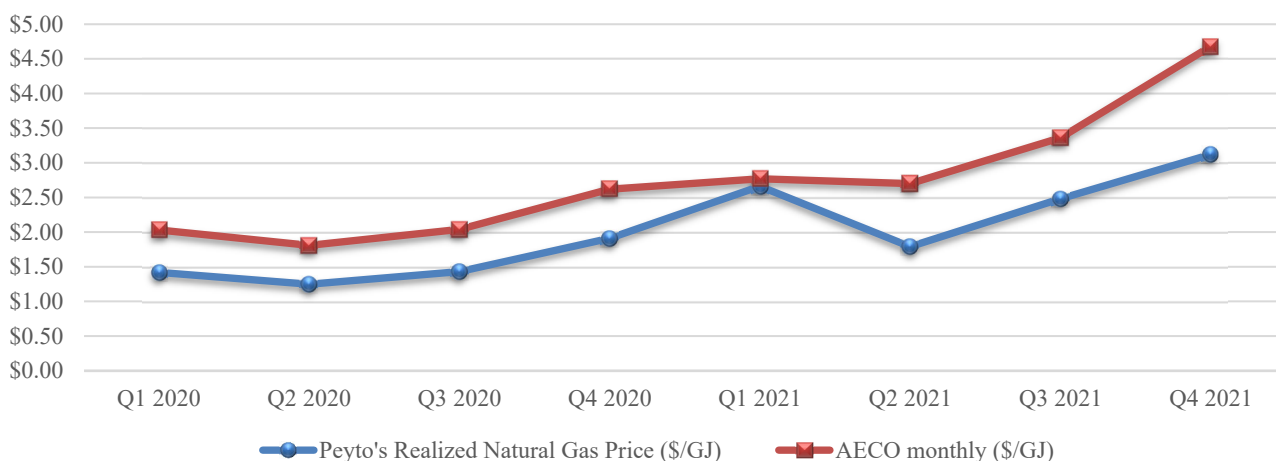
liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

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.

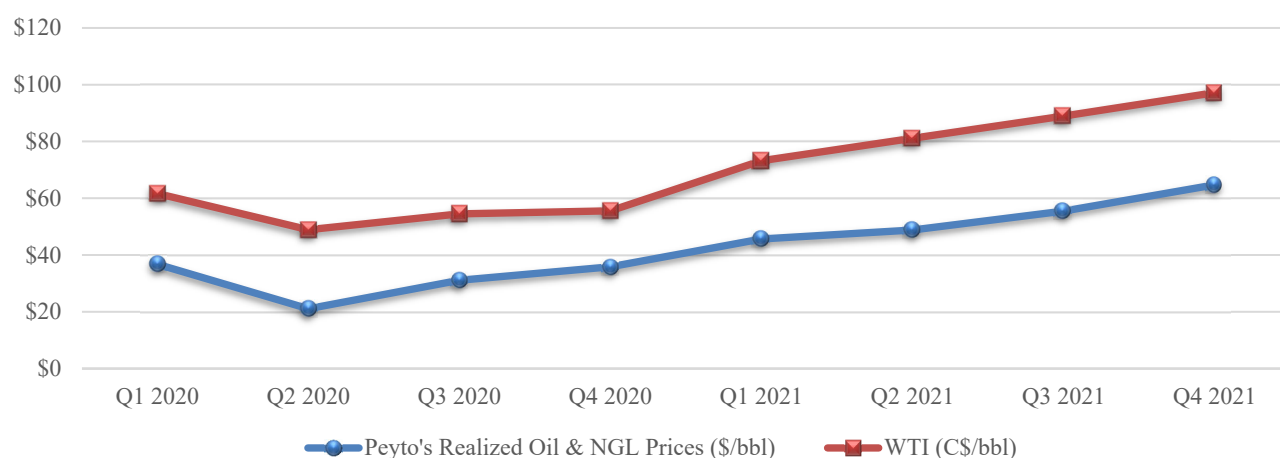
Peyto actively marketed all components of its production stream in the fourth quarter including natural gas, condensate, pentane, butane and propane. Peyto's market diversification activity resulted in natural gas being sold at various hubs including AECO, Ventura, Emerson 2, Malin and Henry Hub using 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

