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 March 8, 2023 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the years ended December 31, 2022 and 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", "total capital expenditures" 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, 2022, the Company’s total Proved plus Probable reserves were 5.6 trillion cubic feet equivalent (929 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 24 years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

ANNUAL FINANCIAL INFORMATION

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

Year Ended December 31 ($000 except per share amounts)	**2022**	2021	2020
Natural gas and NGL sales including realized hedging gains (losses) [(1)]	**1,198,999**	716,922	388,981
Funds from operations[(2)]	**827,596**	469,672	212,710
Per share – basic [(2)]	**4.85**	2.83	1.29
Per share – diluted [(2)]	**4.73**	2.76	1.29
Earnings (loss)	**390,633**	152,248	(35,555)
Per share – basic	**2.29**	0.92	(0.22)
Per share – diluted	**2.23**	0.89	(0.22)
Total capital expenditures[(2)]	**506,860**	365,058	235,703
Total assets	**4,012,523**	3,784,195	3,601,057
Total current and long-term debt[(3)]	**859,176**	1,065,712	1,170,000
Dividends per share[(2)]	**0.60**	0.13	0.09
Total payout ratio (%)[(2)]	**74%**	82%	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
(3) Refer to Note 5 "Current and long-term debt" in the financial statements. Long-term debt includes current and long-term portions.

QUARTERLY FINANCIAL INFORMATION

	2022				2021			
($000 except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Natural gas and NGL sales, net of royalties and realized hedging losses [(1)]	**282,999**	239,637	253,992	253,991	208,055	146,792	127,727	161,258
Funds from operations[(2)]	**220,815**	197,388	205,901	203,492	166,165	104,608	82,191	116,709
Per share – basic [(2)]	**1.28**	1.15	1.21	1.20	0.99	0.63	0.50	0.71
Per share – diluted [(2)]	**1.26**	1.13	1.18	1.17	0.96	0.62	0.50	0.71
Earnings	**113,441**	84,861	94,545	97,816	71,718	29,271	12,760	38,500
Per share – basic	**0.66**	0.50	0.56	0.58	0.43	0.18	0.08	0.23
Per share – diluted	**0.64**	0.48	0.54	0.56	0.42	0.17	0.08	0.23
Total dividends	**25,908**	25,686	25,485	25,358	16,779	1,671	1,658	1,651
Per share	**0.15**	0.15	0.15	0.15	0.10	0.01	0.01	0.01
Total capital expenditures[(2)]	**115,040**	140,400	108,089	143,331	108,951	90,170	57,086	108,851
Corporate Acquisition	**-**	-	-	22,220	-	-	-	-
Total payout ratio (%)[(2)]	**64%**	84%	65%	83%	76%	88%	71%	95%

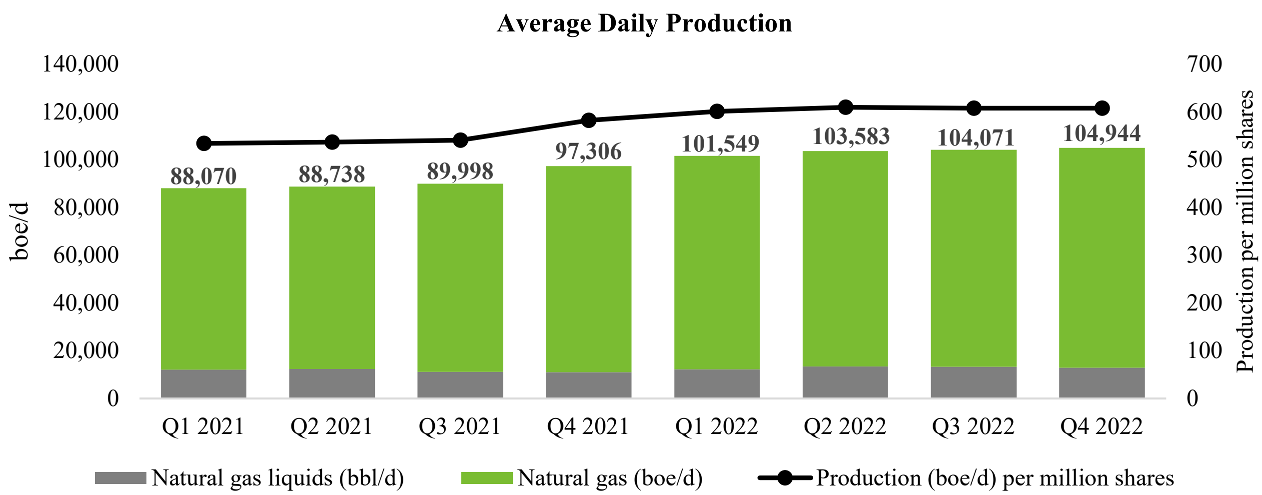
(1) Excludes revenue from sale of natural gas volumes from third parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information

RESULTS OF OPERATIONS

Production

	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Natural gas (MMcf/d)	**552.6**	517.6	*7%*	**543.6**	476.4	*14%*
NGLs (or "Liquids") (bbl/d)	**12,840**	11,038	*16%*	**12,949**	11,653	*11%*
Total (boe/d)	**104,944**	97,306	*8%*	**103,548**	91,051	*14%*
Total (MMcfe/d)	**629.7**	583.8	*8%*	**621.3**	546.3	*14%*

Peyto's total production in the fourth quarter of 2022 increased 8 per cent to 104,944 boe/d, compared to 97,306 boe/d in the fourth quarter of 2021. For the year ended December 31, 2022, total production increased 14 per cent to 103,548 boe/d, compared to 91,051 boe/d in 2021. The production increase in the three months and year ended December 31, 2022, is primarily attributable to Peyto's increased capital expenditure program over the past year. Additionally, minor production volumes were added in 2022 from acquisitions that closed on February 28, 2022 and September 13, 2022.



Natural Gas Liquids Production by Component

	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Condensate and Pentanes Plus (bbl/d)	**7,535**	6,623	*14%*	**7,656**	6,893	*11%*
Other Natural gas liquids (bbl/d)	**5,305**	4,415	*20%*	**5,293**	4,760	*11%*
Natural gas liquids (bbl/d)	**12,840**	11,038	*16%*	**12,949**	11,653	*11%*
Liquid to gas ratio (bbls/MMcf)	**23.2**	21.3	*9%*	**23.8**	24.5	*-3%*

The liquid to gas ratio increased nine per cent to 23.2 bbls/MMcf in the fourth quarter of 2022 from 21.3 bbls/MMcf in the fourth quarter of 2021. The liquids to gas ratio fluctuates depending on the mix of rich and lean gas wells drilled as Peyto attempts to maximize overall returns.

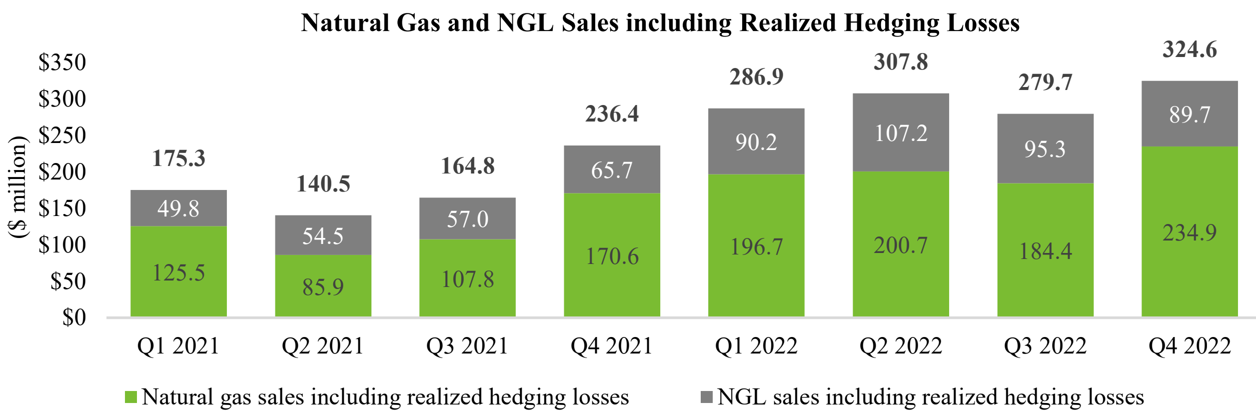
Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

($000)	Three Months Ended December 31 2022	2021	% Change	Year Ended December 31 2022	2021	% Change
Natural gas sales[1]	**321,137**	236,531	*36%*	**1,111,897**	648,776	*71%*
Realized hedging losses - gas	**(86,237)**	(65,884)	*31%*	**(295,222)**	(158,929)	*86%*
Natural gas sales including realized hedging losses	**234,900**	170,647	*38%*	**816,675**	489,847	*67%*
NGL sales	**94,293**	75,849	*24%*	**427,539**	263,205	*62%*
Realized hedging losses - NGLs	**(4,579)**	(10,136)	*-55%*	**(45,215)**	(36,130)	*25%*
NGL sales including realized hedging losses	**89,714**	65,713	*37%*	**382,324**	227,075	*68%*
Natural gas and NGL sales	**415,430**	312,380	*33%*	**1,539,436**	911,981	*69%*
Realized hedging losses	**(90,816)**	(76,020)	*19%*	**(340,437)**	(195,059)	*75%*
Natural gas and NGL sales including realized hedging losses	**324,614**	236,360	*37%*	**1,198,999**	716,922	*67%*

