PEYTO

Exploration & Development Corp.

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Interim Report
for the three months ended March 31, 2022

HIGHLIGHTS

	Three Months Ended Mar 31		%
	2022	2021	Change
Operations			
Production			
Natural gas (mcf/d)	**535,660**	455,593	*18%*
NGLs (bbl/d)	**12,273**	12,138	*1%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**609,295**	528,419	*15%*
Barrels of oil equivalent (boe/d @ 6:1)	**101,549**	88,070	*15%*
Production per million common shares (boe/d)	**601**	534	*13%*
Product prices			
Natural gas ($/mcf)	**4.08**	3.06	*33%*
NGLs ($/bbl)	**81.66**	45.63	*79%*
Operating expenses ($/mcfe)	**0.41**	0.36	*14%*
Transportation ($/mcfe)	**0.28**	0.17	*65%*
Field netback ($/mcfe) (2)	**3.96**	2.87	*38%*
General & administrative expenses ($/mcfe)	**0.03**	0.04	*-25%*
Interest expense ($/mcfe)	**0.21**	0.38	*-45%*
Financial ($000, except per share*)			
Revenue and realized hedging gains (losses)(1)	**286,894**	175,327	*64%*
Royalties	**32,903**	14,069	*134%*
Funds from operations(2)	**203,492**	116,709	*74%*
Funds from operations per share – basic(2)	**1.20**	0.71	*69%*
Funds from operations per share - diluted(2)	**1.17**	0.71	*65%*
Total dividends	**25,358**	1,651	*1436%*
Total dividends per share(2)	**0.15**	0.01	*1400%*
Total payout ratio(2)	**83%**	95%	*-13%*
Earnings	**97,816**	38,500	*154%*
Earnings per share- basic	**0.58**	0.23	*152%*
Earnings per share - diluted	**0.56**	0.23	*143%*
Capital expenditures	**143,331**	108,851	*32%*
Corporate acquisition	**22,220**	-	
Weighted average common shares outstanding (basic)	**169,058,178**	165,069,227	*2%*
Weighted average common shares outstanding (diluted)	**173,320,559**	165,069,227	*5%*
Net debt (2)	**1,064,086**	1,169,414	*-9%*
Shareholders' equity	**1,633,557**	1,699,771	*-4%*
Total assets	**3,852,410**	3,661,029	*5%*

(1) excludes revenue from sale of natural gas volumes from third-parties
(2) This is a Non-GAAP financial measure or ratio. See "non-GAAP and Other Financial Measures" in this report and in the Q1 2022 MD&A.

Report from the president

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the first quarter of the 2022 fiscal year. A 71% Operating Margin[1,2] and a 34% Profit Margin[3] in the quarter delivered an 9% Return on Capital[4] and a 13% Return on Equity[5], on a trailing twelve-month basis. Highlights for the quarter included:

- **Funds from operations[6] per share up 69%.** Funds from Operations ("FFO") were a Company record $203 million after hedging losses of $53 million in the quarter. Per diluted share FFO were $1.17, up 65% from $0.71 in Q1 2021. FFO in the quarter exceeded capital expenditures and acquisitions, leaving $38 million for dividends and debt reduction.

- **Production per share up 13%.** First quarter 2022 production of 101,549 boe/d, comprised of 536 MMcf/d of natural gas, 7,253 bbl/d of Condensate and Pentanes, and 5,020 bbl/d of Butane and Propane, was up 15% (10% per diluted share) from 88,070 boe/d in Q1 2021. Total liquid yields of 23 bbl/MMcf, or 12% of total production, was down from 27 bbl/MMcf in Q1 2021 due to an increased focus on leaner Spirit River plays and acquired production (as discussed below).

- **Total cash costs of $1.53/Mcfe (or $0.93/Mcfe ($5.57/boe) excluding royalties).** Industry leading low total cash costs included $0.60/Mcfe royalties, $0.41/Mcfe operating costs, $0.28/Mcfe transportation, $0.03/Mcfe G&A and $0.21/Mcfe interest, which combined with a realized price of $5.25/Mcfe to result in a $3.72/Mcfe ($22.31/boe) cash netback, up 51% from $2.46/Mcfe ($14.81/boe) in Q1 2021. Total cash costs excluding royalties were 2% lower than Q1 2021.

- **Capital investment of $143 million in organic activity**. A total of 29 gross wells (78% Working Interest, "WI") were drilled in the first quarter, 30 gross wells (82% WI) were completed, and 27 gross wells (83% WI) were brought on production. In addition, a small private Company in the Brazeau area was acquired for $22 million and a new 50 MMcf/d gas plant was constructed in the Chambers area. Capital efficiency over the last 12 months was $10,000/boe/d.

- **Earnings of $0.58/share, Dividends of $0.15/share.** Earnings of $98 million were generated in the quarter while dividends of $25 million were paid to shareholders.

First Quarter 2022 in Review

Peyto increased its pace of capital investment in Q1 2022, drilling and connecting more gas wells and constructing a 50 MMcf/d novel, low emissions gas plant in the Chambers area. In addition, Peyto closed a strategic corporate acquisition in the Greater Brazeau area which added a 100% owned, operated and underutilized 45 MMcf/d sweet natural gas plant, 73 net sections of undeveloped lands (each section offering up to 5 target formations, therefore equivalent to over 350 net sections of deep basin rights), 880 boe/d of production from 20 net wells, along with many other operational and financial synergies. Also in the quarter, Peyto successfully drilled its longest Extended Reach Horizontal ("ERH") well at over 6,000 m MD (Measured Depth). Production for the quarter, which was up 15% from the previous year, held relatively constant throughout the quarter as much of the drilling and new plant increases came on in April 2022. The combination of low total cash costs, higher production and higher realized commodity prices resulted in an industry leading operating margin and record funds from operations, despite the hedge losses. As previously placed hedges roll off, Peyto will begin enjoying the full effect of the higher commodity prices. A return to historic profit margins drove near record quarterly earnings of $98 million.

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[1] This press release contains certain non-GAAP and other financial measures to analyze financial performance, financial position, and cash flow including, but not limited to "operating margin", "profit margin", "return on capital", "return on equity", "netback", "funds from operations", and "net debt". 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 earnings (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance. See "Non-GAAP and Other Financial Measures" included at the end of this press release and in Peyto's most recently filed MD&A for an explanation of these financial measures and reconciliation to the most directly comparable financial measure under IFRS.
[2] Operating Margin is a non-GAAP financial ratio defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.
[3] Profit Margin is a non-GAAP financial ratio defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.
[4] Return on capital is a non-GAAP financial ratio. See "non-GAAP and Other Financial Measures" in this report and in the Q1 2022 MD&A.
[5] Return on equity capital is a non-GAAP financial ratio. See "non-GAAP and Other Financial Measures" in this report and in the Q1 2022 MD&A
[6] Funds from operations is a non-GAAP financial measure. See "non-GAAP and Other Financial Measures" in this report and in the Q1 2022 MD&A.

Exploration & Development

Most of the drilling activity in the quarter was focused in the Brazeau area in support of the new Chambers gas plant and on the Cardium formation to take advantage of higher condensate prices driven by higher oil prices. Drilling activity detail by area and formation is shown in the following table:

	Field							Total Wells Drilled
Zone	Sundance	Nosehill	Wildhay	Ansell	Cecilia	Kisku/ Kakwa	Brazeau	
Belly River								
Cardium			6				9	15
Notikewin		2		4			2	8
Falher	1			1				2
Wilrich		1		2			1	4
Bluesky								
Total	1	3	6	7			12	29

Peyto drilled 3 ERH wells in the quarter, drilling its longest ever at 6,070 m MD with a horizontal lateral of 3,136 m. The Company has now drilled 19 ERH wells into the Cardium, Notikewin, Falher and Wilrich formations that all have greater than 2,500 m horizontal laterals. These wells will continue to be evaluated to determine how much economic benefit, in addition to the environmental benefit, this enhanced well design can deliver in Peyto's various Deep Basin resource plays.

Q1 2022 drilling and completion cost on a per meter drilled and per stage completed basis were up over 2021 mostly due to the high percentage of Cardium wells in the first quarter. As the drilling program progresses to more ERH wells over the balance of the year, drilling and completion metrics are expected to improve, despite continued inflationary pressures.

	2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022 Q1**
Gross Hz Spuds	86	99	123	140	126	135	70	61	64	**95**	**29**
Measured Depth (m)	4,017	4,179	4,251	4,309	4,197	4,229	4,020	3,848	4,247	**4,453**	**4,291**
Drilling ($MM/well)	$2.79	$2.72	$2.66	$2.16	$1.82	$1.90	$1.71	$1.62	$1.68	**$1.89**	**$2.13**
$ per meter	$694	$651	$626	$501	$433	$450	$425	$420	$396	**$424**	**$496**
Completion ($MM/well)	$1.67	$1.63	$1.70	$1.21	$0.86	$1.00	$1.13	$1.01*	$0.94	**$1.00**	**$1.22**
Hz Length (m)	1,358	1,409	1,460	1,531	1,460	1,241	1,348	1,484	1,682	**1,612**	**1,529**
$ per Hz Length (m)	$1,231	$1,153	$1,166	$792	$587	$803	$835	$679	$560	**$620**	**$801**
$ '000 per Stage	$257	$188	$168	$115	$79	$81	$51	$38	$36	**$37**	**$44**

**excluding Peyto's Wildhay Montney well.*

Capital Expenditures

During the first quarter of 2022, Peyto invested $52 million on drilling, $33 million on completions, $10 million on wellsite equipment and tie-ins, $47 million on facilities and major pipeline projects, $1 million on seismic and $22 million on the corporate acquisition of a private junior producer. Of the $47 million on facilities, the new Chambers plant accounted for $32 million, including $17 million transferred from capital inventory. Other major pipeline projects included $8 million in Greater Brazeau pipeline infrastructure, $3 million in additional Swanson pipeline and gathering infrastructure, and $2 million in optimization and methane reduction initiatives.

Marketing

Peyto actively markets all components of its production stream including natural gas, condensate, pentane, butane and propane. Natural gas was sold in Q1 2022 at various hubs including Emerson (35%), AECO (30%), Henry Hub (20%), Malin (7%), Empress (5%), and Ventura (3%) using both physical transportation and basis transactions (diversification activities) to access those hubs. Natural gas prices were left to float on daily or monthly pricing or locked in using fixed price swaps at those hubs and Peyto's realized price is benchmarked against those local prices, then adjusted for transportation (either physical or synthetic) to those markets. Net of diversification activities of $1.17/Mcf, Peyto realized a before hedge price of $4.23/GJ prior to NGTL fuel deductions. This compares to an AECO Daily (5A) average price of $4.49/GJ.

Peyto also employs a methodical commodity risk management program that is designed to smooth out the short-term fluctuations in the price of natural gas and natural gas liquids through future sales. This smoothing gives greater predictability of cashflows for the purposes of capital planning and dividend payments. The future sales are meant to be orderly and consistent to avoid speculation, much like "dollar cost averaging" the future prices. In general, this approach will show hedging losses when short term prices climb and hedging gains when short term prices fall. For the first quarter of 2022, approximately 69% of Peyto's gas was locked in at a fixed price of $3.82/Mcf. Most of those contracts were established several quarters prior at then market prices that were lower than the first quarter spot prices. Since Peyto began this hedging practice in 2003, the Company has accumulated $404 million in total hedging gain utilizing this program.

The Company's liquids are 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 and Peyto markets each product separately. Pentanes Plus are sold on a monthly index differential linked to WTI, with some volumes forward sold on fixed differentials to WTI. Butane is sold as a percent of WTI or a fixed differential to Mount Belvieu, Texas markets. Propane is sold on a fixed differential to Conway, Kansas markets. While some products like Butane and Propane require annual term contracts to ensure delivery paths and markets are certain, others can be sold on the daily spot market. Peyto's realized product prices for Q1 2022, relative to 2021 and benchmark prices, are shown in the following table.