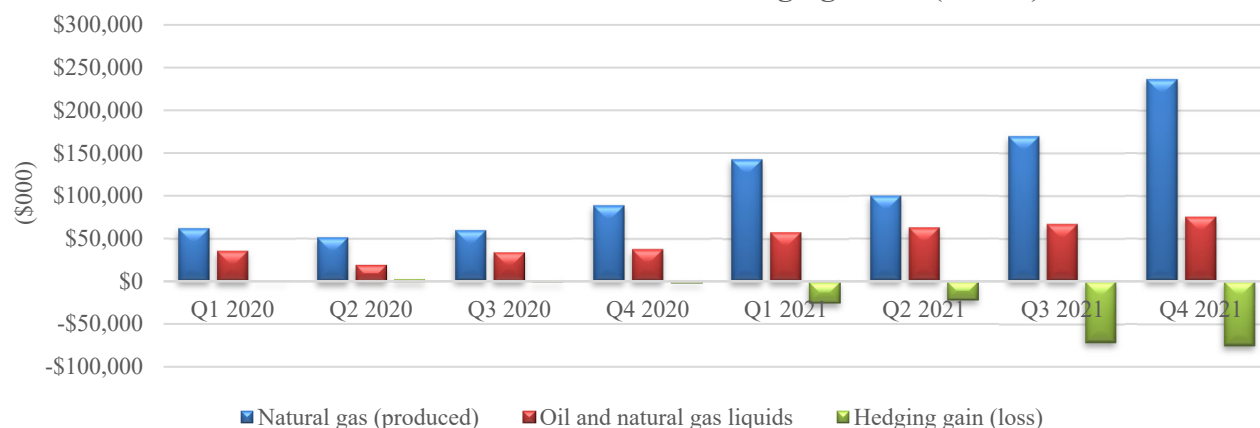


### Revenue from Produced Volumes and Realized Hedging Gains (Losses)

(\$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

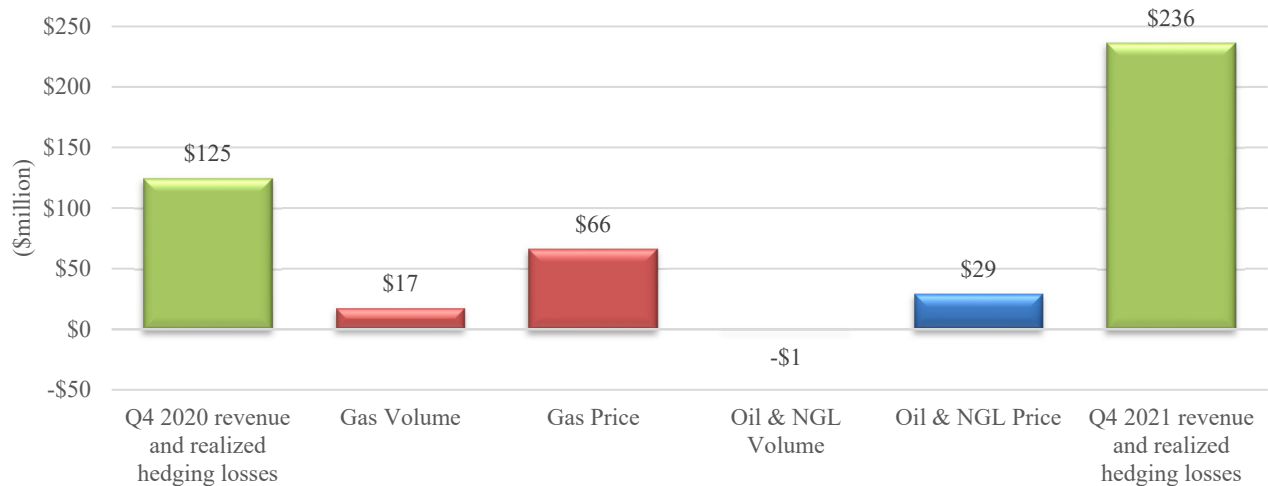
### Revenue and Realized Hedging Gains (Losses)