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

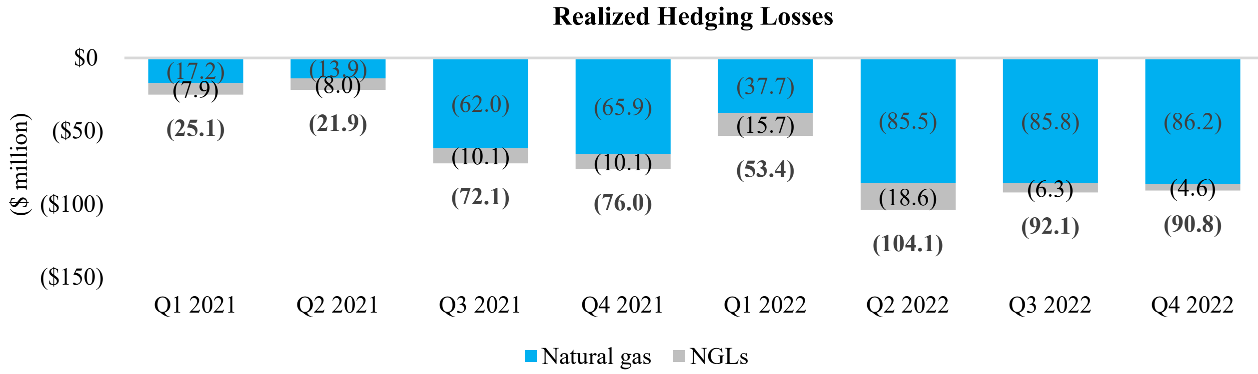
In the fourth quarter of 2022, natural gas and NGL sales net of realized hedging losses increased 37 per cent to $324.6 million from $236.4 million in the fourth quarter of 2021. For the year ended December 31, 2022, natural gas and NGL sales net of realized hedging losses increased 67 per cent to $1.20 billion from $716.9 million in 2021. The increases for the three months and year ended December 31, 2022 were a result of increased commodity prices and production volumes.

Peyto's natural gas and NGL sales net of realized hedging losses over the past eight quarters is summarized below.



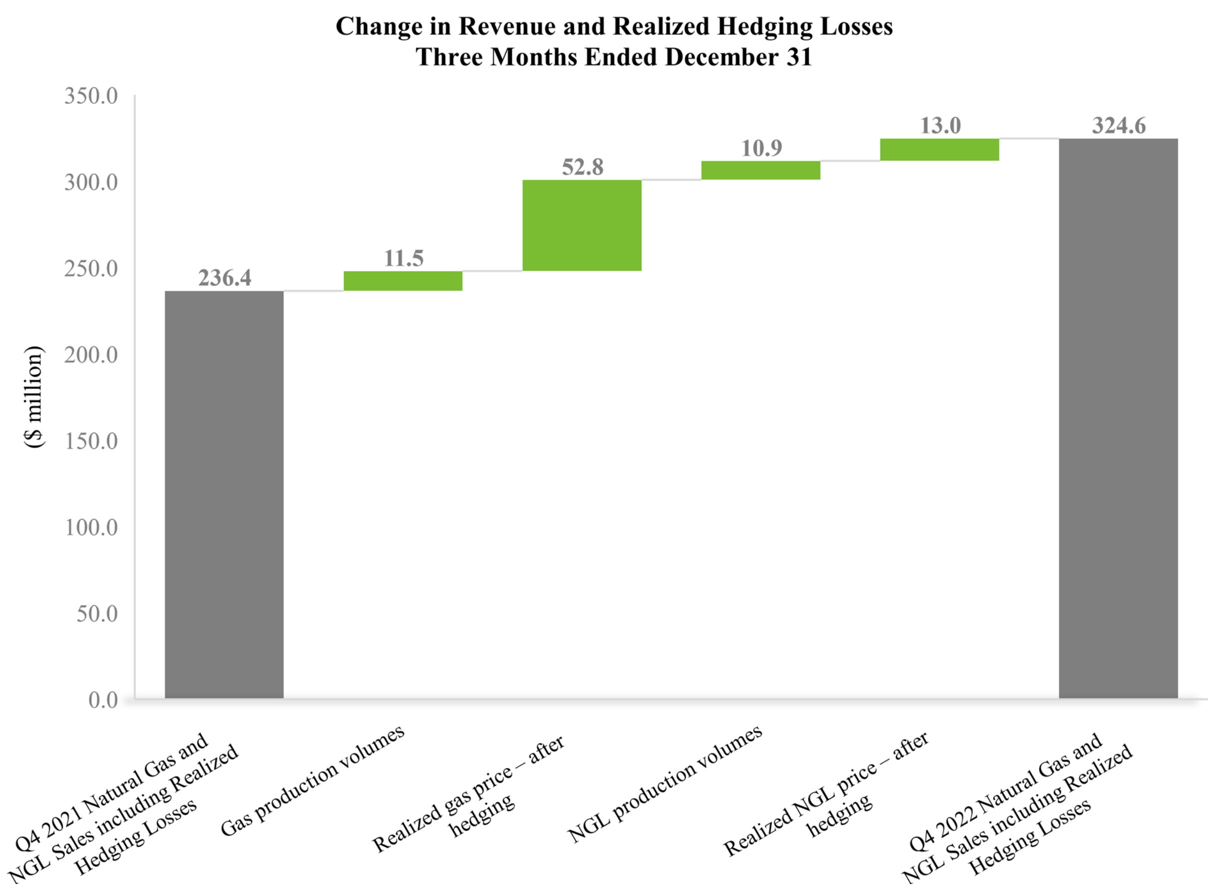
Peyto enters into risk management contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In periods of increasing commodity prices, Peyto expects to realize hedging losses and in periods of falling commodity prices, Peyto expects to realize hedging gains. Peyto's hedging program since inception in 2003 has generated cumulative realized gains of $135 million.

Realized hedging losses over the past eight quarters are summarized below.

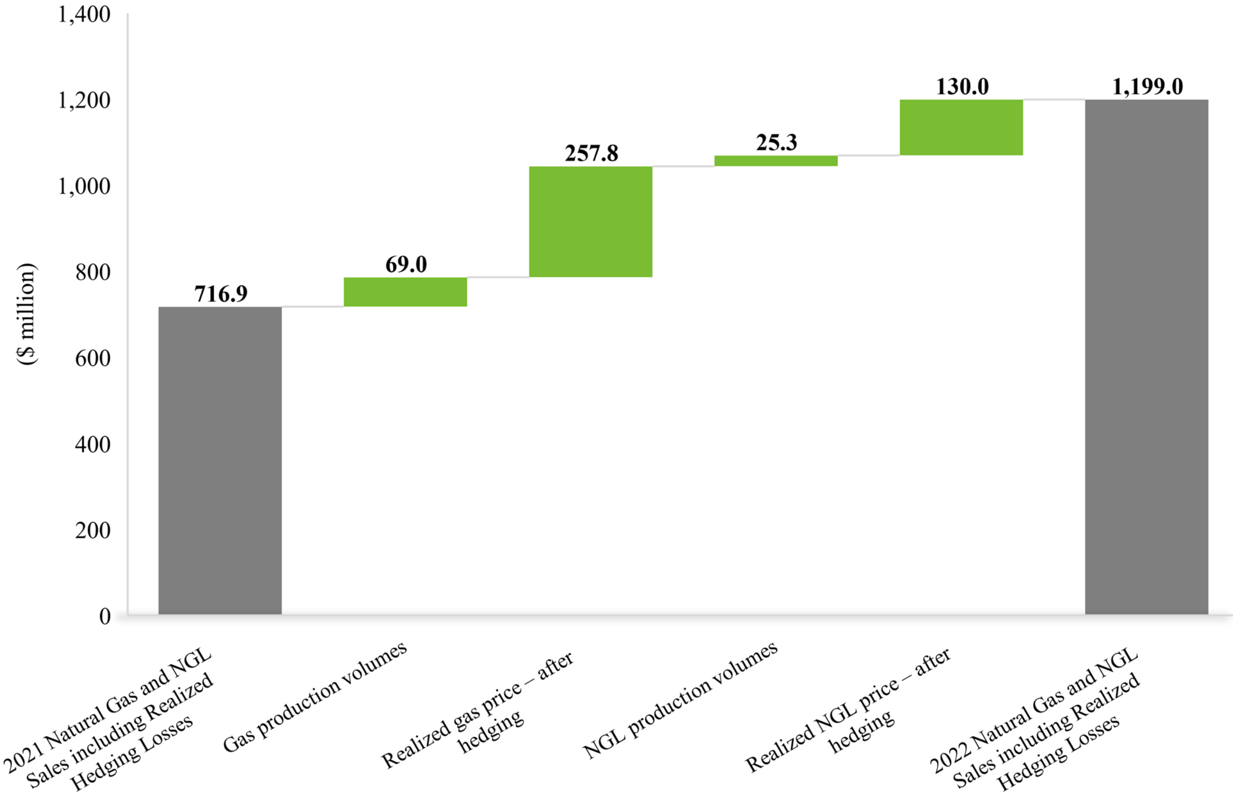


The change in revenue from natural gas and NGL sales including realized hedging losses in the three months and year ended December 31, 2022 from the same periods of 2021, are detailed in the following table and charts:

	Three Months Ended December 31			Year Ended December 31		
	2022	2021	**$ million**	2022	2021	**$ million**
2021			**236.4**			**716.9**
change due to:						
Natural gas						
Volume (MMcf)	50,842	47,620	**11.5**	198,410	173,881	**69.0**
Price ($/Mcf)	$4.62	$3.58	**52.8**	4.12	$2.82	**257.8**
NGL						
Volume (Mbbl)	1,191	1,016	**10.9**	4,726	4,253	**25.3**
Price ($/bbl)	75.95	$64.71	**13.0**	$80.89	$53.39	**130.0**
2022			**324.6**			**1,199.0**