Benchmark Commodity Prices at Various Markets

	Three Months ended March 31	
	2022	2021
AECO 7A monthly ($/GJ)	**4.35**	2.77
AECO 5A daily ($/GJ)	**4.49**	2.99
NYMEX (US$/MMBTU)	**4.60**	3.38
Emerson2 (US$/MMBTU)	**4.57**	2.91
Malin NGI (US$/MMbtu)	**5.66**	3.03
Ventura daily (US$/MMbtu)	**4.47**	11.86
Canadian WTI ($/bbl)	**119.40**	73.22
Conway C3 (US$/bbl)	**54.03**	38.40
CND/USD Exchange rate	**1.266**	1.266

Peyto Realized Natural Gas Price by Market (net of diversification)

	Three Months ended March 31	
	2022	2021
AECO 7A monthly (CND$/GJ)	**4.35**	2.78
AECO 5A daily (CND$/GJ)	**4.48**	2.91
NYMEX (US$/MMBTU)	**3.11**	2.07
Emerson2 (US$/MMBTU)	**3.93**	2.22
Malin (US$/MMBTU)	**3.48**	2.42
Ventura (US$/MMBTU)	**3.38**	10.77

Peyto Realized Commodity Prices

Natural gas (CND$/mcf)	**6.03**	4.52
Gas marketing diversification activities (CND$/mcf)	**(1.17)**	(1.04)
Gas hedging (CND$/mcf)	**(0.78)**	(0.42)
Condensate and C5+ (CND$/bbl)	**125.81**	68.57
Butane and propane (CND$/bbl)	**52.68**	30.89
Liquid hedging (CND$/bbl)	**(14.24)**	(7.21)

Peyto realized natural gas prices are at NIT, prior to fuel. Peyto gas has an average heating value of approx. 1.15GJ/Mcf.
Liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation, transportation, and market differentials.
Details of Peyto's ongoing marketing and diversification efforts are available on Peyto's website at:
http://www.peyto.com/Files/Operations/Marketing/hedges.pdf

Financial Results

The Company's realized price for natural gas in Q1 2022 was $6.03/Mcf, prior to $1.17/Mcf of market diversification activities and a $0.78/Mcf hedging loss, while its realized liquids price was $95.90/bbl, before a $14.24/bbl hedging loss, which yielded a combined revenue stream of $5.25/Mcfe. This net sales price was 42% higher than the $3.70/Mcfe realized in Q1 2021. Cash costs of $1.53/Mcfe were 23% higher than the $1.24/Mcfe in Q1 2021 due to a $0.31/Mcfe increase in royalties to 11% of realized revenue. Royalty payments to Alberta were higher in the quarter due to improved commodity prices. Peyto expects that Company royalty rates will continue to range between 10-15% even with the higher forecasted commodity prices due to the large portion of mature, low decline production that receives a lower royalty rate due to lower productivity, combined with a large portion of production from new wells that receive an initial royalty rate of 5%. When the total cash costs of $1.53/Mcfe were deducted from realized revenues of $5.25/Mcfe, it resulted in a cash netback of $3.72/Mcfe or a 71% operating margin. Historical cash costs and operating margins are shown in the following table:

	2019				2020				2021				2022
($/Mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Revenue	3.20	2.60	2.50	2.76	2.30	1.73	2.15	2.71	3.70	2.92	3.33	4.42	**5.25**
Royalties	0.14	0.01	0.03	0.12	0.12	0.06	0.14	0.18	0.29	0.26	0.36	0.53	**0.60**
Op Costs	0.35	0.34	0.31	0.34	0.39	0.36	0.32	0.31	0.36	0.35	0.35	0.32	**0.41**
Transportation	0.19	0.19	0.19	0.19	0.19	0.17	0.16	0.15	0.17	0.22	0.23	0.23	**0.28**
G&A	0.06	0.05	0.05	0.02	0.04	0.04	0.04	0.04	0.04	0.05	0.02	0.02	**0.03**
Interest	0.28	0.30	0.31	0.31	0.29	0.33	0.35	0.38	0.38	0.33	0.26	0.22	**0.21**
Total Cash Costs	1.02	0.89	0.89	0.98	1.03	0.96	1.01	1.06	1.24	1.21	1.22	1.32	**1.53**
Cash Netback[1]	2.18	1.71	1.61	1.78	1.27	0.77	1.14	1.65	2.46	1.71	2.11	3.10	**3.72**
Operating Margin[1]	68%	66%	64%	65%	55%	45%	53%	61%	67%	59%	63%	70%	**71%**

(1) This is a Non-GAAP measure or ratio. See "non-GAAP and Other Financial Measures" in this report and in the Q1 2022 MD&A.

Depletion, depreciation, and amortization charges of $1.33/Mcfe, along with a provision for deferred tax and stock-based compensation payments resulted in earnings of $1.78/Mcfe, or a 34% profit margin. Dividends to shareholders totaled $0.46/Mcfe.

Activity Update

Peyto has remained active since the end of the quarter with 5 rigs running which has resulted in 11 wells drilled (62% WI), 13 completed (73% WI) and 9 wells (75% WI) brought onstream. In addition, 8 wells (75% WI) remain drilled but not yet tied in. Typically, the Company operates a moderate program during the wet spring breakup period but this year plans to continue drilling with 4 rigs, weather permitting, to take advantage of strong gas prices and greater service availability. This plan will accelerate Peyto's annual capital program into the first half of the year allowing for an option to increase the annual capital budget later in the year.

In early April, Peyto commissioned and started up its Chambers Gas plant in the Greater Brazeau core area and corporate production has averaged 106,000 boe/d since that time. This low emissions facility, located adjacent to the NGTL gathering system, has been outperforming capacity expectations and is currently processing 65 MMcf/d of gas and 2,400 bbl/d of NGLs from a successful Chambers development program of Cardium, Notikewin, and Wilrich wells. Plans for expansion are already being assessed as the Company has 2 rigs operating in the area. This is the Company's 12th gas processing plant and brings the total processing capacity for the Greater Brazeau area up to 250 MMcf/d and the total corporate processing capacity close to 1 BCF/d.

Outlook

Global geopolitical events have combined with historically low natural gas inventory levels to create decade high commodity prices for all the products Peyto develops and sells. Despite the severe backwardation in future commodity prices, new capital investments have some of the most attractive returns the Company has ever experienced. These events, combined with Peyto's low cost, high margin production are expected to continue to deliver record cashflows allowing the Company to reduce the closing debt level this year to below the projected funds flow. This will allow Peyto to focus on increasing returns to shareholders.

With the globalization of natural gas from North American LNG export expansion, Peyto will be well positioned to participate in solving the world's ongoing need for energy security, affordability and reliability with responsibly developed production from environmentally conscientious jurisdictions.

Darren Gee	Jean-Paul Lachance
Chief Executive Officer	President and Chief Operating Officer
May 11, 2022	

Cautionary Statements

Forward-Looking Statements

This report 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: macro-economic conditions, including public health concerns (including the impact of the COVID-19 pandemic) and other geopolitical risks, the condition of the global economy and, specifically, the condition of the crude oil and natural gas industry, and the ongoing significant volatility in world markets; other 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 availability of qualified operating or management personnel; fluctuations in other 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: the forecast costs of future abandonment and reclamation liability; expectations regarding future drilling inventory; the future outlook for commodity prices being better in 2022; expectations regarding the Company's margin of profit; the expectation that Peyto's new landholdings will yield twice the number of locations as were drilled in 2021; the Company's drilling and completion program for 2022, including the timing of the drilling program and the Company's expectation that it will fill the capacity in the Cecilia gas plant and the timing of the same; the Company's intention to install zero emissions instrumentation on all new well sites and the timing of installation; the anticipated effects of installing zero emissions instrumentation on all new well sites; the expectation for growing production and increased funds flow beyond the budgeted capital program for 2022; the Company's intention to reduce indebtedness and increase dividends; anticipated improvement of costs and profitability; the timing of Peyto's annual general meeting; and the Company's overall strategy and focus.

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: continued changes and volatility in general global economic conditions including, without limitations, the economic conditions in North America and public health concerns (including the impact of the COVID-19 pandemic); continued fluctuations and volatility in commodity prices, foreign exchange or interest rates; continued stock market volatility; imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; increased competition; the lack of availability of qualified operating or management personnel; 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; and the ability to access sufficient capital from internal and external sources. In addition, to the extent that any forward-looking statements presented herein constitutes future-oriented financial information or financial outlook, as defined by applicable securities legislation, such information has been approved by management of Peyto and has been presented to provide management's expectations used for budgeting and planning purposes and for providing clarity with respect to Peyto's strategic direction based on the assumptions presented herein and readers are cautioned that this information may not be appropriate for any other purpose. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2021 under the heading "Risk Factors" and in Peyto's annual management's discussion and analysis 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, including any future-oriented financial information or financial outlook, contained in this report 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.

Barrels of Oil Equivalent

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). Peyto uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

NON-GAAP AND OTHER FINANCIAL MEASURES

Throughout this press release, 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.

	Three Months ended March 31	
($000)	**2022**	2021
Cash flows from operating activities	**185,790**	119,752
Change in non-cash working capital	**17,702**	(3,043)
Performance based compensation	**-**	-
Funds from operations	**203,492**	116,709

Net Debt

"Net debt" is a non-GAAP financial measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current portion of lease obligations. 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 March 31, 2022**	As at December 31, 2021	As at March 31, 2021
Long-term debt	**1,039,984**	1,065,712	1,150,000
Current assets	**(172,058)**	(144,370)	(91,679)
Current liabilities	**492,187**	239,620	129,667
Financial derivative instruments	**(294,794)**	(61,091)	(17,438)
Current portion of lease obligation	**(1,233)**	(1,123)	(1,136)
Net debt	**1,064,086**	1,098,748	1,169,4 14

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.

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 Mcfe" 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.

	Three Months ended March 31	
($/Mcfe)	**2022**	2021
Gross Sale Price	**6.22**	4.23
Realized hedging gain (loss)	**(0.97)**	(0.53)
Net Sale Price	**5.25**	3.70
Less: Royalties	**0.60**	0.29
Operating costs	**0.41**	0.36
Transportation	**0.28**	0.17
Field netback	**3.96**	2.88
General and administrative	**0.03**	0.04
Interest on long-term debt	**0.21**	0.38

Cash netback ($/Mcfe)	***3.72***	*2.46*
Cash netback ($/boe)	***22.31***	*14.81*

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 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 additions to property, plant and equipment, 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.

	Three Months ended March 31	
	2022	*2021*
Total dividends declared ($000)	***25,358***	*1,651*
Additions to property, plant and equipment ($000)	***143,331***	*108,851*
Total payout ($000)	***168,689***	*110,502*
Funds from operations ($000)	***203,492***	*116,709*
Total payout ratio (%)	***83%***	*95%*

Operating Margin

Operating Margin is a non-GAAP financial ratio defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.

Profit Margin

Profit Margin is a non-GAAP financial ratio defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.

Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") of Peyto Exploration Development Corp. ("Peyto" or the "Company") is Management's analysis of the financial performance and significant trends and external factors that may affect future performance. This MD&A was prepared using information that is current as of May 11, 2022 and should be read in conjunction with the unaudited condensed consolidated financial statements (the "financial statements") as at and for the three months ended March 31, 2022, and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2021, as well as Peyto's Annual Information Form, each of which is available at www.sedar.com and on Peyto's website at www.Peyto.com.

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"). All references are to Canadian dollars unless otherwise indicated.

Throughout this MD&A and in other materials disclosed by the Company, Peyto adheres to GAAP, however the Company also employs certain non-GAAP and other financial measures to analyze financial performance, financial position, and cash flow including, but not limited to "funds from operations", "free funds flow", and "net debt". 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 earnings (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance. See "Non-GAAP and Other Financial Measures" included at the end of this MD&A for an explanation of these financial measures and reconciliation to the most directly comparable financial measure under IFRS.