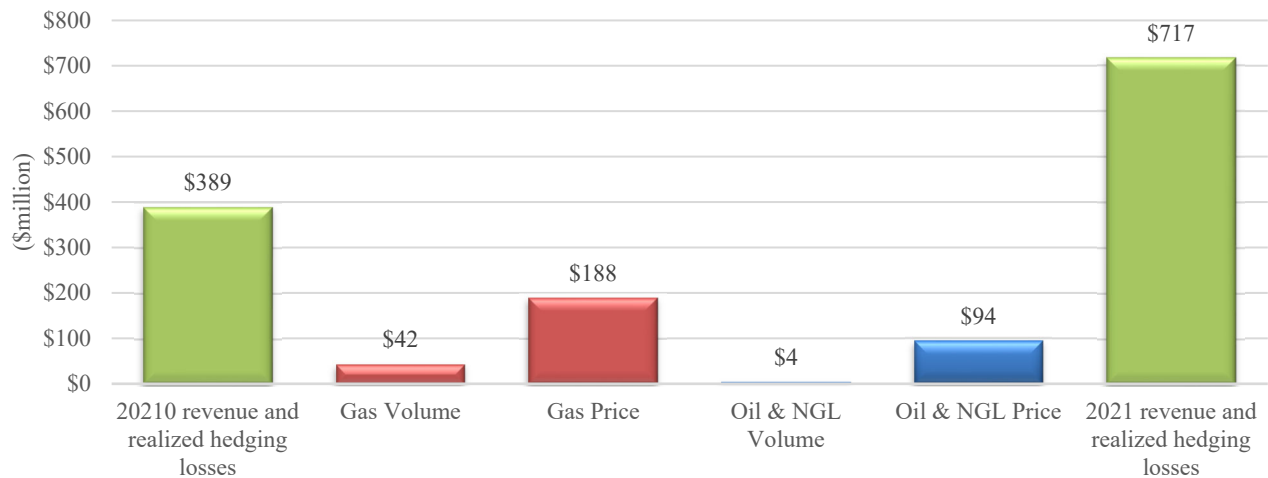
For the three months ended December 31, 2021, revenue from the sale of produced volumes and realized hedging losses increased 90 per cent to \$236.4 million from \$124.5 million for the same period in 2020. On an annual basis, revenue increased 84 per cent from \$389.0 million in 2020 to \$716.9 million 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

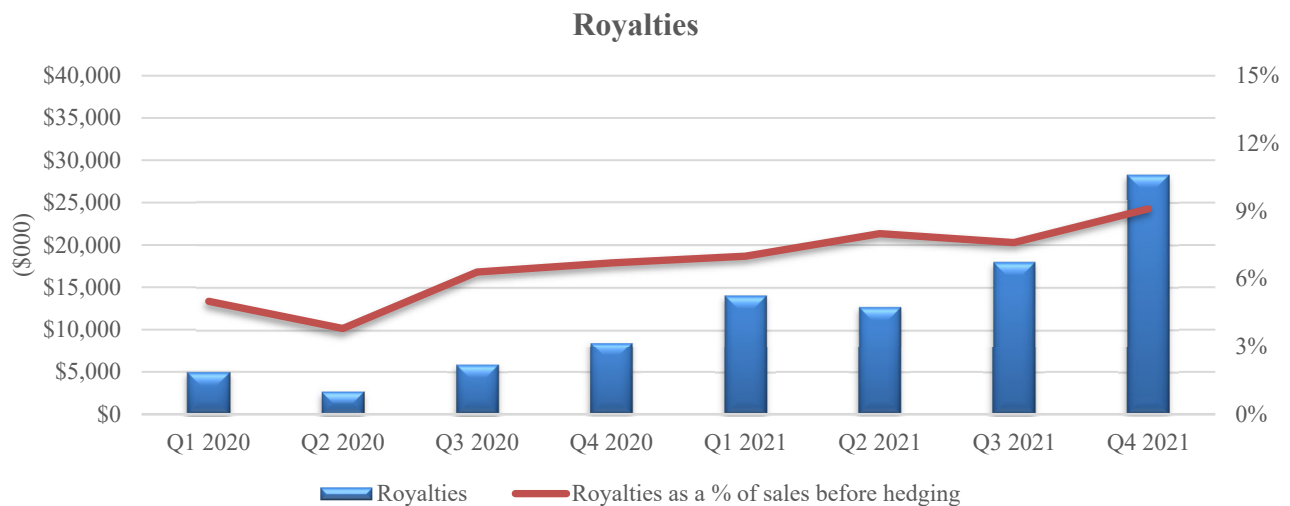


### Royalties

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.