Change in Revenue and Realized Hedging Losses
Year Ended December 31



Benchmark Commodity Prices

	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
AECO 7A monthly ($/GJ)	**5.29**	4.68	*13%*	**5.27**	3.38	*56%*
AECO 5A daily ($/GJ)	**4.85**	4.41	*10%*	**5.04**	3.44	*47%*
NYMEX (US$/MMBtu)	**5.55**	4.74	*17%*	**6.38**	3.84	*66%*
Emerson2 (US$/MMBtu)	**4.94**	4.53	*9%*	**5.58**	3.47	*61%*
Malin (US$/MMBtu)	**8.45**	5.99	*41%*	**7.23**	3.97	*82%*
Dawn (US$/MMBtu)	**5.16**	4.65	*11%*	**6.04**	3.62	*67%*
Ventura daily (US$/MMBtu)	**5.61**	4.55	*23%*	**6.09**	5.96	*2%*
Canadian WTI ($/bbl)	**112.22**	97.16	*16%*	**122.38**	85.10	*44%*
Conway C3 (US$/bbl)	**34.21**	52.43	*-35%*	**46.03**	43.71	*5%*
Exchange rate (CDN/USD)	**1.36**	1.26	*8%*	**1.30**	1.25	*4%*

Commodity Prices

	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Condensate and Pentanes Plus[1] ($/bbl)	**109.29**	94.80	*15%*	**117.94**	80.84	*46%*
Other Natural gas liquids[1] ($/bbl)	**37.97**	44.52	*-15%*	**50.63**	34.43	*47%*
Realized NGL price – before hedging ($/bbl)	**79.83**	74.69	*7%*	**90.46**	61.88	*46%*
Hedging ($/bbl)	**(3.88)**	(9.98)	*-61%*	**(9.57)**	(8.49)	*13%*
Realized NGL price – after hedging ($/bbl)	**75.95**	64.71	*17%*	**80.89**	53.39	*52%*
Natural gas[2] ($/Mcf)	**6.98**	5.68	*23%*	**6.34**	4.54	*40%*
Diversification activities ($/Mcf)	**(0.66)**	(0.72)	*-8%*	**(0.73)**	(0.81)	*-10%*
Realized natural gas price ($/Mcf)	**6.32**	4.96	*27%*	**5.61**	3.73	*50%*
Hedging ($/Mcf)	**(1.70)**	(1.38)	*23%*	**(1.49)**	(0.91)	*64%*
Realized natural gas price – after hedging and diversification ($/Mcf)	**4.62**	3.58	*29%*	**4.12**	2.82	*46%*
Total Hedging ($/Mcfe)	**(1.57)**	(1.42)	*11%*	**(1.50)**	(0.98)	*53%*
Total Hedging ($/boe)	**(9.41)**	(8.49)	*11%*	**(9.01)**	(5.87)	*53%*

(1) Condensate, pentanes plus and other liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation
(2) Excludes revenue from sale of natural gas volumes from third parties but includes fixed price physical contracts

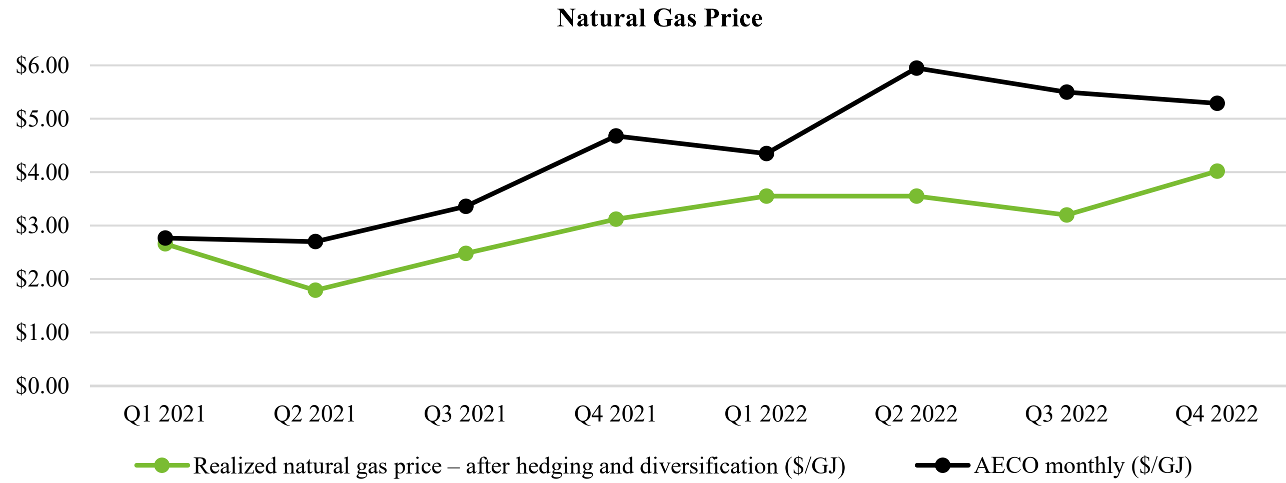
Peyto's natural gas price, before hedging and diversification activities, averaged $6.98/Mcf in the fourth quarter of 2022, an increase of 23 per cent from $5.68/Mcf in the fourth quarter of 2021. For the year ended December 31, 2022, Peyto's natural gas price, before hedging and diversification activities, increased 40 per cent to 6.34/Mcf from $4.54/Mcf in 2021.

The Company's realized NGL price before hedging, averaged $79.83/bbl, in the fourth quarter of 2022, an increase of seven per cent from $74.69/bbl in the fourth quarter of 2021. For the year ended December 31, 2022, Peyto's realized NGL price, before hedging, increased 46 per cent to $90.46/bbl from $61.88/bbl in 2021.

Increases in Peyto's natural gas and NGL prices in the three months and year ended December 31, 2022, were driven by the sharp increases in benchmark commodity prices over the past year.

Peyto actively markets all components of its production stream 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, Dawn 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.



Sales and Purchases of Natural Gas from Third Parties

	Three Months Ended December 31			Year Ended December 31		
($000)	**2022**	2021	% Change	**2022**	2021	% Change
Sales of natural gas from third parties	**9,326**	-	-	**92,625**	-	-
Natural gas purchased from third parties	**(8,778)**	-	-	**(86,977)**	-	-
Third party sales net of purchases	**548**	-	-	**5,648**	-	-

In the three months and year ended December 31, 2022, Peyto recorded sales of natural gas from third parties totaling $9.3 million and $92.6 million, which were purchased for $8.8 million and $87.0 million, respectively. The purchased natural gas was required to fulfill physical sales commitments as a portion of the Company's transportation service from AECO to Empress was restricted by delays in the NGTL 2021 expansion program. Peyto's purchase and sales of natural gas from third parties ended on October 31, 2022.

Other Income

	Three Months Ended December 31			Year Ended December 31		
($000)	**2022**	2021	% Change	**2022**	2021	% Change
Other Income	**7,280**	374	*1847%*	**10,262**	1,536	*568%*

In the three months and year ended December 31, 2022, other income totaled $7.3 million and $10.3 million, respectively, compared to $0.4 million and $1.5 million in the same periods of 2021. The increase in the three months and year ended December 31, 2022 is due to the sale of excess carbon credits, marketing income related to selling excess transportation service, and a grant related to the Alberta Site Rehabilitation Program, whereby third-party service providers were reimbursed for decommissioning projects on behalf of Peyto.

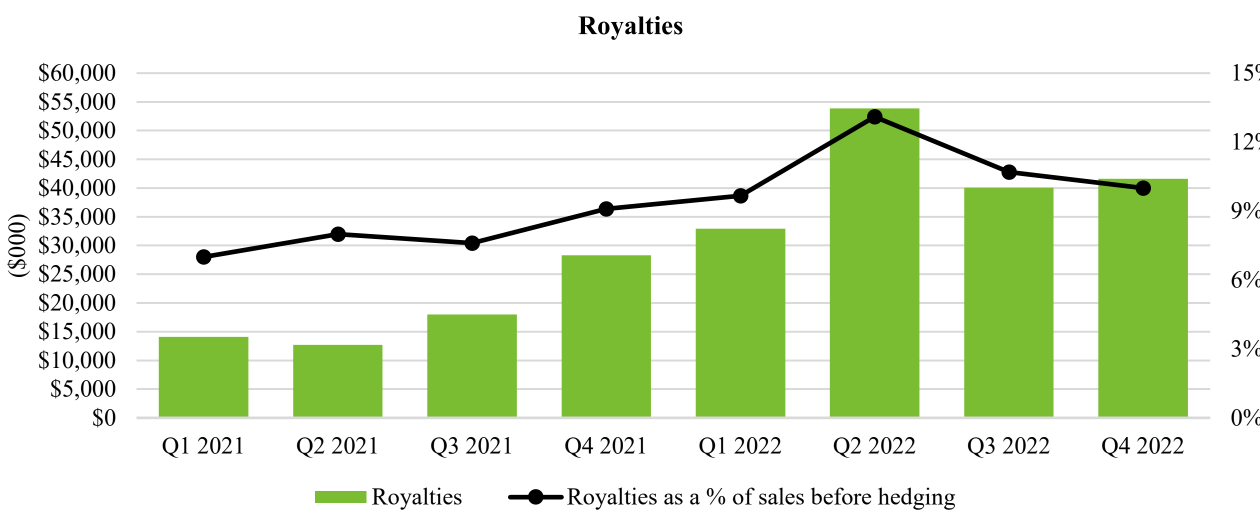
Royalties

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 December 31			**Year Ended December 31**		
	2022	2021	% Change	**2022**	2021	% Change
Royalties ($000)	**41,615**	28,304	*47%*	**168,379**	73,091	*130%*
per cent of sales before hedging	**10.0**	9.1	*10%*	**10.9**	8.0	*36%*
$/Mcfe	**0.72**	0.53	*36%*	**0.74**	0.37	*100%*
$/boe	**4.31**	3.16	*36%*	**4.46**	2.20	*103%*

For the fourth quarter of 2022, royalties increased to $0.72/Mcfe or 10.0 per cent of Peyto's natural gas and NGL sales, compared to $0.53/Mcfe or 9.1 per cent in the fourth quarter of 2021. For the year ended December 31, 2022, royalties increased to $0.74/Mcfe or 10.9 per cent of Peyto's natural gas and NGL sales, compared to $0.37/Mcfe or 8.0 per cent in 2021. The increases in the three months and year ended December 31, 2022 were due to the increases in AECO and WTI prices over the past year.