Readers are cautioned that this MD&A contains certain forward-looking information and should be read in conjunction with Peyto's "Forward-Looking Statements" section included at the end of this 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 88 per cent to natural gas and 12 per cent to 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-four years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

	2022	2021				2020		
($000 except per share amounts)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Natural gas and NGL sales, net of royalties and realized hedging gains (losses) (1)	**253,991**	208,055	146,792	127,727	161,258	116,018	86,986	71,178
Funds from operations(2)	**203,492**	166,165	104,608	82,191	116,709	76,013	49,173	33,012
Per share – basic (2)	**1.20**	0.99	0.63	0.50	0.71	0.46	0.30	0.20
Per share – diluted (2)	**1.17**	0.96	0.62	0.50	0.71	0.46	0.30	0.20
Earnings (loss)	**97,816**	71,718	29,271	12,760	38,500	65,951	(11,285)	(22,538)
Per share – basic	**0.58**	0.43	0.18	0.08	0.23	0.40	(0.07)	(0.14)
Per share – diluted	**0.56**	0.42	0.17	0.08	0.23	0.40	(0.07)	(0.14)
Dividends	**25,358**	16,779	1,671	1,658	1,651	1,649	1,649	1,649
Per share	**0.15**	0.10	0.01	0.01	0.01	0.01	0.01	0.01
Capital expenditures	**143,331**	108,951	90,170	57,086	108,851	68,250	61,568	37,299
Corporate Acquisition	**22,220**	-	-	-	-	-	-	-
Total payout ratio (%)(2)	**83**	76	88	71	95	92	129	118

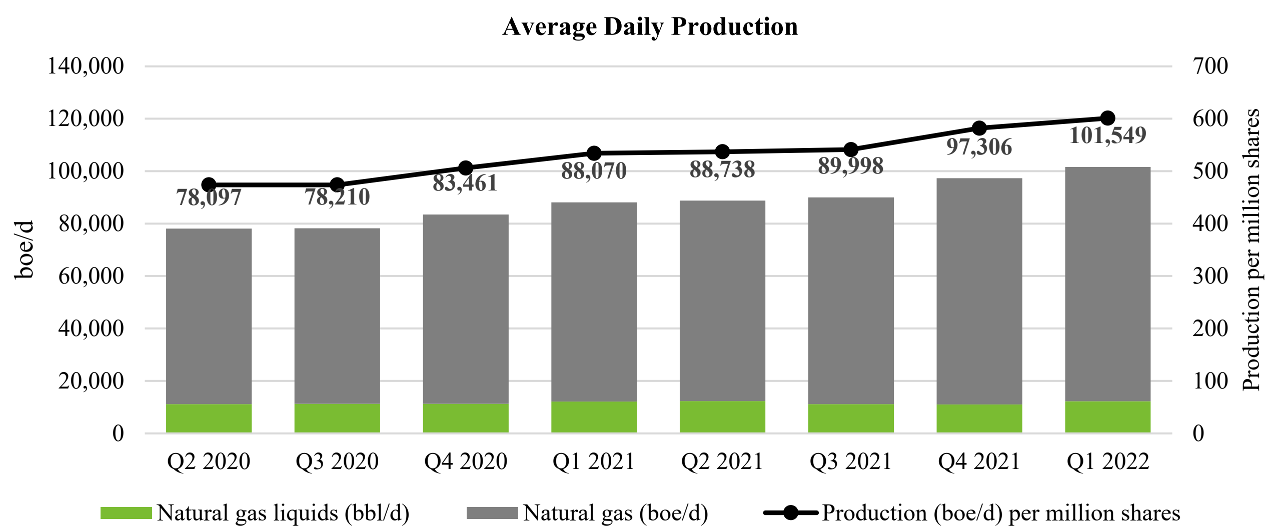
(1) Excludes revenue from sale of natural gas volumes from third-parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information

RESULTS OF OPERATIONS

Production

	Three Months ended March 31	
	2022	2021
Natural gas (MMcf/d)	**535.7**	455.6
Natural gas liquids ("NGLs" or "Liquids") (bbl/d)	**12,273**	12,138
Total (boe/d)	**101,549**	88,070
Total (MMcfe/d)	**609.3**	528.4

Natural gas production increased 18 per cent from 455.6 MMcf/d in the first quarter of 2021 to 535.7 MMcf/d in the first quarter of 2022. NGL production increased one per cent from 12,138 bbl/d in the first quarter of 2021 to 12,273 bbl/d in the first quarter of 2022. Total first quarter production increased 15 per cent from 88,070 boe/d to 101,549 boe/d. Production increases are primarily attributable to Peyto's increased capital program over the past year.



Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2022	2021
Condensate and Pentanes Plus (bbl/d)	**7,253**	7,018
Other Natural gas liquids (bbl/d)	**5,020**	5,120
Natural gas liquids (bbl/d)	**12,273**	12,138
Liquid to gas ratio (bbls/MMcf)	**22.9**	26.6

The liquid to gas ratio decreased 14 per cent from 26.6 bbl/MMcf in the first quarter of 2021 to 22.9 bbl/MMcf in the first quarter of 2022. 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. As natural gas prices improved, Peyto included more dry gas wells into the drilling program.

Benchmark Commodity Prices

	Three Months ended March 31	
	2022	2021
AECO 7A monthly ($/GJ)	**4.35**	2.77
AECO 5A daily ($/GJ)	**4.49**	2.99
NYMEX (US$/MMBtu)	**4.60**	3.38
Emerson2 (US$/MMBtu)	**4.57**	2.91
Malin (US$/MMBtu)	**5.66**	3.03
Ventura daily (US$/MMBtu)	**4.47**	11.86
Canadian WTI ($/bbl)	**119.40**	73.22
Conway C3 (US$/bbl)	**54.03**	38.40
Exchange rate (CDN/USD)	**1.266**	1.266

Commodity Prices(1)

	Three Months ended March 31	
($CAD)	**2022**	2021
Condensate and Pentanes Plus ($/bbl)	**125.81**	68.57
Other Natural gas liquids ($/bbl)	**52.68**	30.89
NGL price – before hedging ($/bbl)	**95.90**	52.84
Hedging ($/bbl)	**(14.24)**	(7.21)
Realized NGL price – after hedging ($/bbl)	**81.66**	45.63
Natural gas ($/Mcf)	**6.03**	4.52
Diversification activities ($/Mcf)	**(1.17)**	(1.04)
Hedging ($/Mcf)	**(0.78)**	(0.42)
Realized natural gas price – after hedging and diversification ($/Mcf)	**4.08**	3.06
Total Hedging ($/Mcfe)	**(0.97)**	(0.53)
Total Hedging ($/boe)	**(5.84)**	(3.16)

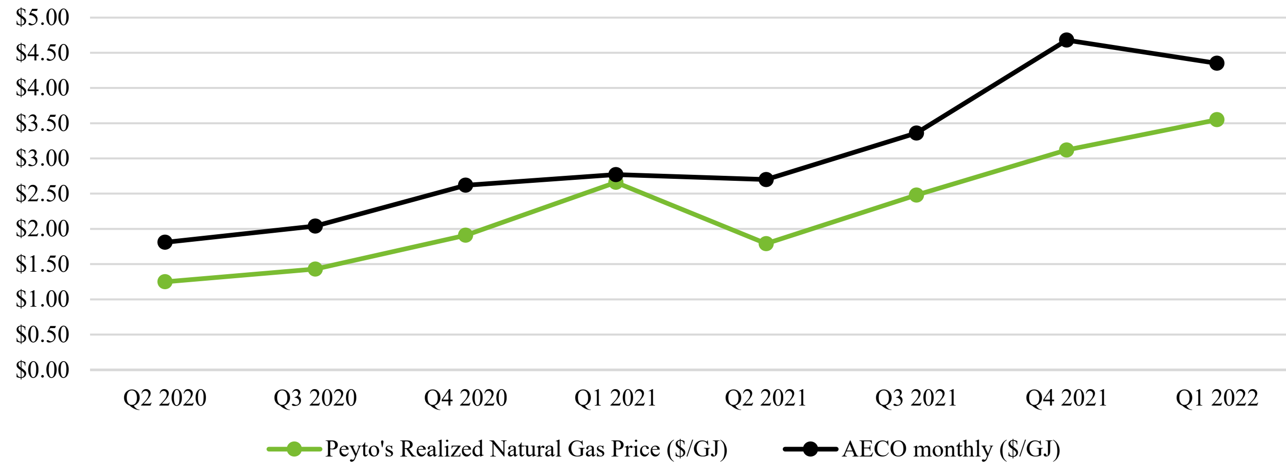
(1) Condensate, pentanes plus and other liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

Peyto's natural gas price, before hedging and diversification activities, averaged $6.02/Mcf during the first quarter of 2022 an increase of 33 per cent from $4.52/Mcf in the first quarter of 2021. Natural gas liquids prices, before hedging, averaged $95.90/bbl, an increase of 81 per cent from $52.84/bbl a year earlier. Increases in Peyto's natural gas and NGL prices are driven by the sharp increase in benchmark commodity prices from the first quarter of 2021.

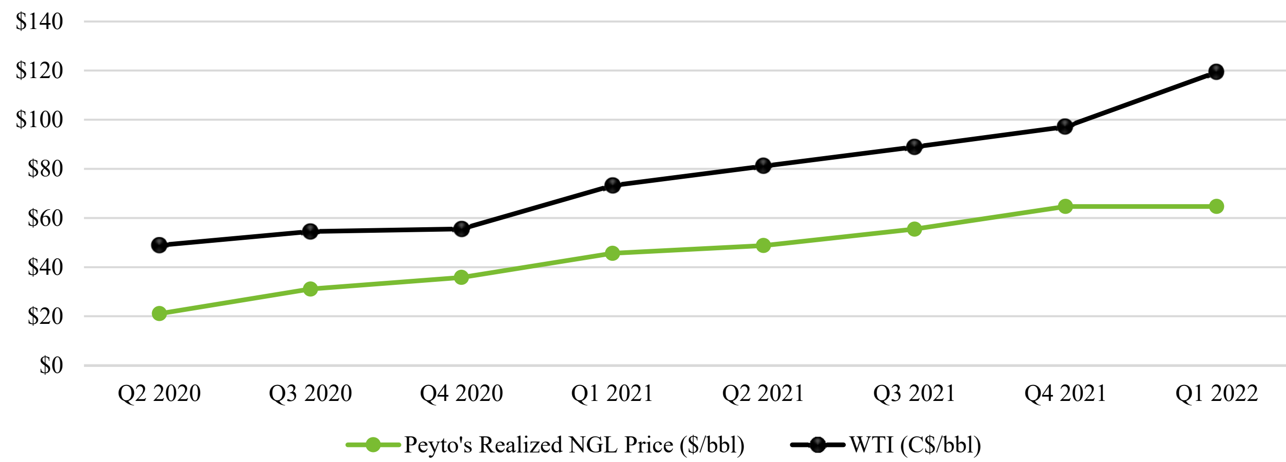
Peyto actively marketed all components of its production stream in the first quarter including natural gas, condensate, pentane, butane and propane. Peyto's market diversification activity resulted in natural gas being sold at various hubs including AECO, Ventura, Emerson 2, Malin and Henry Hub using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



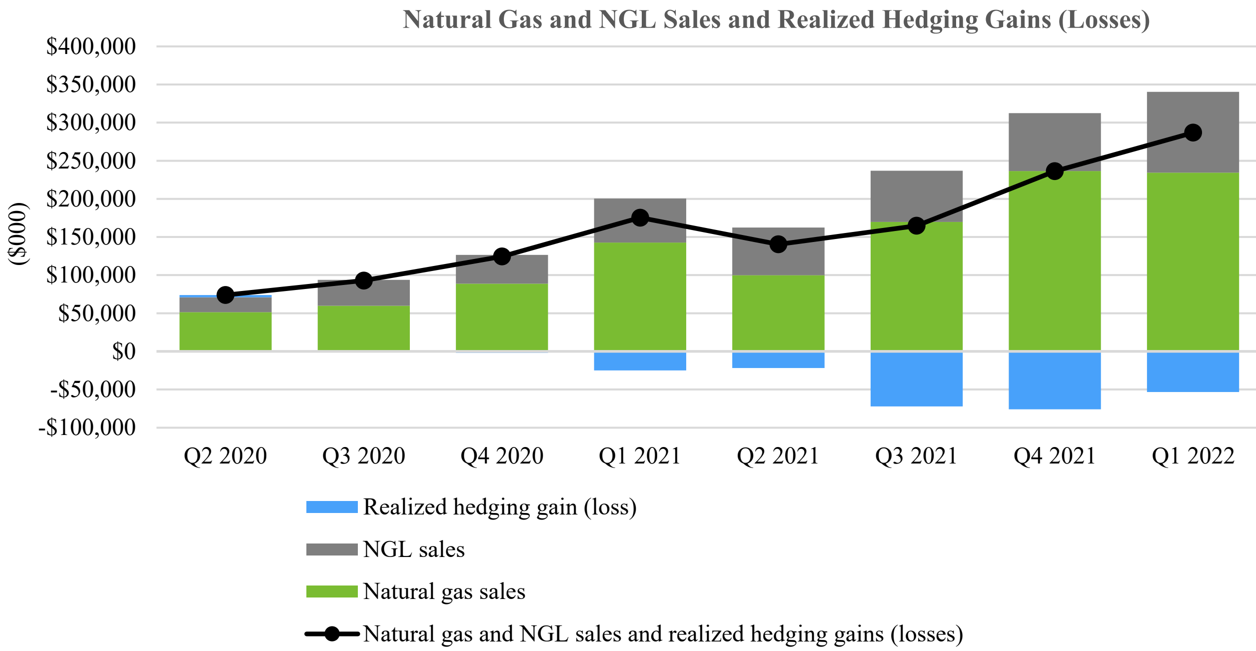
NGL Price



Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

	Three Months ended March 31	
($000)	**2022**	2021
Natural gas[(1)]	**234,346**	142,663
NGLs	**105,924**	57,720
Hedging – gas	**(37,646)**	(17,184)
Hedging – NGLs	**(15,730)**	(7,872)
	286,894	175,327