### Operating Costs & Transportation

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

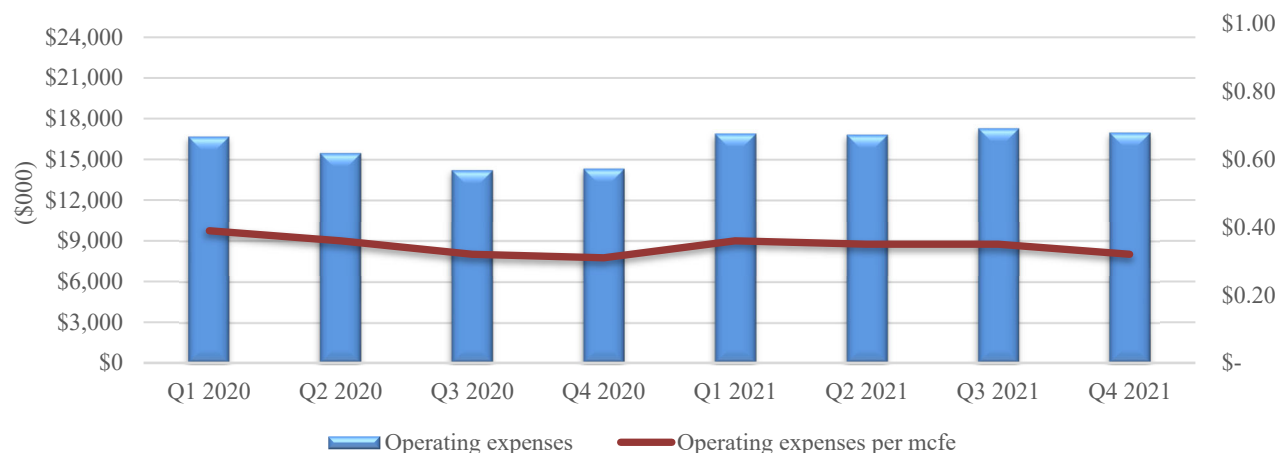
	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Payments to Government	<b>4,199</b>	4,164	<b>20,361</b>	16,995
Other expenses	<b>12,772</b>	10,148	<b>47,602</b>	43,641
Operating costs (\$000)	<b>16,971</b>	14,312	<b>67,963</b>	60,636
\$/mcf	<b>0.32</b>	0.31	<b>0.34</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.

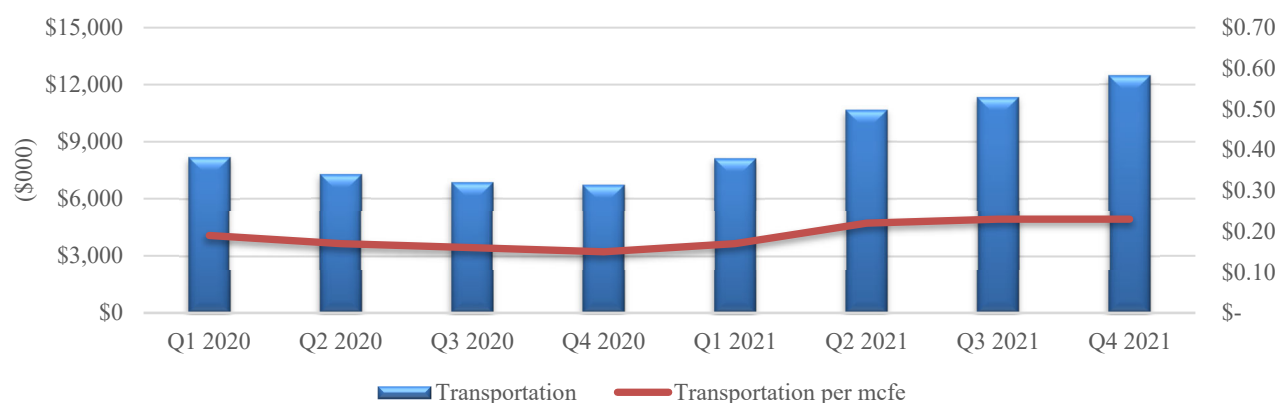


Transportation expenses increased 53 per cent on a unit-of production basis from \$0.15/mcfe in the fourth quarter 2020 to \$0.23/mcfe in the fourth quarter 2021 due to the addition of Empress and Emerson service. On an annual basis, transportation expenses increased 24 per cent on a unit-of production 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