In its 24 year history, Peyto has invested over $7.3 billion in capital projects, found and developed 4.9 TCFe of natural gas reserves and paid over $1.1 billion in royalties.



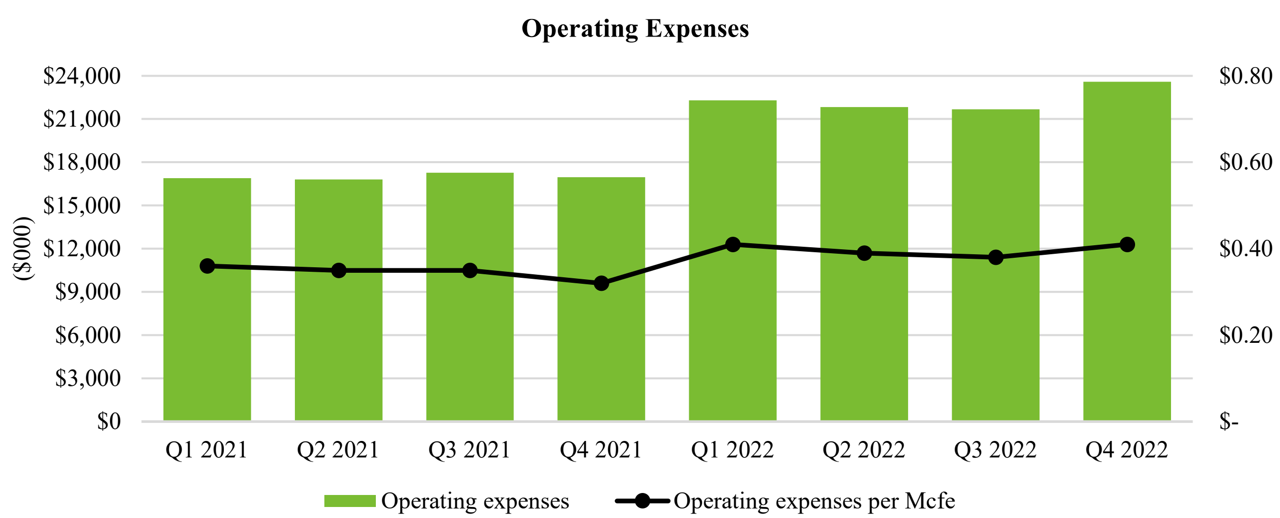
Operating Costs & Transportation

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

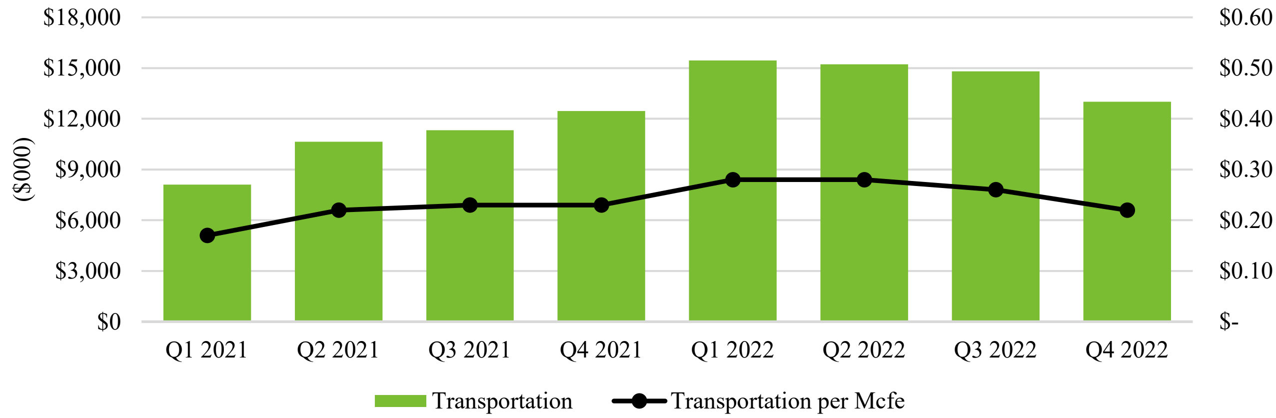
	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Payments to Government ($000)	**5,308**	4,199	*26%*	**21,059**	20,361	*3%*
Other expenses ($000)	**18,290**	12,772	*43%*	**68,356**	47,602	*44%*
Operating costs ($000)	**23,598**	16,971	*39%*	**89,415**	67,963	*32%*
$/Mcfe	**0.41**	0.32	*28%*	**0.39**	0.34	*15%*
$/boe	**2.44**	1.90	*28%*	**2.37**	2.05	*16%*
Transportation ($000)	**13,005**	12,458	*4%*	**58,306**	42,544	*37%*
$/Mcfe	**0.22**	0.23	*-4%*	**0.26**	0.21	*24%*
$/boe	**1.35**	1.39	*-3%*	**1.54**	1.28	*20%*

For the three months and year ended December 31, 2022, operating expenses were $23.6 million and $89.4 million, respectively, compared to $17.0 million and $68.0 million in the same periods in 2021. On a unit-of-production basis, operating costs increased 28 per cent to $0.41/Mcfe in the fourth quarter of 2022 from $0.32/Mcfe in the fourth quarter of 2021. For the year ended December 31, 2022, operating costs increased 15 per cent to $0.39/Mcfe compared to $0.34/Mcfe in the same period of 2021. The increases in the three months and year ended December 31, 2022 were due to general cost inflation compared to the same periods of 2021. Specifically, Peyto experienced sharp increases in power, chemical, trucking, and fuels that increased with higher oil and gas prices and should fall as prices moderate. Approximately 20 to 30 per cent of operating expenses are related to government fees, taxes, carbon taxes and levies. Peyto focuses on being the industry leader in operating costs and strives for cost reductions on a continuous basis.

Transportation expenses decreased four per cent on a unit-of production basis to $0.22/Mcfe in the fourth quarter 2022 from $0.23/Mcfe in the fourth quarter 2021 due to a decrease in Emerson service compared to the fourth quarter of 2021. For the year ended December 31, 2022, transportation expenses increased 24 per cent on a unit-of production basis to $0.26/Mcfe compared to $0.21/Mcfe in 2021. The increased transportation expenses in 2022 is due to additional Empress and Emerson service for the November 2021 to October 2022 gas year, coupled with a January 2022 fee increase on the NGTL system.



Transportation



General and Administrative Expenses

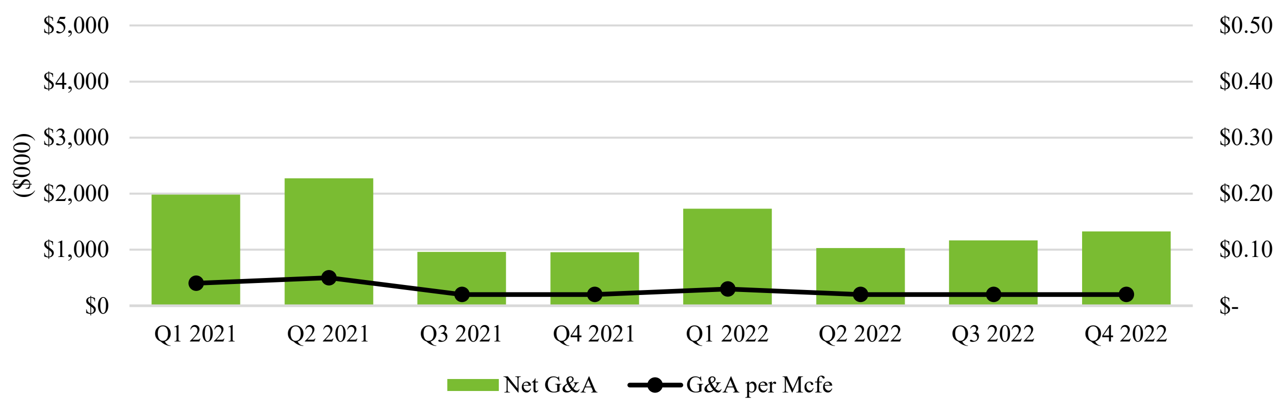
	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
G&A expenses ($000)	**4,690**	4,008	*17%*	**19,071**	16,273	*17%*
Overhead recoveries ($000)	**(3,363)**	(3,054)	*10%*	**(13,818)**	(10,102)	*37%*
Net G&A expenses ($000)	**1,327**	954	*39%*	**5,253**	6,171	*-15%*
$/Mcfe	**0.02**	0.02	-	**0.02**	0.03	*-33%*
$/boe	**0.14**	0.11	*27%*	**0.14**	0.19	*-26%*

For the fourth quarter of 2022, G&A expenses (before overhead recoveries) increased to $4.7 million compared to $4.0 million in the fourth quarter of 2021, due to increased employment and insurance costs. For the year ended December 31, 2022, G&A expenses increased to $19.1 million compared to $16.3 million in 2021. This increase was due primarily to increased employment and insurance costs and transaction costs of $0.6 million on the February 2022 corporate acquisition.