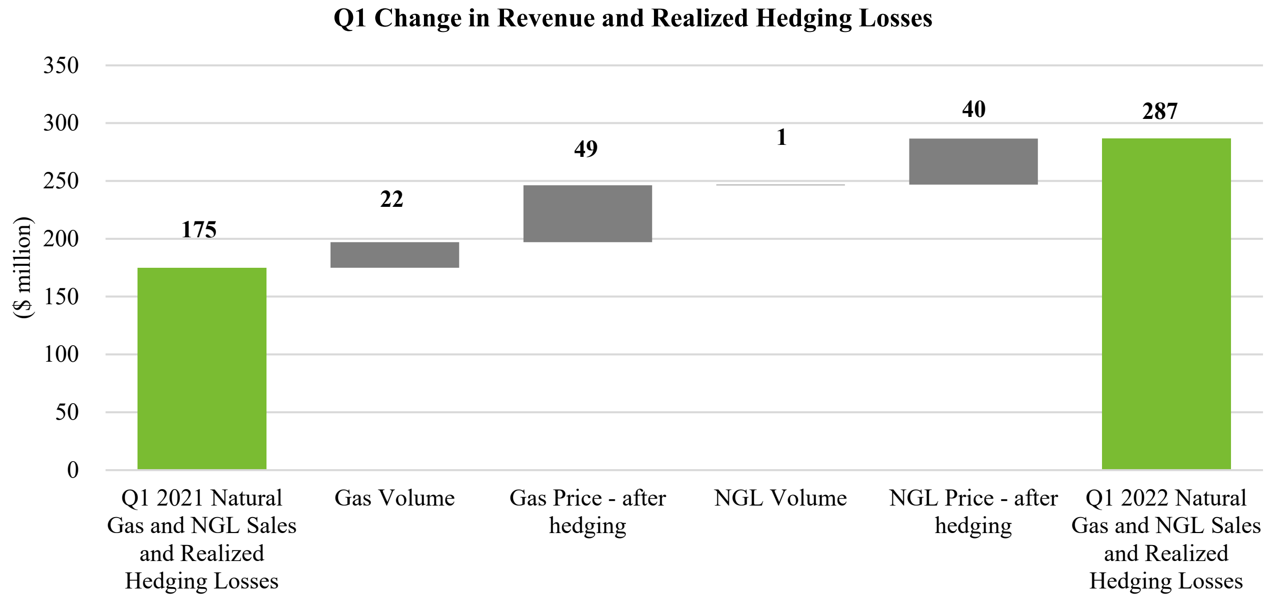
[(1)] Excludes revenue from sale of natural gas volumes from third-parties



In the first quarter of 2022, natural gas and NGL sales net of realized hedging losses increased 64 per cent to $286.9 million from $175.3 million for the same period in 2021. The increase in natural gas and NGL sales and realized hedging losses for the quarter was a result of increased gas production volumes and commodity prices, as detailed in the following table and graph:

Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

	Three Months ended March 31		
	2022	2021	**$ million**
Q1 2021			**175**
change due to:			
Natural gas			
Volume (MMcf)	48,209	41,003	**22**
Price ($/Mcf)	$4.08	$3.06	**49**
NGL			
Volume (Mbbl)	1,105	1,092	**1**
Price ($/bbl)	$81.66	$45.63	**40**
Q1 2022			**287**



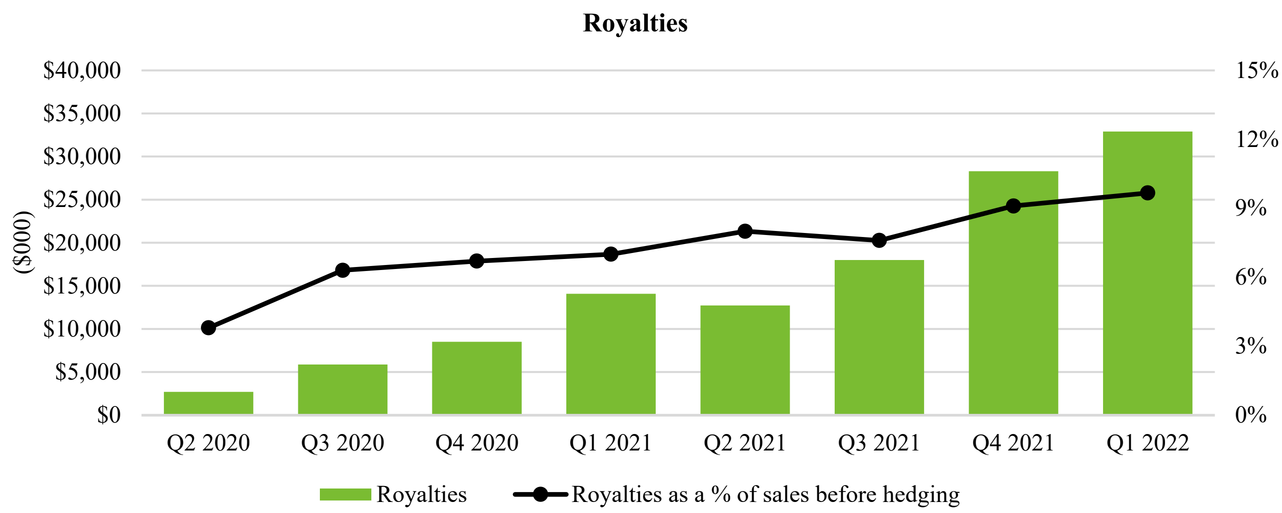
Royalties

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's Drilling and Completion Cost Allowance program, which has a 5 per cent initial royalty rate.

	Three Months ended March 31	
	2022	2021
Royalties ($000)	**32,903**	14,069
per cent of sales excluding hedging	**9.7**	7.0
$/Mcfe	**0.60**	0.29
$/boe	**3.60**	1.78

For the first quarter of 2022, royalties averaged $0.60/Mcfe or 9.7 per cent of Peyto's natural gas and NGL sales excluding hedging losses, an increase from 7.0 per cent in the first quarter of 2021. The increase was primarily due to higher AECO and WTI prices. Based on forward AECO prices, Peyto's royalty rate for 2022 is expected to be approximately 15 per cent of revenue excluding hedging gains (losses).

In its 23-year history, Peyto has invested over $6.9 billion in capital projects, found and developed 4.5 TCFe of natural gas reserves and paid over $1.0 billion in royalties.

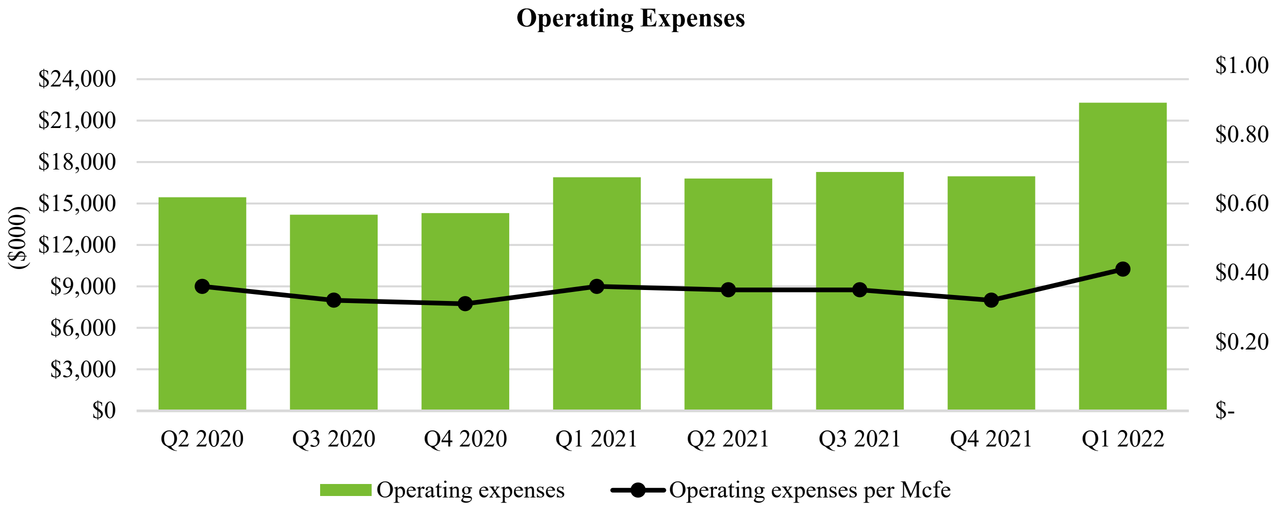


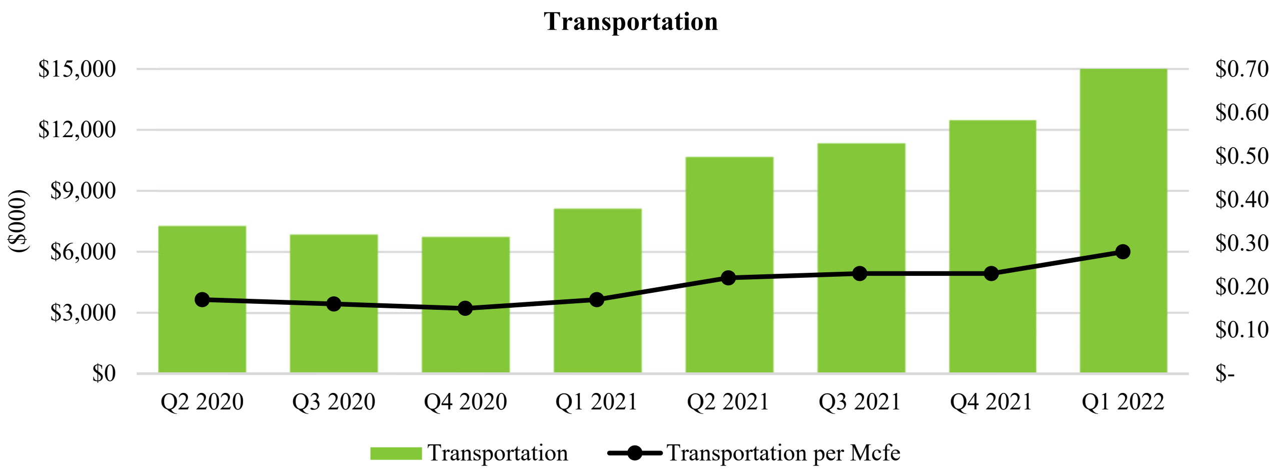
Operating Costs & Transportation
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended March 31	
	2022	2021
Payments to Government	**5,009**	4,811
Other expenses	**17,286**	12,090
Operating costs ($000)	**22,295**	16,901
$/Mcfe	**0.41**	0.36
$/boe	**2.44**	2.13
Transportation ($000)	**15,270**	8,110
$/Mcfe	**0.28**	0.17
$/boe	**1.67**	1.02

For the first quarter of 2022, operating expenses were $22.3 million compared to $16.9 million for the same quarter in 2021. On a unit-of-production basis, operating costs increased 14 per cent to $0.41/Mcfe from $0.36/Mcfe. This increase was largely due to higher chemical, trucking and other operating costs; as suppliers and service providers increased their rates to reflect the impact of the increase in commodity prices. Approximately 20 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 65 per cent on a unit-of production basis from $0.17/Mcfe in the first quarter 2021 to $0.28/Mcfe in the first quarter 2022 due to the addition of Empress and Emerson service, coupled with a January 2022 fee increase on the NOVA transmission line. Physical transportation contracts to Emerson and Empress were entered into as part of Peyto's sales diversification strategy.