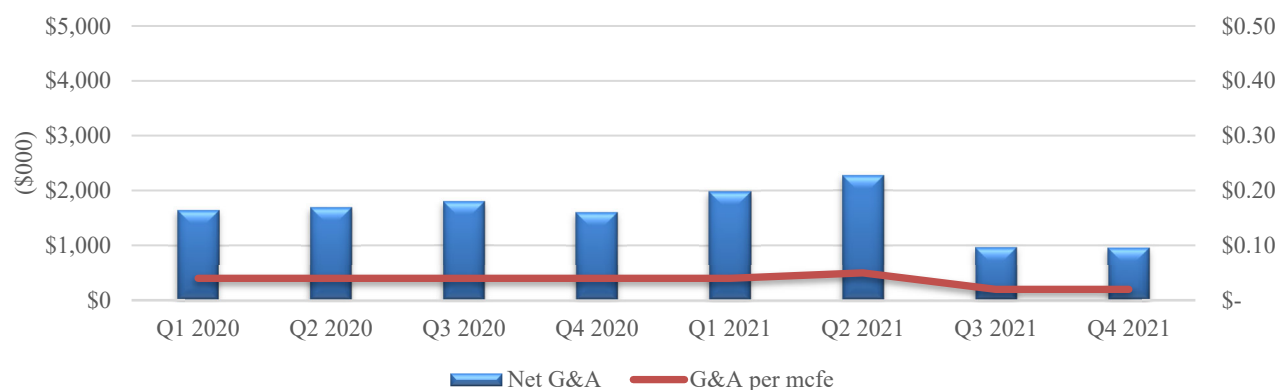
### General and Administrative Expenses

	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

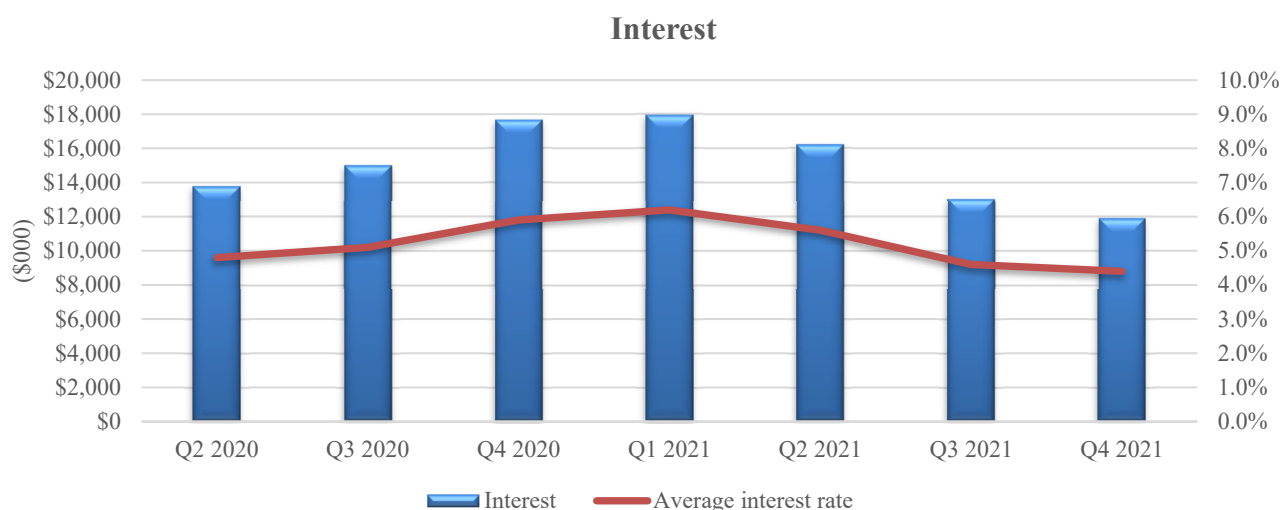
## Deferred Share Units

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

## Interest Expense

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



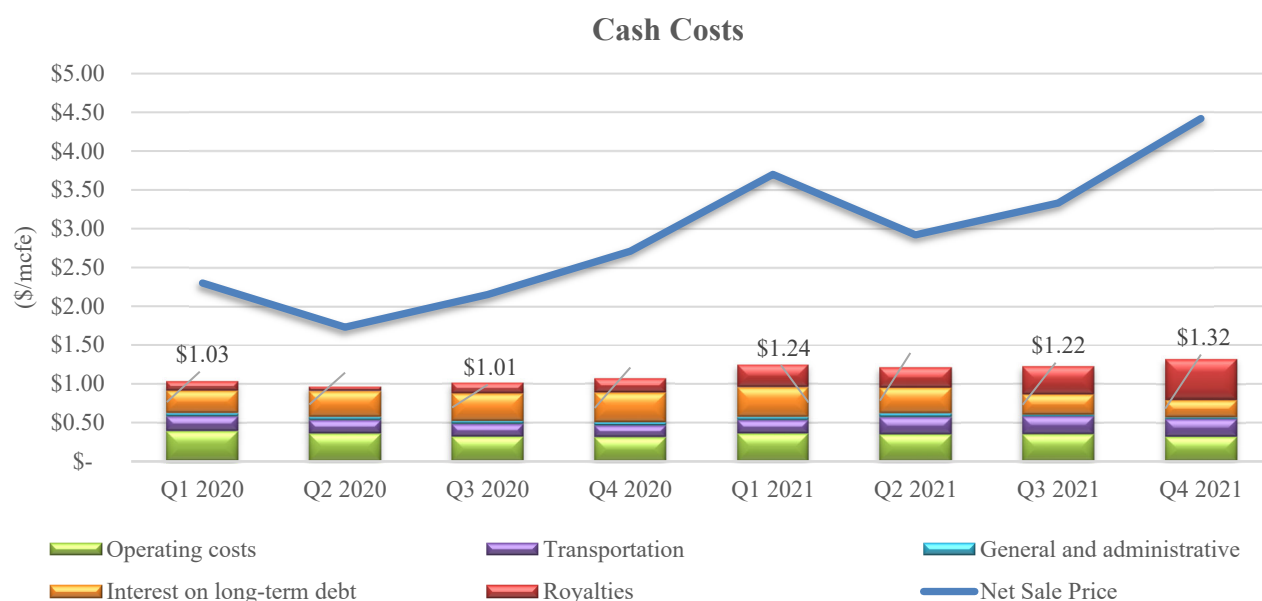
## Netbacks

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

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