G&A expenses averaged $0.08/Mcfe before overhead recoveries of $0.06/Mcfe for net G&A expenses of $0.02/Mcfe in the fourth quarter of 2022 ($0.08/Mcfe before overhead recoveries of $0.06/Mcfe for net G&A expenses of $0.02/Mcfe in the fourth quarter of 2021).

In the three months and year ended December 31, 2022, overhead recoveries increased 10 per cent and 37 per cent, respectively, compared to the same periods of 2021. The increased overhead recoveries in 2022 are due to Peyto's increased capital investing activities over the same periods of 2021.

Net G&A Expense



Performance and Stock Based Compensation

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

Performance Based Compensation

The reserve value-based component is 4 per cent of the incremental increase in per share value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8 per cent. Peyto recorded $0.6 million and $5.6 million for performance based compensation expense in the three months and year ended December 31, 2022, respectively (2021 - $7.7 million and $7.7 million).

Stock Based Compensation

The Company has 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 expire.

Peyto has 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 income statement in the quarter in which the units are granted, with a corresponding charge to contributed surplus in the balance sheet.

Stock based compensation costs is calculated on 9.9 million non-vested stock options (5.7 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). The stock option plan limits the number of common shares that may be granted to 10 per cent of the outstanding common shares.

Peyto records a non-cash provision for compensation expense over the life of the stock options calculated using a Black-Scholes valuation model. Stock based compensation costs for the three months and year ended December 31, 2022 were $3.9 million and $11.7 million, respectively (2021 - $1.9 million and $6.0 million).

Stock Option Plan

	Number of Options	**Weighted average exercise price ($)**
Balance, December 31, 2021	9,173,137	5.05
Stock options granted	5,872,175	12.84
Exercised	(4,892,217)	4.55
Forfeited	(204,600)	7.31
Expired	(7,627)	3.60
Balance, December 31, 2022	**9,940,868**	**9.86**

Deferred Share Units

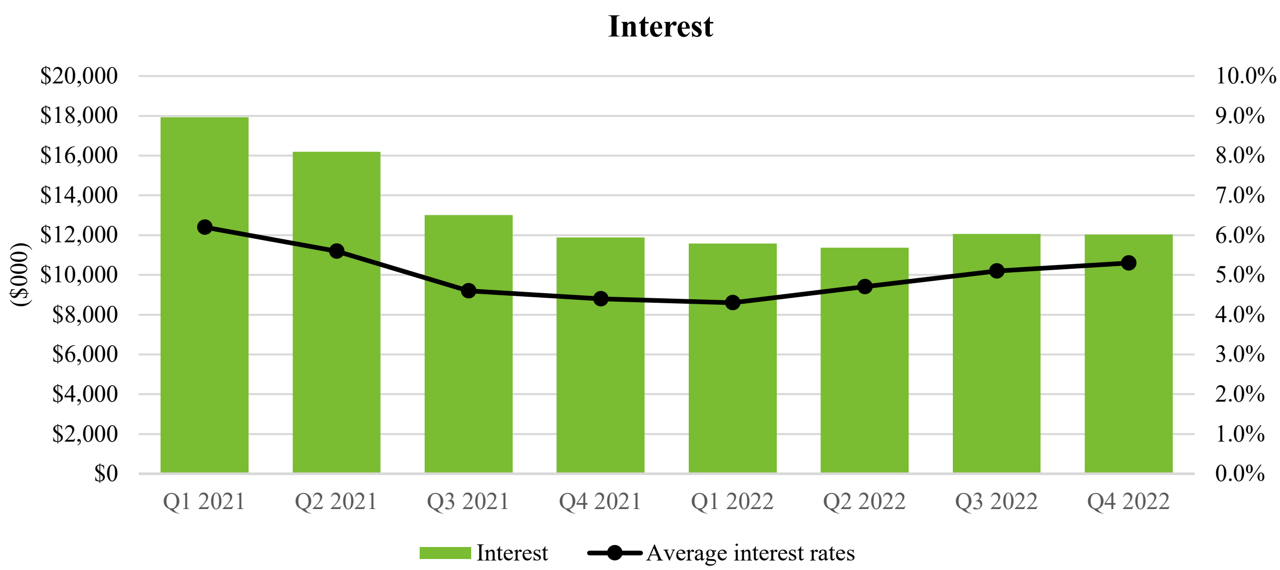
	Number of DSUs	**Weighted average exercise price ($)**
Balance, December 31, 2021	176,669	3.60
DSU granted	40,567	12.53
Balance, December 31, 2022	**217,236**	**5.27**

Interest Expense

	Three Months Ended December 31			Year Ended December 31		
	2022	2021	% Change	**2022**	2021	% Change
Interest expense ($000)	**12,031**	11,883	*1%*	**47,042**	59,017	*-20%*
$/Mcfe	**0.21**	0.22	*-5%*	**0.21**	0.30	*-30%*
$/boe	**1.25**	1.33	*-6%*	**1.24**	1.78	*-30%*
Average interest rate	**5.3%**	4.4%	*20%*	**4.8%**	5.2%	*-8%*
Average Bank of Canada rate	**3.75%**	0.25%	*1400%*	**1.94%**	0.25%	*676%*

Interest expense in the fourth quarter of 2022 totaled $12.0 million, consistent with $11.9 million in the fourth quarter of 2021 as Peyto's lower average debt outstanding on the revolving credit facility was offset by higher interest rates. Peyto's average interest rate increased to 5.3 per cent in the fourth quarter of 2022 from 4.4 per cent in the fourth quarter of 2021 due to the increase in underlying interest rates, partially offset by lower stamping fees charged on the amounts drawn on the revolving credit facility.

For the year ended December 31, 2022, interest expense decreased to $47.0 million from $59.0 million in 2021. The decrease in 2022 is due to lower average debt outstanding on the Company's revolving credit facility and a lower average interest rate. The Company's average interest rate decreased to 4.8 percent from 5.2 per cent due to lower stamping fees charged on the amounts drawn on the revolving credit facility, partially offset by an increase in underlying interest rates.

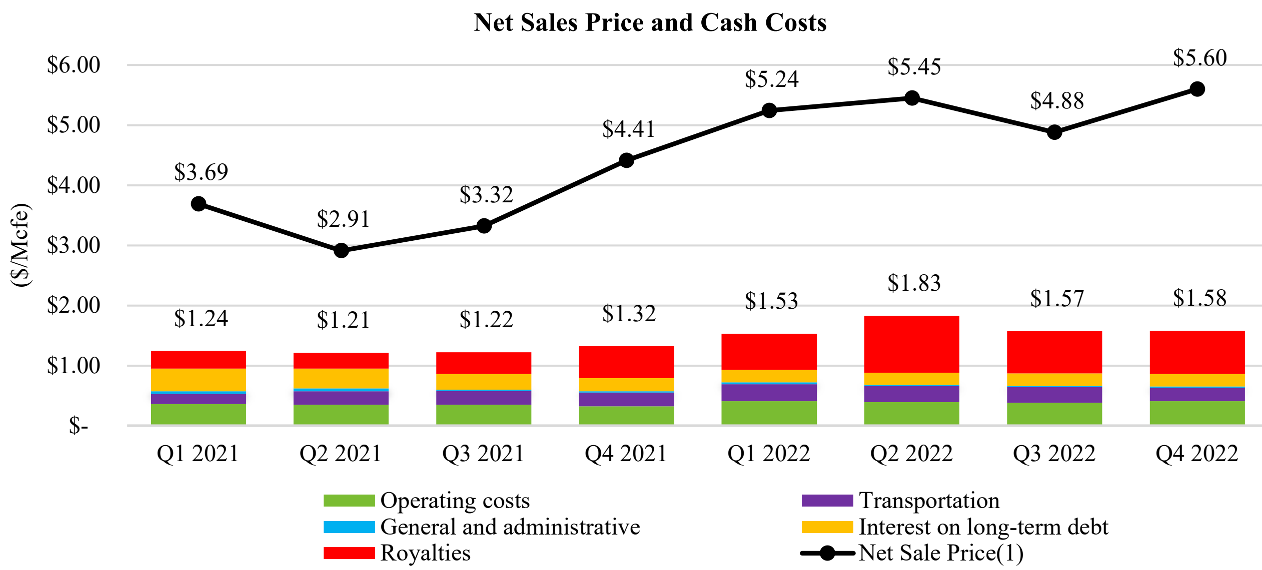


Netbacks

	Three Months Ended December 31			Year Ended December 31		
($/Mcfe)	**2022**	2021	% Change	**2022**	2021	% Change
Gross Sale Price	**7.17**	5.83	*23%*	**6.78**	4.58	*48%*
Realized hedging loss	**(1.57)**	(1.42)	*11%*	**(1.50)**	(0.98)	*53%*
Net Sale Price	**5.60**	4.41	*27%*	**5.28**	3.60	*47%*
Third party sales net of purchases	**0.01**	-	-	**0.02**	-	-
Other income	**0.13**	0.01	*1200%*	**0.05**	0.01	*400%*
Royalties	**(0.72)**	(0.53)	*36%*	**(0.74)**	(0.37)	*100%*
Operating costs	**(0.41)**	(0.32)	*28%*	**(0.39)**	(0.34)	*15%*
Transportation	**(0.22)**	(0.23)	*-4%*	**(0.26)**	(0.21)	*24%*
Field netback(1)	**4.39**	3.34	*31%*	**3.96**	2.69	*47%*
Net general and administrative	**(0.02)**	(0.02)	-	**(0.02)**	(0.03)	*-33%*
Interest on long-term debt	**(0.21)**	(0.22)	*-5%*	**(0.21)**	(0.30)	*-30%*
Realized gain on foreign exchange	**-**	-		**0.01**	-	
Cash netback(1) ($/Mcfe)	**4.16**	3.10	*34%*	**3.74**	2.36	*58%*
Cash netback(1) ($/boe)	**24.97**	18.60	*34%*	**22.43**	14.18	*58%*

(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.