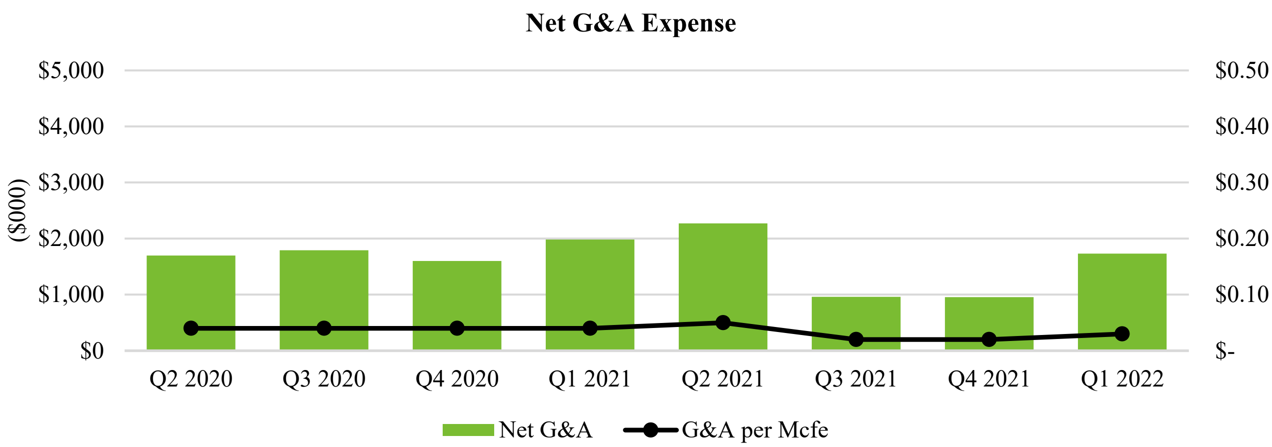




General and Administrative Expenses

	Three Months ended March 31	
	2022	2021
G&A expenses ($000)	**5,169**	4,190
Overhead recoveries ($000)	**(3,438)**	(2,206)
Net G&A expenses ($000)	**1,731**	1,984
$/Mcfe	**0.03**	0.04
$/boe	**0.19**	0.25

For the first quarter of 2022, general and administrative expenses before overhead recoveries was $5.2 million compared to $4.2 million for the same quarter of 2021. This increase was due primarily to transaction costs of $0.4 million on the corporate acquisition, and increased employment and insurance costs. General and administrative expenses averaged $0.09/Mcfe before overhead recoveries of $0.06/Mcfe for net general and administrative expenses of $0.03/Mcfe in the first quarter of 2022 ($0.09/Mcfe before overhead recoveries of $0.05/Mcfe for net general and administrative expenses of $0.04/Mcfe in the first quarter of 2021).



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 $Nil was recorded for the first quarter of 2022.

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 9.9 million non-vested stock options (6 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 first quarter of 2022 is $2.3 million (March 31, 2021 - $1.1 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 10 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

	Number of Options	Weighted average exercise price
Balance, December 31, 2021	9,173,137	5.05
Stock options granted	1,398,600	9.46
Exercised	(672,880)	3.23
Balance, March 31, 2022	9,898,857	5.80

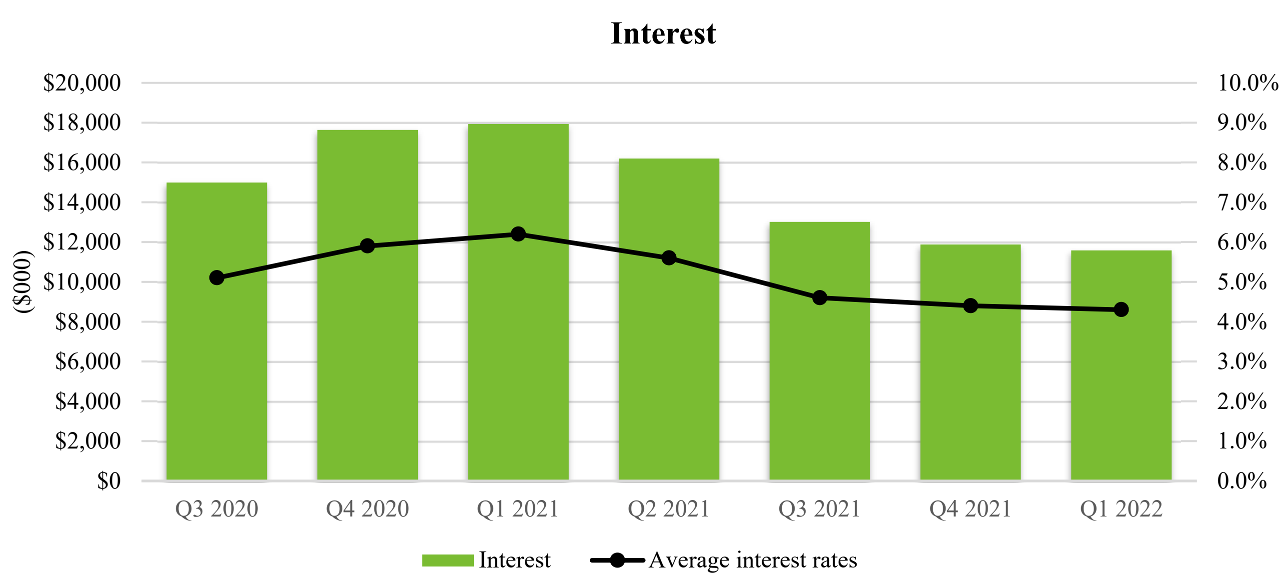
Deferred Share Units

	Number of DSUs	Weighted average exercise price
Balance, December 31, 2021	176,669	3.60
DSU granted	11,942	9.74
Balance March 31, 2022	188,611	3.99

Interest Expense

	Three Months ended March 31	
	2022	2021
Interest expense ($000)	**11,585**	17,931
$/Mcfe	**0.21**	0.38
$/boe	**1.27**	2.26
Average interest rate	**4.3%**	6.2%

First quarter 2022 average interest rate was 4.3 per cent compared to 6.2 per cent for the first quarter of 2021 due to a decrease in leverage resulting in lower stamping fees charged on the amounts drawn on the revolving credit facility.

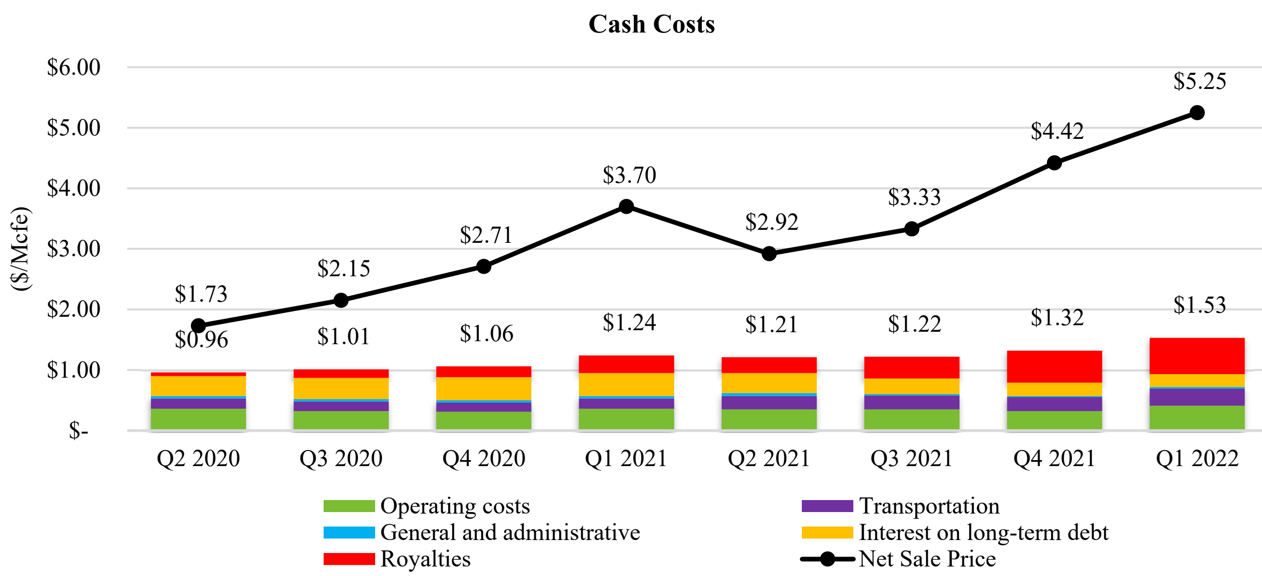


Netbacks

($/Mcfe)	Three Months ended March 31 **2022**	2021
Gross Sale Price	**6.22**	4.23
Realized hedging gain (loss)	**(0.97)**	(0.53)
Net Sale Price	**5.25**	3.70
Less: Royalties	**0.60**	0.29
Operating costs	**0.41**	0.36
Transportation	**0.28**	0.17
Field netback(1)	**3.96**	2.88
General and administrative	**0.03**	0.04
Interest on long-term debt	**0.21**	0.38
Cash netback(1) ($/Mcfe)	**3.72**	2.46
Cash netback(1) ($/boe)	**22.31**	14.81

(1) This is a non-GAAP ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.

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 first quarter 2022 provision for depletion and depreciation totaled $73.0 million ($1.33/Mcfe) compared to $65.4 million ($1.37/Mcfe) in the first quarter 2021.

Income Taxes

The current provision for deferred income tax expense is $29.9 million compared to an expense of $11.8 million in the first quarter of 2021. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	March 31, 2022	December 31, 2021	Annual deductibility
Canadian Oil and Gas Property Expense	165.7	169.7	10% declining balance
Canadian Development Expense	557.1	510.1	30% declining balance
Canadian Exploration Expense	105.6	104.4	100%
Undepreciated Capital Cost	323.5	277.0	Primarily 25% declining balance
Tax Losses Carried Forward	38.5	107.7	100%
Other	0.1	0.1	10% declining balance
Total Federal Tax Pools	**1,190.5**	**1,169.0**	
Additional Alberta Tax Pools	45.1	46.3	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 first quarter of 2022, a realized hedging loss of $53.4 million was recorded as compared to a $25.1 million loss for the equivalent period in 2021. 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, 2022 to October 31, 2022	Fixed Price	115,000 GJ	$2.18
November 1, 2022 to March 31, 2023	Fixed Price	195,000 GJ	$3.18
April 1, 2023 to October 31, 2023	Fixed Price	180,000 GJ	$2.55

Natural Gas Period Hedged – NYMEX	Type	Daily Volume	Average Price (Nymex USD/MMBtu)
April 1, 2022 to October 31, 2022	Fixed Price	55,000 MMBtu	$3.68
November 1, 2022 to December 31, 2022	Fixed Price	70,000 MMBtu	$4.22
November 1, 2022 to March 31, 2023	Fixed Price	70,000 MMBtu	$4.47
January 1, 2023 to December 31, 2023	Fixed Price	70,000 MMBtu	$3.52
April 1, 2023 to October 31, 2023	Fixed Price	40,000 MMBtu	$3.56
January 1, 2024 to March 31, 2024	Fixed Price	60,000 MMBtu	$4.17

Natural Gas Period Hedged – Malin	Type	Daily Volume	Average Price (Nymex USD/MMBtu)
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	$2.97

Crude Oil Period Hedged – WTI	Type	Daily Volume	Average Price (WTI USD/bbl)
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

Crude Oil Period Hedged – WTI	Type	Daily Volume	Price (WTI CAD/bbl)
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	2,900 bbl	$109.06
July 1, 2022 to September 31, 2022	Fixed Price	400 bbl	$106.80
July 1, 2022 to December 31, 2022	Fixed Price	1,200 bbl	$93.10
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$100.70
January 1, 2023 to March 31, 2023	Fixed Price	400 bbl	$92.53

As at March 31, 2022, Peyto had committed to the future sale of 92,575,000 gigajoules (GJ) of natural gas at an average price of $2.65 per GJ or $3.05 per mcf, 66,180,000 MMBtu at an average price of $3.58 US per MMBtu, 109,800 barrels of crude at an average price of $63.79 USD per bbl, and 868,800 barrels of crude at an average price of $94.63 CAD per bbl. Had these contracts closed on March 31, 2022, Peyto would have realized a loss in the amount of $348.6 million. Total hedged volumes represent approximately 3 per cent of Peyto's developed 2021 year end reserves.

Subsequent to March 31, 2022, Peyto entered into the following contracts:

Natural Gas Period Hedged – NYMEX	Type	Daily Volume	Average Price (Nymex USD/MMBtu)
January 1, 2024 to March 31, 2024	Fixed Price	10,000 mmbtu	$5.03

Crude Oil Period Hedged – WTI	Type	Daily Volume	Price (WTI CAD/bbl)
July 1, 2022 to September 30, 2022	Fixed Price	300 bbl	$126.56
July 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$125.00
January 1, 2023 to March 31, 2023	Fixed Price	500 bbl	$115.60
April 1, 2023 to June 30, 2023	Fixed Price	200 bbl	$111.50

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. The $40 million USD in senior secured notes does provide some foreign exchange risk mitigation.