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	December 31, 2021	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

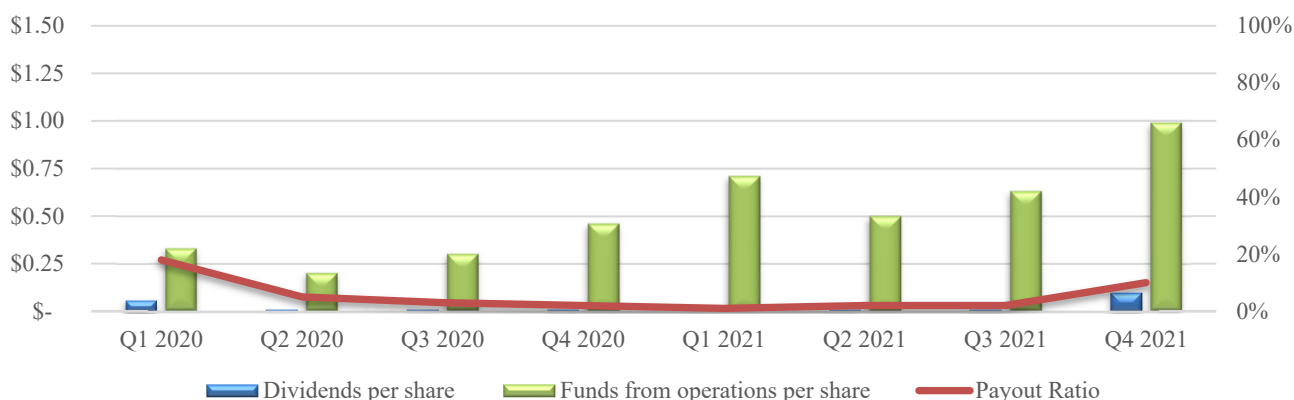
	Three Months ended December 31		Twelve Months ended December 31	
	2021	2020	2021	2020
Funds from operations (\$000) <sup>(1)</sup>	166,165	76,013	469,672	212,710
Total dividends declared (\$000)	16,779	1,649	21,758	14,840
Total dividends per common share (\$)	0.10	0.01	0.13	0.09
Payout ratio (%) <sup>(2)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