(1) Excludes revenue from sale of natural gas volumes from third parties and other income

Depletion and Depreciation

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The fourth quarter 2022 provision for depletion and depreciation totaled $79.6 million ($1.37/Mcfe) compared to $73.5 million ($1.37/Mcfe) in the fourth quarter 2021. For the year ended December 31, 2022, depletion and depreciation totaled $302.6 million ($1.33/Mcfe) compared to $263.3 million ($1.32/Mcfe) in 2021.

Income Taxes

Peyto recorded current income tax expense of $20.3 million for the three months and year ended December 31, 2022, compared to nil for the same periods in 2021. For the three months ended December 31, 2022, Peyto recognized $21.0 million of deferred income tax expense, compared to $13.9 million for the same period in 2021. For the year ended December 31, 2022, a deferred income tax expense of $106.1 million was recorded compared to $39.2 million for 2021.

The increase in current and deferred income tax expense for the three months and year ended December 31, 2022, is due to higher taxable income for the periods from an increase in revenue compared to the same periods of 2021. Peyto's estimated income tax pools are as follows:

Income Tax Pool Type ($ millions)	Annual Deductibility	December 31, 2022
Canadian Oil and Gas Property Expense	10% declining balance	176.1
Canadian Development Expense (CDE)	30% declining balance	543.1
Successored CDE	30% declining balance	23.7
Successored Canadian Exploration Expense	100%	47.4
Undepreciated Capital Cost	Primarily 25% declining balance	312.9
Other	20%	0.2
Total Federal Tax Pools		**1,103.4**

MARKETING

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, natural gas prices, and the foreign exchange rate. To minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate.

Commodity Price Risk Management

During the three months and year ended December 31, 2022, Peyto recorded realized hedging losses of $90.8 million and $340.4 million, respectively, as compared to losses of $76.0 million and $195.1 million in the same periods of 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)
Q1 2023	Fixed Price	205,000 GJ	$3.34
Q2 2023	Fixed Price	242,500 GJ	$3.07
Q3 2023	Fixed Price	242,500 GJ	$3.07
Q4 2023	Fixed Price	129,783 GJ	$3.84
Q1 2024	Fixed Price	72,500 GJ	$5.16
Q2 2024	Fixed Price	30,000 GJ	$3.85
Q3 2024	Fixed Price	30,000 GJ	$3.85
Q4 2024	Fixed Price	23,370 GJ	$4.25
Q1 2025	Fixed Price	20,000 GJ	$4.55

Natural Gas Period Hedged - Daily Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
Q1 2023	Fixed Price	40,333 GJ	$5.60
Q2 2023	Fixed Price	5,000 GJ	$4.40
Q3 2023	Fixed Price	5,000 GJ	$4.40
Q4 2023	Fixed Price	1,685 GJ	$4.40

Natural Gas Period Hedged – NYMEX	Type	Daily Volume	Average Price (NYMEX USD/MMBtu)
Q1 2023	Fixed Price	140,000 MMBtu	$3.99
Q2 2023	Fixed Price	120,000 MMBtu	$3.71
Q3 2023	Fixed Price	120,000 MMBtu	$3.71
Q4 2023	Fixed Price	116,685 MMBtu	$4.08
Q1 2024	Fixed Price	115,000 MMBtu	$4.74
Q2 2024	Fixed Price	60,000 MMBtu	$4.24
Q3 2024	Fixed Price	60,000 MMBtu	$4.24
Q4 2024	Fixed Price	20,217 MMBtu	$4.24

Natural Gas Period Hedged – Malin	Type	Daily Volume	Average Price (Malin USD/MMBtu)
Q1 2023	Fixed Price	40,000 MMBtu	$2.97

Crude Oil Period Hedged – WTI	Type	Daily Volume	Average Price (WTI CAD/bbl)
Q1 2023	Fixed Price	3,600 bbl	$112.64
Q2 2023	Fixed Price	1,900 bbl	$111.93
Q3 2023	Fixed Price	900 bbl	$107.71
Q4 2023	Fixed Price	400 bbl	$103.95

As at December 31, 2022, Peyto had committed to the future sale of 95,505,000 gigajoules (GJ) of natural gas at an average price of $3.57 per GJ or $4.11 per Mcf, 72,200,000 MMBtu at an average price of $4.02 US per MMBtu, and 616,500 barrels of crude at an average price of $111.26 CAD per bbl. Had these contracts closed on December 31, 2022, Peyto would have realized a loss in the amount of $111.6 million. Total hedged volumes represent approximately six per cent of Peyto's December 31, 2022 Proved plus Probable Developed reserves.

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

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
November 1, 2023 to March 31, 2024	Fixed Price	5,000 GJ	$4.15
April 1, 2024 to October 31, 2024	Fixed Price	5,000 GJ	$3.35
November 1, 2024 to March 31, 2025	Fixed Price	65,000 GJ	$4.03
April 1, 2025 to October 31, 2025	Fixed Price	20,000 GJ	$3.51

Natural Gas Period Hedged – NYMEX	Type	Daily Volume	Average Price (NYMEX USD/MMBtu)
April 1, 2023 to October 31, 2023	Fixed Price	5,000 MMBtu	$3.18
November 1, 2023 to March 31, 2024	Fixed Price	50,000 MMBtu	$3.95
April 1, 2024 to October 31, 2024	Fixed Price	40,000 MMBtu	$3.47

Crude Oil Period Hedged – WTI	Type	Daily Volume	Average Price (WTI CAD/bbl)
April 1, 2023 to June 30, 2023	Fixed Price	1,200 bbl	$106.94
July 1, 2023 to September 30, 2023	Fixed Price	1,000 bbl	$105.11
October 1, 2023 to December 31, 2023	Fixed Price	900 bbl	$102.77
January 1, 2024 to March 31, 2024	Fixed Price	200 bbl	$101.60

Crude Oil Period Hedged – WTI	Type	Daily Volume	Put - Call (WTI CAD/bbl)
July 1, 2023 to September 30, 2023	Collar	500 bbl	$95.00 - $115.25
October 1, 2023 to December 31, 2023	Collar	500 bbl	$90.00 - $116.25
January 1, 2024 to March 31, 2024	Collar	500 bbl	$90.00 - $110.20

Foreign Exchange Forward Contracts

Peyto has the following foreign exchange forward contracts in place at December 31, 2022:

Average rate forward	Amount ($000)	Rate (CAD/USD)
January 1, 2023 to December 31, 2023	USD 5,000/month	1.3602

Subsequent to December 31, 2022, Peyto entered into the following foreign exchange forward contracts:

Average rate forward	Amount ($000)	Rate (CAD/USD)
January 1, 2023 to December 31, 2023	USD 5,000/month	1.3600
January 1, 2024 to June 30, 2024	USD 10,000/month	1.3500

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. Peyto mitigates exchange rate risks using foreign exchange forward

contracts and by hedging certain products with Canadian dollar contracts. Additionally, the $40 million USD in senior secured notes provides structural 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 December 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 $1.2 million per quarter. Average debt outstanding for the quarter was $890 million (including $419 million fixed rate debt).

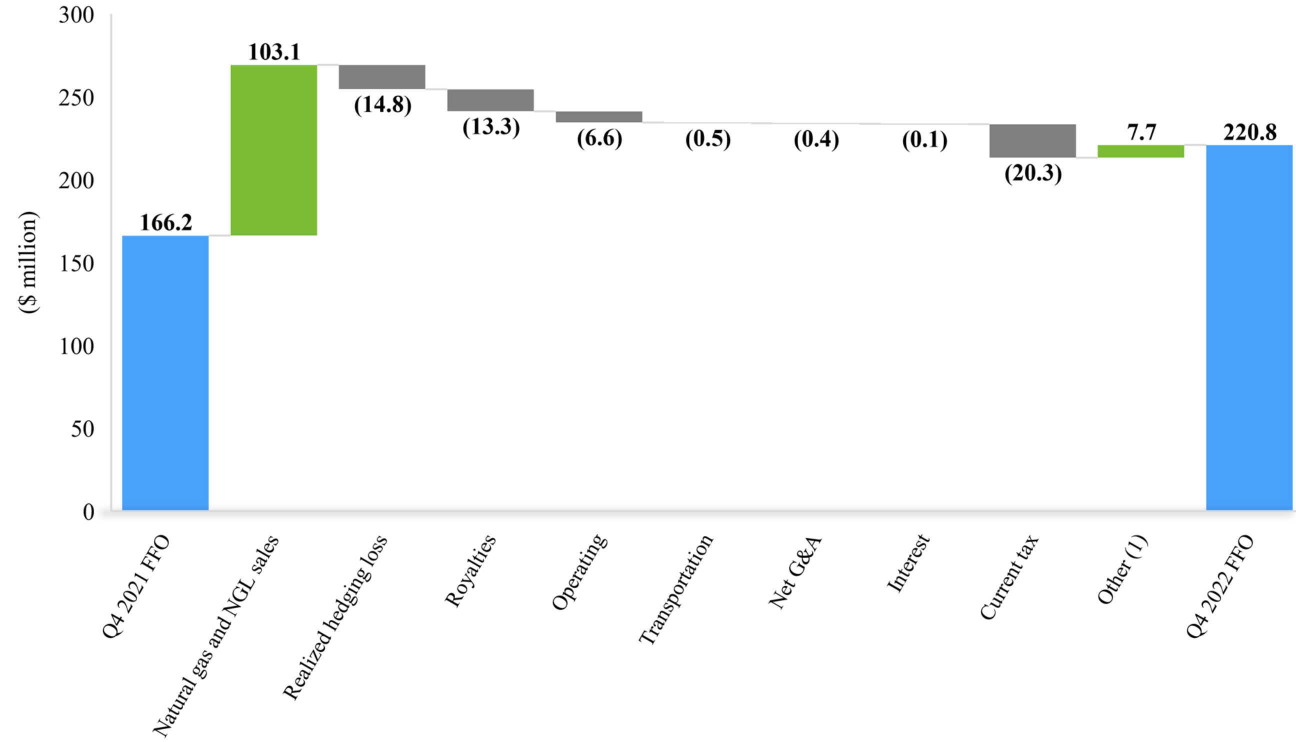
Cash Flow from Operating Activities, Funds from Operations and Earnings