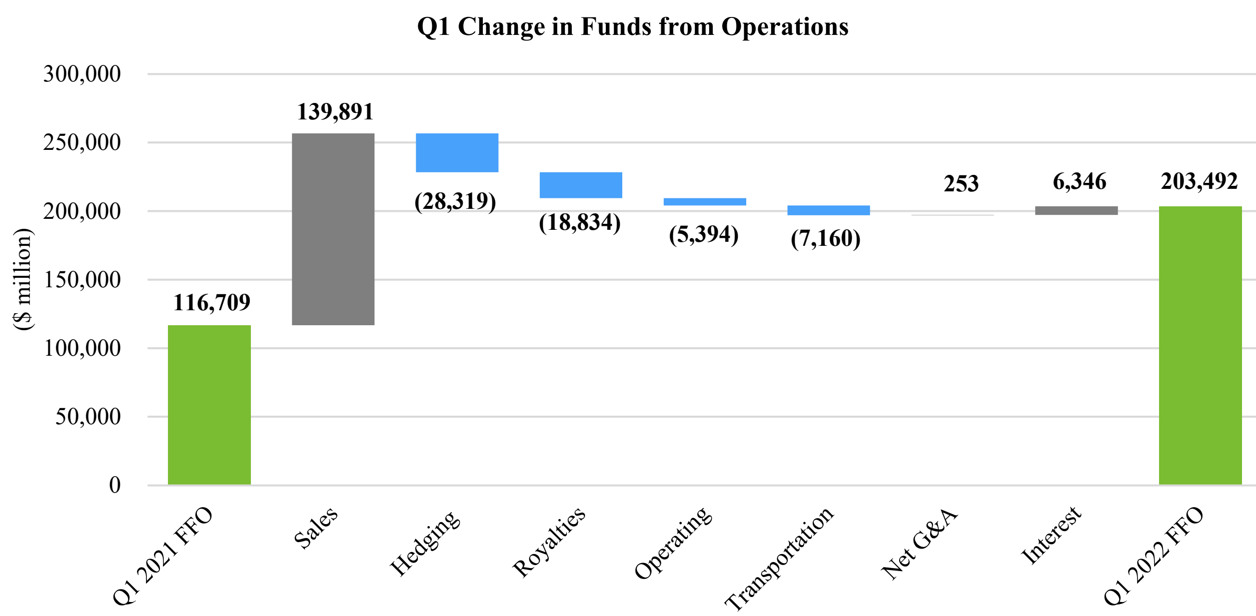
Interest Rate Risk Management
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently there are no agreements to manage the risk on the credit facility. At March 31, 2022, the increase or decrease in earnings for each 100 bps (1 per cent) change in weighted average borrowing rate paid on the outstanding revolving demand loan amounts to approximately $1.6 million per quarter. Average debt outstanding for the quarter was $1.054 billion (including $415 million fixed rate debt).

Cash Flow from Operating Activities, Funds from Operations and Earnings

($000)	Three Months ended March 31 2022	2021
Cash Flow from Operating Activities	**185,790**	119,752
Funds from Operations(1)	**203,492**	116,709
Funds from operations per share(1) – basic	**1.20**	0.71
Funds from operations per share(1) – diluted	**1.17**	0.71
Free Funds Flow(1)	**60,161**	7,858
Earnings	**97,816**	38,500
Earnings per share – basic	**0.58**	0.23
Earnings per share – diluted	**0.56**	0.23

(1) This is a non-GAAP measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.

Funds from Operations and Cash Flow from Operating Activities
For the first quarter of 2022, funds from operations ("FFO") totaled $203.5 million or $1.20 per basic share, compared to $116.7 million or $0.71 per basic share during the same quarter in 2021. Cash flow from operating activities increased to $185.8 million in the first quarter of 2022 from $119.8 million in the first quarter of 2021. The increases in funds from operation and cash flow from operating activities was due to increase in commodity prices and production volumes, partially offset by an increased realized hedging loss, higher royalties, operating, and transportation expenses. Funds from operations is a non-GAAP financial measure, refer to the section entitled "Non-GAAP and Other Financial Measures" for additional information contained within this MD&A.



Free Funds Flow
Peyto uses free funds flow, defined as funds from operations less additions to property, plant and equipment, as an indicator of the funds available for capital allocation. For the first quarter of 2022, free funds flow increased to $60.1 million from $7.9 million in the first quarter of 2021. Free funds flow is a non-GAAP financial measure, refer to the section entitled "Non-GAAP and Other Financial Measures" for additional information contained within this MD&A.

Earnings
The Company's first quarter 2022 earnings increased to $97.8 million compared to $38.5 million in the first quarter of 2021. The increased earnings is driven by the increased funds from operations, partially offset by increased depletion and depreciation associated with increased production volumes, and higher deferred tax expense.

Capital Expenditures
Peyto's additions to property plant and equipment in its Consolidated Statement of Cash Flows ("Total Capital Expenditures") totaled $143.3 million for the first quarter of 2022. Exploration and development related activity represented $85.3 million (60 per cent), while expenditures on facilities, gathering systems and equipment totaled $56.8 million (40 per cent). First quarter 2022 facilities and pipelines expenditures primarily related to the construction of Peyto's new gas plant in the Chambers area, commissioned in April 2022, and associated gas gathering infrastructure to complement new wells flowing to the new plant.

The following table summarizes capital expenditures for the first quarter of 2022 and 2021:

	Three Months ended March 31	
($000)	**2022**	2021
Land	**55**	-
Seismic	**1,228**	1,094
Drilling	**52,069**	33,536
Completions	**33,242**	18,220
Equipping & Tie-ins	**9,975**	4,811
Facilities & Pipelines	**46,814**	15,605
Asset Acquisitions & Dispositions	**(52)**	35,585
Total Capital Expenditures	**143,331**	108,851
Corporate Acquisition	**22,220**	-

Corporate Acquisition
On February 28, 2022, Peyto acquired all the issued and outstanding shares of a private company in the Brazeau River area of Alberta for cash consideration of $22.2 million. The acquisition provides for an increase in land, production and infrastructure including a 100% owned and operated 45 MMcf/d sweet natural gas plant. Total transaction costs incurred by Peyto of $0.4 million associated with this acquisition were expensed. The acquisition resulted in an increase in property, plant and equipment of approximately $5.9 million, deferred tax asset of $17.3 million, working capital of $0.1 million, and a decommissioning provision of $1.1 million. Refer to note 3 in Peyto's consolidated financial statements for additional information on the acquisition.

LIQUIDITY AND CAPITAL RESOURCES

Net Debt
Net debt is a non-GAAP financial measure used by the Company in monitoring and assessing its capital structure. Net debt as at March 31, 2022, December 31, 2021 and March 31, 2021 is summarized as follows:

($000)	**As at March 31, 2022**	As at December 31, 2021	As at March 31, 2021
Long-term debt	**1,039,984**	1,065,712	1,150,000
Current assets	**(172,058)**	(144,370)	(91,679)
Current liabilities	**492,187**	239,620	129,667
Financial derivative instruments	**(294,794)**	(61,091)	(17,438)
Current portion of lease obligation	**(1,233)**	(1,123)	(1,136)
Net debt(1)	**1,064,086**	1,098,748	1,169,414

(1) This is a non-GAAP financial measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.

Peyto's net debt of $1.06 billion as at March 31, 2022 decreased by $34.7 million from December 31, 2021.

The Company's 2022 capital expenditure budget is $350 to $400 million. Based on current commodity prices, Peyto's cash flow from operating activities is expected to fully fund the capital program, and dividend payment, with the balance being allocated to debt repayment.

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.

Long-Term Debt

($000)	**March 31, 2022**	December 31, 2021
Bank credit facility	**625,000**	650,000
Long term senior secured notes	**414,984**	415,712
Balance, end of the period	**1,039,984**	1,065,712

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 financial covenants as defined in the credit facility and note purchase agreements. The Company's financial covenants include financial measures defined within its revolving credit facility agreement that are not defined under IFRS. These financial measures are defined in the 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	**March 31, 2022**	December 31, 2021
Total Debt to EBITDA	Less than 4.0	**1.73**	2.04
Senior Debt to EBITDA	Less than 3.5	**1.73**	2.04
Interest coverage	Greater than 3.0	**11.47**	8.89

Peyto is in compliance with all financial covenants at March 31, 2022.

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

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

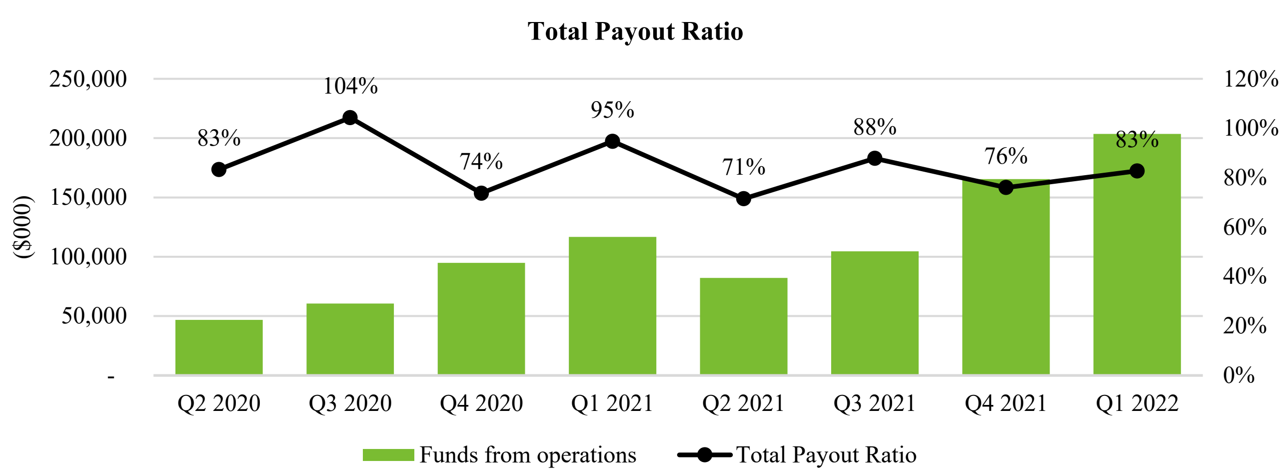
Common Shares (no par value)	Number of Common Shares	Amount $
Balance, December 31, 2021	**168,151,219**	**1,664,508**
Private Placement	247,785	2,578
Common shares issued	851,901	4,869
Balance, March 31, 2022	**169,250,905**	**1,671,955**

Total Payout Ratio

"Total payout ratio" is a non-GAAP measure which is calculated as the sum of dividends declared plus additions to property, plant and equipment, 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. Refer to the section entitled "Non-GAAP and Other Financial Measures" in this MD&A for further information.

	Three Months ended March 31	
	2022	2021
Total dividends declared ($000)	**25,358**	1,651
Additions to property, plant and equipment ($000)	**143,331**	108,851
Total payout(1) ($000)	**168,689**	110,502
Funds from operations(1) ($000)	**203,492**	116,709
Total payout ratio(1) (%)	**83%**	95%

(1) This is a non-GAAP financial measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.



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 March 31, 2022:

($000)	2022	2023	2024	2025	2026	Thereafter
Interest payments [1]	12,657	16,827	13,127	11,743	8,163	9,962
Transportation commitments	49,371	68,474	43,202	42,119	29,900	347,875
Operating leases	1,650	2,200	2,200	2,200	2,200	-
Methanol	1,194	-	-	-	-	-
Total	64,872	87,501	58,529	56,062	40,263	357,837

(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 March 31		As at March 31	
	2022	2021	**2022**	2021
	718.2	44.0	**75.4**	(4.0)

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.

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.

For a detailed discussion of the risks, uncertainties and industry conditions associated with Peyto's business, refer to the Company's Annual Information Form dated March 31, 2022, which is available under Peyto's SEDAR profile at www.sedar.com and at www.peyto.com.

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 March 31, 2022 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 and 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.

	Three Months ended March 31	
($000)	**2022**	2021
Cash flows from operating activities	**185,790**	119,752
Change in non-cash working capital	**17,702**	(3,043)
Performance based compensation	**-**	-
Funds from operations	**203,492**	116,709

Free Funds Flow
Peyto uses free funds flow as an indicator of the efficiency and liquidity of Peyto's business, measuring its funds after capital investment available to manage debt levels, pay dividends, and return capital to shareholders through activities such as share repurchases. Peyto calculates free funds flow as funds from operations generated during the period less additions to property, plant and equipment, included in cash flow from investing activities in the statement of cash flows. By removing the impact of current period additions to property, plant and equipment from funds from operations, Management monitors its free funds flow to inform its capital allocation decisions. The most directly comparable GAAP measure to free funds flow is cash from

operating activities. The following table details the calculation of free funds flow and the reconciliation from cash flow from operating activities to free funds flow.