	Three Months Ended December 31			Year Ended December 31		
($000, except per share amounts)	**2022**	2021	% Change	**2022**	2021	% Change
Cash Flow from Operating Activities	**199,943**	150,226	*33%*	**811,778**	457,874	*77%*
Funds from Operations[1]	**220,815**	166,165	*33%*	**827,596**	469,672	*76%*
Funds from operations per share[1] – basic	**1.28**	0.99	*29%*	**4.85**	2.83	*71%*
Funds from operations per share[1] – diluted	**1.26**	0.96	*31%*	**4.73**	2.76	*71%*
Free Funds Flow[1]	**105,775**	57,214	*85%*	**320,736**	104,614	*207%*
Earnings	**113,441**	71,718	*58%*	**390,663**	152,248	*157%*
Earnings per share – basic	**0.66**	0.43	*53%*	**2.29**	0.92	*149%*
Earnings per share – diluted	**0.64**	0.42	*52%*	**2.23**	0.89	*151%*

(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.

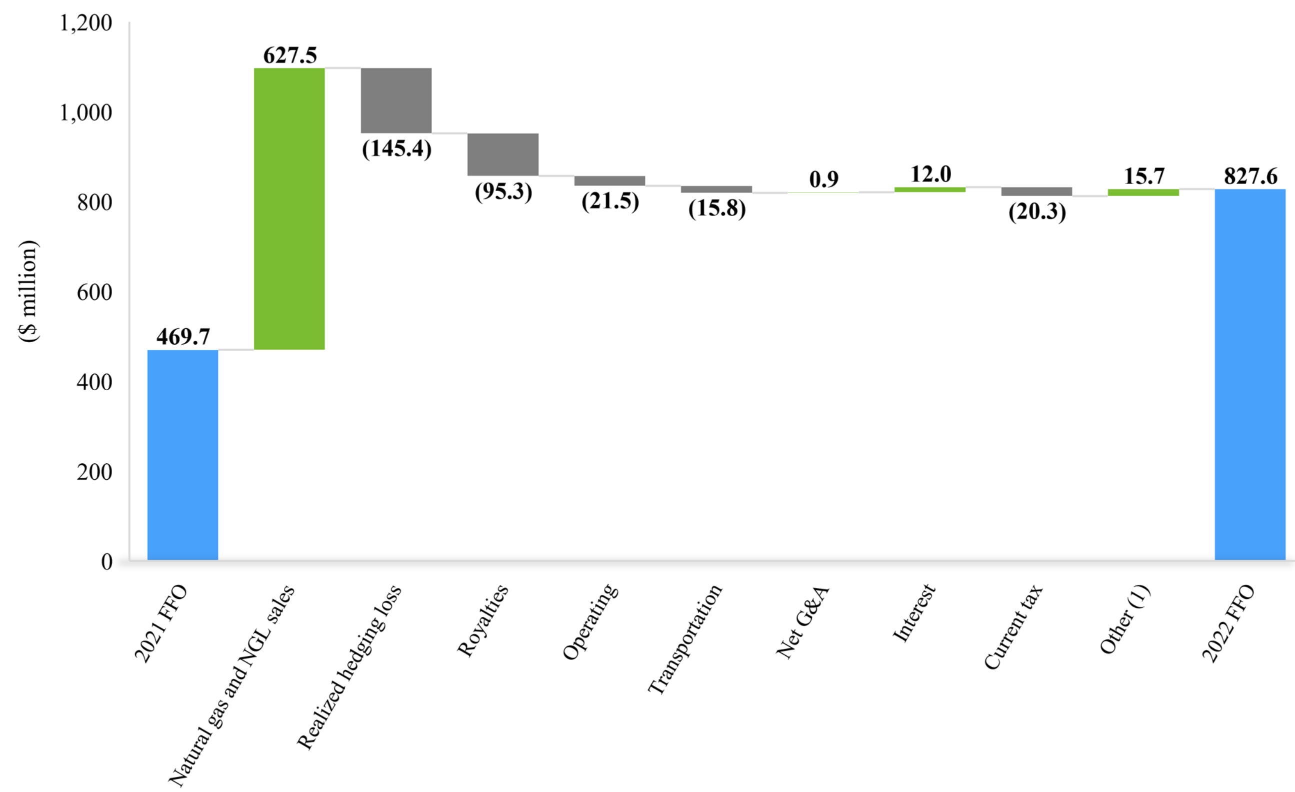
Funds from Operations and Cash Flow from Operating Activities
For the fourth quarter of 2022, funds from operations ("FFO") increased 33 per cent to $220.8 million, compared to $166.2 million in the fourth quarter of 2021. Cash flow from operating activities increased to $199.9 million in the fourth quarter of 2022 from $150.2 million in the fourth quarter of 2021. For the year ended December 31, 2022, FFO totaled $827.6 million, compared to $469.7 million in 2021. Cash flow from operating activities increased to $811.8 million in the year ended December 31, 2022 from $457.9 million in 2021. The increases in FFO and cash flow from operating activities was due to increases in commodity prices and production volumes, partially offset by an increased realized hedging loss, and higher royalties, operating, transportation and current tax expense. 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.

Change in Funds from Operations
Three Months Ended December 31



(1) "Other" includes other income, net third-party sales, and realized gain/loss on foreign exchange

Change in Funds from Operations
Year Ended December 31



(1) "Other" includes other income, net third-party sales, and realized gain/loss on foreign exchange

Free Funds Flow
Peyto uses free funds flow, defined as funds from operations less total capital expenditures, as an indicator of the funds available for capital allocation. For the three months and year ended December 31, 2022, free funds flow increased to $105.8 million and $320.7 million, respectively, from $57.2 million and $104.6 million for the same periods 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 earnings in the three months and year ended December 31, 2022 increased to $113.4 million and $390.7 million, respectively, from $71.7 million and $152.2 million for the same periods 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 invested $115.0 million in capital expenditures for the fourth quarter of 2022. Exploration and development related activity represented $98.0 million (85 per cent), expenditures on facilities and pipelines totaled $16.3 million (14 per cent) and land and seismic totaled $0.7 million (1 per cent).

For the year ended December 31, 2022, capital expenditures totaled $506.9 million. Peyto drilled 95 gross (82.4 net) horizontal wells and completed 102 gross (87.9 net) wells in the year for exploration and development capital of $370.8 million (73 per cent). Expenditures on facilities and pipelines totaled $99.5 million (20 per cent), which included the construction and commissioning of the Chambers gas plant as well as several new pipeline projects in the Greater Brazeau area ("GBA"). These projects were undertaken to accommodate new drilling and optimize production between what is now three connected GBA gas plants. There was also significant investment in new pipeline projects in the Greater Sundance and Whitehorse areas to accommodate new and future drilling and to debottleneck several areas of the gas gathering system. Additionally, Peyto invested $10.4 million in land and seismic in the year and closed and asset acquisition in the GBA for $26.1 million (5 per cent) that included 49 gross (41.7 net) sections of land, 12 producing wells totaling approximately 600 boe/d (20% NGLs), and 59 km of pipelines. Refer to Note 4 of the consolidated financial statements for more details.

The following table summarizes capital expenditures for the three months and year ended December 31, 2022 and 2021:

	Three Months Ended December 31			**Year Ended December 31**		
($000)	**2022**	2021	% Change	**2022**	2021	% Change
Land	**-**	3,373	*-100%*	**7,064**	4,499	*57%*
Seismic	**661**	696	*-5%*	**3,374**	3,926	*-14%*
Drilling	**49,213**	54,540	*-10%*	**205,263**	159,240	*29%*
Completions	**39,085**	27,091	*44%*	**126,665**	86,714	*46%*
Equipping & tie-ins	**9,815**	8,989	*9%*	**38,907**	24,780	*57%*
Facilities & pipelines	**16,266**	14,002	*16%*	**99,523**	49,787	*100%*
Additions to property, plant and equipment	**115,040**	108,691	*6%*	**480,796**	328,946	*46%*
Asset acquisitions & dispositions	**-**	260	*-100%*	**26,064**	36,112	*-28%*
Total capital expenditures(1)	**115,040**	108,951	*6%*	**506,860**	365,058	*39%*
Corporate acquisition	**-**	-	-	**22,220**	-	-

(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.