	Three Months ended March 31	
($000)	**2022**	2021
Cash flows from operating activities	**185,790**	119,752
Change in non-cash working capital	**17,702**	(3,043)
Performance based compensation	**-**	-
Funds from operations	**203,492**	116,709
Additions to property, plant and equipment	**(143,331)**	(108,851)
Free funds flow	**60,161**	7,858

Net Debt
"Net debt" is a non-GAAP financial measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current portion of lease obligations. 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 March 31, 2022**	As at December 31, 2021	As at March 31, 2021
Long-term debt	**1,039,984**	1,065,712	1,150,000
Current assets	**(172,058)**	(144,370)	(91,679)
Current liabilities	**492,187**	239,620	129,667
Financial derivative instruments	**(294,794)**	(61,091)	(17,438)
Current portion of lease obligation	**(1,233)**	(1,123)	(1,136)
Net debt	**1,064,086**	1,098,748	1,169,414

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.

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 Mcfe" 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.

	Three Months ended March 31	
($/Mcfe)	**2022**	2021
Gross Sale Price	**6.22**	4.23
Realized hedging gain (loss)	**(0.97)**	(0.53)
Net Sale Price	**5.25**	3.70
Less: Royalties	**0.60**	0.29
Operating costs	**0.41**	0.36
Transportation	**0.28**	0.17
Field netback	**3.96**	2.88
General and administrative	**0.03**	0.04
Interest on long-term debt	**0.21**	0.38
Cash netback ($/Mcfe)	**3.72**	2.46
Cash netback ($/boe)	**22.31**	14.81

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 additions to property, plant and equipment, 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.

	Three Months ended March 31	
	2022	2021
Total dividends declared ($000)	**25,358**	1,651
Additions to property, plant and equipment ($000)	**143,331**	108,851
Total payout ($000)	**168,689**	110,502
Funds from operations ($000)	**203,492**	116,709
Total payout ratio (%)	**83%**	95%

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.

"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.

"Gross sale price" is comprised of natural gas and natural gas liquids sales, as determined in accordance with IFRS, divided by the Company's total production.

"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.

"Liquids production to sales gas ratio" is comprised of NGLs production, divided by the Company's natural gas production.

"Net sale price" is comprised of natural gas and natural gas liquids sales including hedging gains or losses, as determined in accordance with IFRS, divided by the Company's total production.

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

"Royalties per Mcfe 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.

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

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

FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking statements or forward-looking information (collectively, "forward-looking statements") within the meaning of applicable Canadian securities laws. These forward-looking statements relate to future events or Peyto's future performance. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "should", "believe" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. These statements speak only as of the date of this MD&A.

Forward-looking statements are based on a number of factors and assumptions which have been used to develop such forward-looking statements but which may prove to be incorrect. Although Peyto believes that the expectations reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements because Peyto can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this MD&A, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment in which Peyto operates; the timely receipt of any required regulatory approvals; the ability of Peyto to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects which Peyto has an interest in to operate the field in a safe, efficient and effective manner; the ability of Peyto to obtain financing on acceptable terms; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisitions, development and exploration; the timing and costs of pipeline, storage and facility construction and expansion and the ability of Peyto to secure adequate product transportation; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes, environmental and climate change matters in the jurisdictions in which Peyto operates; and the ability of Peyto to successfully market its oil and natural gas products.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- Peyto's expected 2022 royalty rate to be approximately 15 per cent of revenue excluding hedging gains or losses;
- The 2022 capital expenditures program of $350 to $400 million;
- Peyto's ability to fully fund the capital program, and dividend payment with funds from operations, with the balance being allocated to debt repayment;
- the existence, operation and strategy of Peyto's commodity price risk management program; and
- the approximate and maximum amount of forward sales and hedging to be employed by Peyto.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- public health risks including the COVID-19 pandemic;
- volatility in market prices for oil and natural gas;
- fluctuations in foreign exchange or interest rates and stock market volatility;
- loss of markets;
- changes to the Corporation's capital budget;
- liabilities inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- risks and uncertainties associated with Peyto's oil and natural gas exploration and development program;
- competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel;
- incorrect assessments of the value of acquisitions and exploration and development programs;
- geological, technical, drilling and processing problems;
- restrictions and/or limitations on transportation, including pipeline systems;
- uncertainties associated with changes in legislation, including, but not limited to, changes in income tax laws, oil and natural gas royalty and regulatory frameworks and climate change laws and frameworks; and
- the other factors discussed under "Risk Factors" in Peyto's Annual Information Form for the year ended December 31, 2021.

Statements relating to reserves are deemed to be forward-looking statements as they involve the implied assessment, based on current estimates and assumptions, that the reserves described can be profitably produced in the future. The foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Peyto does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by applicable securities law.

CONVERSION RATIO

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.

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

	2022	2021			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (Mcf/d)	**535,660**	517,606	473,008	458,696	455,593
NGLs (bbl/d)	**12,273**	11,038	11,164	12,289	12,138
Total (boe/d @ 6:1)	**101,549**	97,306	89,998	88,738	88,070
Total (Mcfe/d @ 6:1)	**609,294**	583,834	539,990	532,430	528,419
Liquid to gas ratio (bbl per MMcf)	**22.9**	21.3	23.6	26.8	26.6
Average product prices					
Natural gas ($/mcf)	**4.08**	3.58	2.48	2.06	3.06
NGLs ($/bbl)	**81.66**	64.71	55.47	48.77	45.63
$/Mcfe					
Net sale price ($/Mcfe)	**5.25**	4.42	3.33	2.92	3.70
Royalties ($/Mcfe)	**0.60**	0.53	0.36	0.26	0.29
Operating costs ($/Mcfe)	**0.41**	0.32	0.35	0.35	0.36
Transportation ($/Mcfe)	**0.28**	0.23	0.23	0.22	0.17
Field netback ($/Mcfe) (2)	**3.96**	3.34	2.39	2.09	2.88
General & administrative expense ($/Mcfe)	**0.03**	0.02	0.02	0.05	0.04
Interest expense ($/Mcfe)	**0.21**	0.22	0.26	0.33	0.38
Cash netback ($/Mcfe) (2)	**3.72**	3.10	2.11	1.71	2.46
Financial ($000 except per share)					
Revenue and realized hedging gains (losses) (1)	**286,894**	236,360	164,777	140,457	175,327
Royalties	**32,903**	28,304	17,985	12,370	14,069
Funds from operations(2)	**203,492**	166,165	104,608	82,191	116,709
Funds from operations per share(2)	**1.20**	0.99	0.63	0.50	0.71
Funds from operations per diluted share(2)	**1.17**	0.96	0.62	0.50	0.71
Total dividends	**25,358**	16,779	1,671	1,658	1,651
Total dividends per share(2)	**0.15**	0.10	0.01	0.01	0.01
Payout ratio (2)	**12%**	10%	2%	2%	1%
Earnings	**97,816**	71,718	29,271	12,760	38,500
Earnings per share	**0.58**	0.43	0.18	0.08	0.23
Earnings per diluted share	**0.56**	0.42	0.17	0.08	0.23
Capital expenditures	**143,331**	108,951	90,170	57,086	108,851
Corporate acquisition	**22,220**	-	-	-	-
Total payout ratio (%)(2)	**83%**	76%	88%	71%	95%
Weighted average shares outstanding (basic)	**169,058,178**	167,546,601	166,440,704	165,343,937	165,069,227
Weighted average shares outstanding (diluted)	**173,320,559**	172,582,450	169,512,566	168,635,872	167,255,237

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

(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.

Peyto Exploration & Development Corp.

Condensed Consolidated Balance Sheet *(unaudited)*

(Amount in $ thousands)

	March 31 2022	December 31 2021
Assets		
Current assets		
Cash	3,574	5,718
Accounts receivable (*Note 11)*	149,994	118,948
Prepaid expenses	18,490	19,704
	172,058	144,370
Property, plant and equipment, net *(Note 4)*	3,680,352	3,639,825
	3,680,352	3,639,825
	3,852,410	3,784,195
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	187,697	168,998
Dividends payable *(Note 8)*	8,463	8,408
Current portion of lease obligation *(Note 7)*	1,233	1,123
Derivative financial instruments *(Note 12)*	294,794	61,091
	492,187	239,620
Long-term debt *(Note 5)*	1,039,984	1,065,712
Long-term derivative financial instruments *(Note 12)*	53,831	12,280
Decommissioning provision *(Note 6)*	187,659	204,220
Lease obligation *(Note 7)*	5,027	5,440
Deferred income taxes	440,165	490,917
	1,726,666	1,778,569
Equity		
Share capital *(Note 8)*	1,671,955	1,664,508
Contributed surplus	12,715	13,123
Retained earnings	215,675	143,217
Accumulated other comprehensive loss *(Note 8)*	(266,788)	(54,842)
	1,633,557	1,766,006
	3,852,410	3,784,195

See accompanying notes to the condensed consolidated financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Consolidated Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31 2022	Three months ended March 31 2021
Revenues		
Natural gas and natural gas liquid sales (*Note 11)*	340,270	200,383
Royalties	(32,903)	(14,069)
Natural gas and natural gas liquid sales, net of royalties	**307,367**	186,314
Realized loss on derivative financial instruments *(Note 12)*	(53,376)	(25,056)
Unrealized gain on derivative financial instruments (*Note 12)*	-	1,453
Other income	382	377
	254,373	163,088
Expenses		
Operating	22,295	16,901
Transportation	15,270	8,110
General and administrative	1,731	1,984
Stock based compensation *(Note 10)*	2,288	1,117
Interest	11,585	17,931
Unrealized gain on foreign exchange	(728)	-
Accretion of decommissioning provision (*Note 6)*	1,196	940
Loss on disposition of capital assets	-	419
Depletion and depreciation *(Note 4)*	73,018	65,353
	126,655	112,755
Earnings before taxes	**127,718**	50,333
Income tax		
Deferred tax expense	29,902	11,833
Earnings for the period	**97,816**	38,500

	2022	2021
Earnings per share (*Note 8)*		
Basic	$0.58	$0.23
Diluted	$0.56	$0.23

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Comprehensive Income (loss) *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2022	**2021**
Earnings for the period	**97,816**	38,500
Other comprehensive income		
Change in unrealized loss on derivative financial instruments	(328,629)	(46,030)
Deferred income tax recovery	63,308	4,824
Realized loss on derivative financial instruments	53,375	25,056
Comprehensive income (loss)	**(114,130)**	22,350

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2022	**2021**
Shareholders' capital, beginning of period	**1,664,508**	1,649,635
Private Placement	2,578	-
Common shares issued under stock option plan	4,869	581
Share capital, end of period	**1,671,955**	1,650,216

Contributed surplus, beginning of year	**13,123**	10,487
Stock based compensation expense	2,288	1,117
Recognized under stock-based compensation plans	(2,696)	(99)
Contributed surplus, end of year	**12,715**	11,505

Retained earnings, beginning of period	**143,217**	12,727
Earnings for the period	97,816	38,500
Dividends *(Note 8)*	(25,358)	(1,651)
Retained earnings (deficit), end of period	**215,675**	49,576

Accumulated other comprehensive income (loss), beginning of period	**(54,842)**	4,624
Other comprehensive loss	(211,946)	(16,150)
Accumulated other comprehensive loss, end of period	**(266,788)**	(11,526)

Total equity	**1,633,557**	1,699,771

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2022	**2021**
Cash provided by operating activities		
Earnings	97,816	38,500
Items not requiring cash:		
Deferred income tax expense	29,902	11,833
Depletion and depreciation	73,018	65,353
Loss on disposition of capital assets	-	419
Accretion of decommissioning provision	1,196	940
Stock based compensation	2,288	1,117
Unrealized gain on derivative financial instruments	-	(1,453)
Unrealized gain on foreign exchange	(728)	-
Change in non-cash working capital related to operating activities	(17,702)	3,043
	185,790	119,752
Financing activities		
Common shares issued and private placement	4,748	481
Bank overdraft	-	93
Cash dividends paid	(25,303)	(1,650)
Lease interest *(Note 7)*	55	68
Principal repayment of lease *(Note 7)*	(358)	(342)
Decrease in bank debt	(25,000)	(20,000)
	(45,858)	(21,350)
Investing activities		
Additions to property, plant and equipment	(143,331)	(108,851)
Change in prepaid capital	16,773	929
Corporate Acquisition	(22,220)	-
Change in non-cash working capital relating to investing activities	6,702	210
	(142,076)	(107,712)
Net (decrease) in cash	(2,144)	(9,310)
Cash, beginning of period	5,718	9,310
Cash, end of period	**3,574**	-

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

Cash interest paid	**8,218**	16,755
Cash taxes paid	**-**	-

1. Nature of operations

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

These condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 11, 2022.

2. Basis of presentation

The condensed consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the years ended December 31, 2021 and 2020.

Significant Accounting Policies

(a) Significant Accounting Judgments Estimates and Assumptions

The timely preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed consolidated financial statements.

All accounting policies and methods of computation followed in the preparation of these consolidated financial statements are the same as those disclosed in Note 2 of Peyto's consolidated financial statements as at and for the years ended December 31, 2021 and 2020.

3. Corporate acquisition

On February 28, 2022, Peyto acquired all the issued and outstanding shares of a private company ("PrivateCo") in the Brazeau River area of Alberta for cash consideration of $22.2 million. The acquisition provides for an increase in land, production and infrastructure including a 100% owned and operated 45 MMcf/d sweet natural gas plant. The transaction has been accounted for as a business combination in accordance with IFRS 3 using the acquisition method.

Results from operations for PrivateCo are included in the Company's consolidated financial statements from the closing date of the transaction. Total transaction costs incurred by Peyto of $0.4 million associated with this acquisition were expensed in the consolidated statements of income and comprehensive income. The following purchase price allocation is based on Management's best estimate of the assets acquired and liabilities assumed and is subject to change based upon finalizing the value of the net assets acquired.

Fair value of net assets acquired:	
Working capital	133
Property, plant and equipment	5,900
Deferred income tax asset	17,344
Decommissioning provision	(1,157)
Total	**22,220**

Consideration:	
Cash	**22,220**

The acquisition of PrivateCo has contributed revenue of $1.7 million and earnings of $0.8 million since February 28, 2022. Had the acquisition of PrivateCo closed on January 1, 2022, pro forma revenue from natural gas and natural gas liquid sales, and earnings are estimated to be approximately $2.5 million and $0.9 million, respectively, for the three months ended March 31, 2022.

4. Property, plant and equipment, net

Cost	
At December 31, 2021	**6,537,637**
Additions	148,075
Decommissioning provision additions	(17,757)
Prepaid capital	(16,773)
At March 31, 2022	6,651,182
Accumulated depletion and depreciation	
At December 31, 2021	**(2,897,812)**
Depletion and depreciation	(73,018)
At March 31, 2022	**(2,970,830)**
Carrying amount at December 31, 2021	3,639,825
Carrying amount at March 31, 2022	**3,680,352**

During the period ended March 31, 2022, Peyto capitalized $3.4 million (2021 - $1.9 million) of general and administrative expense directly attributable to development activities.

For the period ended March 31, 2022, the Company identified no indicators of impairment and therefore a test was not performed.

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

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

5. Long-term debt

	March 31, 2022	December 31, 2021
Bank credit facility	625,000	650,000
Long-term senior Secured notes	414,984	415,712
Balance, end of the period	**1,039,984**	1,065,712

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

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

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

Outstanding senior notes are as follows:

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

Peyto is in compliance with all financial covenants at March 31, 2022.

Total interest expense for the period ended March 31, 2022 was $11.6 million (2021 - $17.9 million) and the average borrowing rate for the period was 4.3% (2021 – 6.2%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2021	**204,220**
New provisions	1,901
New provisions relating to corporate acquisitions	3,401
Accretion of decommissioning provision	1,196
Change in discount rate and estimates	(23,059)
Balance, March 31, 2022	**187,659**

Current	
Non-current	**187,659**

The Company has estimated the net present value of its total decommissioning provision to be $187.7 million as at March 31, 2022 (2020 – $204.2 million) based on a total escalated future undiscounted liability of $380.6 million (2021 – $374.3 million). At March 31, 2022 management estimates that these payments are expected to be made over the next 50 years (2021 – 50 years) with the majority of payments being made in years 2024 to 2070. The Bank of Canada's long-term bond rate of 2.37 per cent (2021 – 2.00 per cent) and an inflation rate of 2.0 per cent (2021 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

7. Leases

The Right of use asset ("ROU") and lease obligation relates to the Company's head office lease in Calgary.

Right of use Asset

Balance as at December 31, 2021	**5,043**
Depreciation	(252)
Balance at March 31, 2022	**4,791**

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

Lease obligation at December 31, 2022	**6,563**
Lease interest expense	55
Principal repayment of lease	(358)
Lease obligation at March 31, 2022	**6,260**

Current portion of lease obligation at March 31, 2022	**1,233**
Non-current portion of lease obligation at March 31, 2022	**5,027**

The variable lease payments not included in the measurement of the office lease obligation for the three months ended March 31, 2022 is $0.2 million (2021-$0.2 million). The variable lease payments are recognized through general and administration expense.

During the period ended March 31, 2022, $8.3 million (2021 -$5.4 million) was capitalized in relation to short-term leases.

The following future commitments associated with its lease obligation:

	As at March 31, 2022
Less than 1 year	1,071
1-3 years	4,286
Year 4	1,428
Total lease payment	6,785
Amount representing interest	(525)
Present value of lease payments	6,260
Current portion of lease obligation	1,233
Non -current portion of lease obligation	5,027

8. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2021	**168,151,219**	**1,664,508**
Private Placement	247,785	2,578
Common shares issued	851,901	4,869
Balance, March 31, 2022	**169,250,905**	**1,671,955**

Earnings per common share has been determined based on the following:

	Three Months ended March 31,	
	2022	2021
Weighted average common shares basic	**169,058,178**	165,069,227
Weighted average common shares dilutive	**173,320,559**	167,255,237

Dividends
During the period ended March 31, 2022, Peyto declared and paid dividends of $0.05 per common share per month totaling $25.3 million (2021 - $0.01 per common share per quarter, $1.7 million).

Comprehensive income
Comprehensive income consists of earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge. "Accumulated other comprehensive income" is an equity category comprised of the cumulative amounts of OCI.

Accumulated hedging gains and losses
Gains and losses from financial derivative instruments are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement. Further information on these contracts is set out in Note 11.

9. Performance-based compensation

Reserve based component
The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a realized price at December 31 of the current year and a discount rate of 8%. For three months ended March 31, 2022 $nil, (2021 - $nil) was expensed.

10. Stock based compensation

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

Equity compensation arrangements

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

		Weighted Average Exercise price $	**Weighted Average Remaining Contractual life-Years**
Stock options	9,898,857	5.80	1.19
DSU	188,611	3.99	16.14

Stock option plans

The following tables summarize the stock options outstanding at March 31, 2022:

		Weighted average exercise price $
Balance, December 31, 2021	**9,173,137**	**5.05**
Stock options granted	1,398,600	9.46
Exercised	(672,880)	3.23
Balance, March 31, 2022	**9,898,857**	**5.80**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the period ended March 31, 2022, the weighted-average fair value per option was $1.90. The following tables summarize the assumptions used in the Black-Scholes model:

	March 31, 2022
Share price	$4.91
Exercise price	$4.97
Expected volatility	52.16%
Average option life	2 year
Risk-free interest rate	1.00%
Forfeiture rate	0.17%

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

At March 31, 2022, no stock options are exercisable.

Deferred Share Units (“DSU’s”)

The following tables summarize the DSU’s outstanding at March 31, 2022:

		Weighted average exercise price $
Balance, December 31, 2021	**176,669**	**3.60**
DSU granted	11,942	9.74
Balance March 31, 2022	**188,611**	**3.99**

11. Revenue and receivables

	Three Months ended March 31,	
	2022	2021
Natural gas sales	234,346	142,663
Natural gas liquids sales	105,924	57,720
Natural gas and natural gas liquid sales	**340,270**	200,383

	March 31, 2022	December 31, 2021
Accounts receivable from customers	144,549	106,831
Accounts receivable from realized risk management contracts	-	3,481
Accounts receivable from joint venture partners and other	5,445	8,636
Account Receivable	**149,994**	118,948

A substantial portion of the Company’s accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

12. Financial instruments and capital management

Financial instrument classification and measurement
Financial instruments of the Company carried on the condensed consolidated balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at March 31, 2022 except for derivative financial instruments.

The Company’s areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2021.

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

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

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

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, dividend payable, long term debt and derivative financial instruments. At March 31, 2022 and 2021, cash and derivative financial instruments, are carried at fair value. Accounts receivable and current liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

Peyto uses derivative instruments to reduce its exposure to fluctuations in commodity prices. Peyto considers all these transactions to be effective economic hedges for accounting purposes.

Following is a summary of all risk management contracts in place as at March 31, 2022:

Natural Gas Period Hedged- Monthly Index	Type	Daily Volume	Price (AECO CAD/GJ)
April 1, 2022 to October 31, 2022	Fixed Price	115,000 GJ	$2.07 to $2.26
November 1, 2022 to March 31, 2023	Fixed Price	195,000 GJ	$2.30 to $4.03
April 1, 2023 to October 31, 2023	Fixed Price	180,000 GJ	$2.05 to $3.00

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Price (Nymex USD/mmbtu)
April 1, 2022 to October 31, 2022	Fixed Price	55,000 mmbtu	$2.56 to $4.19
November 1, 2022 to December 31, 2022	Fixed Price	70,000 mmbtu	$3.97 to $4.78
November 1, 2022 to March 31, 2023	Fixed Price	70,000 mmbtu	$4.05 to $4.85
January 1, 2023 to December 31, 2023	Fixed Price	70,000 mmbtu	$3.42 to $3.77
April 1, 2023 to October 31, 2023	Fixed Price	40,000 mmbtu	$3.35 to $3.90
January 1, 2024 to March 31, 2024	Fixed Price	60,000 mmbtu	$4.15 to $4.27

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

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

Crude Oil Period Hedged - WTI	Type	Daily Volume	Price (WTI CDN/bbl)
January 1, 2022 to June 30, 2022	Fixed Price	600 bbl	$83.45 to $90.50
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	$79.75 to $85.50
April 1, 2022 to June 30, 2022	Fixed Price	2,900 bbl	$89.50 to $151.00
July 1, 2022 to September 31, 2022	Fixed Price	400 bbl	$100.15 to $121.50
July 1, 2022 to December 31, 2022	Fixed Price	1,200 bbl	$87.75 to $105.75
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$100.70
January 1, 2023 to March 31, 2023	Fixed Price	400 bbl	$85.25 to $101.05

As at March 31, 2022, Peyto had committed to the future sale of 92,575,000 gigajoules (GJ) of natural gas at an average price of $2.65 per GJ or $3.05 per mcf, 66,180,000 mmbtu at an average price of $3.58 US per mmbtu, 109,800 barrels of crude at an average price of $63.79 USD per bbl,and 868,800 barrels of crude at an average price of $94.63 CAD per bbl. Had these contracts closed on March 31, 2022, Peyto would have realized a loss in the amount of $348.6 million. If the gas price on March 31, 2022, were to increase by $0.10/GJ, the unrealized loss would increase by approximately $31.7 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2022, Peyto entered into the following contracts:

Natural Gas Period Hedged - NYMEX	**Type**	**Daily Volume**	**Price (Nymex USD/mmbtu)**
January 1, 2024 to March 31, 2024	Fixed Price	10,000 mmbtu	$5.03

Crude Oil Period Hedged - WTI	**Type**	**Daily Volume**	**Price (WTI CDN/bbl)**
July 1, 2022 to September 30, 2022	Fixed Price	300 bbl	$122.10 to $130.25
July 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$125.00
January 1, 2023 to March 31, 2023	Fixed Price	500 bbl	$115.25 to $111.75
April 1, 2023 to June 30, 2023	Fixed Price	200 bbl	$111.50

13. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in commercial 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 each of the related reporting entities is summarized below:

Expense		Accounts Payable	
Three Months ended March 31		As at March 31	
2022	2021	**2022**	2021
718.2	44.0	**75.4**	(4.0)

14. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2022:

	2022	2023	2024	2025	2026	Thereafter
Interest payments (1)	12,657	16,827	13,127	11,743	8,163	9,962
Transportation commitments	49,371	68,474	43,202	42,119	29,900	347,875
Operating leases	1,650	2,200	2,200	2,200	2,200	-
Methanol	1,194	-	-	-	-	-
Total	64,872	87,501	58,529	56,062	40,263	357,837

(1) Fixed interest payments on senior secured notes

Officers

Darren Gee
Chief Executive Officer

Jean-Paul Lachance
President and COO

Kathy Turgeon
Vice President, Finance and CFO

Scott Robinson
Vice President, Business Development

David Thomas
Vice President, Exploration

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Derick Czember
Vice President, Land

Riley Frame
Vice President, Engineering

Stephen Chetner
Corporate Secretary

Directors

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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