Corporate Acquisition
On February 28, 2022, Peyto acquired all the issued and outstanding shares of a private company in the GBA for cash consideration of $22.2 million. The acquisition included 880 boe/d of production, land and infrastructure including a 100% owned and operated 45 MMcf/d sweet natural gas plant. Total transaction costs incurred by Peyto of $0.6 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 which was reduced by 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 December 31, 2022 and December 31, 2021 is summarized as follows:

($000)	**As at December 31, 2022**	As at December 31, 2021
Long-term debt	**759,176**	1,065,712
Current assets	**(218,550)**	(144,370)
Current liabilities	**471,858**	239,620
Financial derivative instruments	**(126,081)**	(61,091)
Current portion of lease obligation	**(1,266)**	(1,123)
Net debt(1)	**885,137**	1,098,748

(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 $885.1 million as at December 31, 2022 decreased by $213.6 million from December 31, 2021.

The Company's 2023 capital expenditure budget has been approved at $425 to $475 million. Peyto believes funds from operations based on current strip pricing, together with available borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program. Peyto has specifically designed the program to have flexibility in the back half of the year when natural gas prices are forecasted to strengthen. Until that time, the Company plans to target the low end of capital guidance and will react to changes in commodity prices as they unfold.

The total amount of capital invested in 2023 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.

Current and Long-Term Debt

($000)	**December 31, 2022**	December 31, 2021
Bank credit facility	**440,000**	650,000
Current senior secured notes	**100,000**	-
Long-term senior secured notes	**319,176**	415,712
Balance, end of the year	**859,176**	1,065,712

At December 31, 2022, Peyto had a $800 million senior secured covenant-based credit facility (the "Credit Facility") with a syndicate of lenders. The maturity date is October 13, 2025. The Credit Facility includes a $40 million working capital sub-tranche and a $760 million production line and is available on a revolving basis. Borrowings under the Credit 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 undrawn portion of the Credit Facility totaled $360 million at December 31, 2022 ($300 million at December 31, 2021), and is subject to standby fees.

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	**December 31, 2022**	December 31, 2021
Total Debt to EBITDA	Less than 4.0	**0.97**	2.04
Senior Debt to EBITDA	Less than 3.5	**0.97**	2.04
Interest coverage	Greater than 3.0	**18.99**	8.89

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

Senior secured notes in the amount of $100 million with a coupon rate of 3.70% mature on October 24, 2023 and are classified as a current liability. Peyto will assess market conditions and interest rates at maturity and will either renew or repay the note with available borrowings from its credit facility.

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount $000
Balance, December 31, 2021	**168,151,219**	**1,664,508**
Private Placement	247,785	2,586
Common shares issued	5,071,238	22,249
Stock option issuance costs (net of tax)	-	(92)
Contributed surplus on exercised of stock options	-	8,552
Balance, December 31, 2022	**173,470,242**	**1,697,803**

Total Payout Ratio

"Total payout ratio" is a non-GAAP measure which is calculated as the sum of dividends declared plus total capital expenditures, divided by funds from operations. This ratio represents the percentage of the capital expenditures and dividends that is funded by cashflow. Management uses this measure, among others, to assess the sustainability of Peyto's dividend and capital program. Refer to the section entitled "Non-GAAP and Other Financial Measures" in this MD&A for further information.

	Three Months Ended December 31			Year Ended December 31		
($000, except total payout ratio)	**2022**	2021	% Change	**2022**	2021	% Change
Total dividends declared	**25,908**	16,779	*54%*	**102,437**	21,758	*371%*
Total capital expenditures(1)	**115,040**	108,951	*6%*	**506,860**	365,058	*39%*
Total payout(1)	**140,948**	125,730	*12%*	**609,297**	368,816	*65%*
Funds from operations(1)	**220,815**	166,165	*33%*	**827,596**	469,672	*76%*
Total payout ratio(1)	**64%**	76%	*-16%*	**74%**	82%	*-10%*

(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 December 31, 2022:

($000)	2023	2024	2025	2026	2027	Thereafter
Interest payments [1]	16,958	13,258	11,874	8,294	6,099	4,124
Transportation commitments	67,151	69,516	46,576	35,007	28,888	353,274
Operating leases	2,227	2,227	2,227	2,227	-	-
Methanol	4,355	-	-	-	-	-
Total	90,691	85,001	60,677	45,528	34,987	357,398

[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:

Expense ($000)				Accounts Payable ($000)	
Three Months ended December 31		Year Ended December 31		As at December 31	
2022	2021	**2022**	2021	**2022**	2021
204.3	(111.5)	**1,145.8**	13.6	**82.8**	81.9

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, Malin, Dawn, 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's operating costs could escalate and become uncompetitive due to supply chain disruptions, inflationary cost pressures, equipment limitations, escalating supply costs, commodity prices, and additional government intervention through stimulus spending or additional regulations. Peyto's inability to manage costs may impact project returns and future development decisions, which could have a material adverse effect on its financial performance and cash flows.

The cost or availability of oilfield services may adversely affect Peyto's ability to undertake exploration, development and construction projects. The crude oil and natural gas industry is cyclical in nature and is prone to shortages of supply of equipment and services including drilling rigs, geological and geophysical services, engineering and construction services, major equipment items for infrastructure projects, and construction materials generally. These materials and services may not be available when required at reasonable prices. A failure to secure the services and equipment necessary to Peyto's operations for the expected price, on the expected timeline, or at all, may have an adverse effect on Peyto's financial performance and cash flows.

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. Both the reserves committee and 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, 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 December 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, 2022 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 2023. 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 December 31		Year Ended December 31	
($000)	**2022**	2021	**2022**	2021
Cash flows from operating activities	**199,943**	150,226	**811,778**	457,874
Change in non-cash working capital	**19,226**	8,212	**5,593**	4,071
Decommissioning expenditures	**1,089**	-	**4,668**	-
Performance based compensation	**557**	7,727	**5,557**	7,727
Funds from operations	**220,815**	166,165	**827,596**	469,672

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 total capital expenditures. By removing the impact of current period total capital expenditures 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 December 31		Year Ended December 31	
($000)	**2022**	2021	**2022**	2021
Cash flows from operating activities	**199,943**	150,226	**811,778**	457,874
Change in non-cash working capital	**19,226**	8,212	**5,593**	4,071
Decommissioning expenditures	**1,089**	-	**4,668**	-
Performance based compensation	**557**	7,727	**5,557**	7,727
Funds from operations	**220,815**	166,165	**827,596**	469,672
Total capital expenditures	**(115,040)**	(108,951)	**(506,860)**	(365,058)
Free funds flow	**105,775**	57,214	**320,736**	104,614

Total Capital Expenditures

Peyto uses the term total capital expenditures as a measure of capital investment in exploration and production activity, as well as property acquisitions and divestitures, and such spending is compared to the Company's annual budgeted capital expenditures. The most directly comparable GAAP measure for total capital expenditures is cash flow used in investing activities. The following table details the calculation of cash flow used in investing activities to total capital expenditures.

	Three Months ended December 31		Year Ended December 31	
($000)	**2022**	2021	**2022**	2021
Cash flows used in investing activities	**115,300**	100,045	**516,912**	351,431
Change in prepaid capital	**(594)**	377	**7,596**	(4,310)
Corporate acquisitions	**-**	-	**(22,220)**	-
Change in non-cash working capital relating to investing activities	**334**	8,529	**4,572**	17,937
Total capital expenditures	**115,040**	108,951	**506,860**	365,058

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 December 31, 2022**	As at December 31, 2021
Long-term debt	**759,176**	1,065,712
Current assets	**(218,550)**	(144,370)
Current liabilities	**471,858**	239,620
Financial derivative instruments	**(126,081)**	(61,091)
Current portion of lease obligation	**(1,266)**	(1,123)
Net debt	**885,137**	1,098,748

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, plus third party sales net of purchases, if any, plus other income, less royalties, operating, and transportation expense divided by production. "Cash netback" is calculated as "field netback" less interest, less general and administration expense and plus or minus realized gain on foreign exchange, divided by production. Netbacks are before tax, 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 December 31		**Year Ended December 31**	
($/Mcfe)	**2022**	2021	**2022**	2021
Gross Sale Price	**7.17**	5.83	**6.79**	4.58
Realized hedging loss	**(1.57)**	(1.42)	**(1.50)**	(0.98)
Net Sale Price	**5.60**	4.41	**5.29**	3.60
Third party sales net of purchases	**0.01**	-	**0.02**	-
Other income	**0.13**	0.01	**0.05**	0.01
Royalties	**(0.72)**	(0.53)	**(0.74)**	(0.37)
Operating costs	**(0.41)**	(0.32)	**(0.39)**	(0.34)
Transportation	**(0.22)**	(0.23)	**(0.26)**	(0.21)
Field netback(1)	**4.39**	3.34	**3.96**	2.69
Net general and administrative	**(0.02)**	(0.02)	**(0.02)**	(0.03)
Interest on long-term debt	**(0.21)**	(0.22)	**(0.21)**	(0.30)
Realized gain on foreign exchange	**-**	-	**0.01**	-
Cash netback(1) ($/Mcfe)	**4.16**	3.10	**3.74**	2.36
Cash netback(1) ($/boe)	**24.97**	18.60	**22.43**	14.18

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 total capital expenditures, divided by funds from operations. This ratio represents the percentage of the capital expenditures and dividends that is funded by cashflow. Management uses this measure, among others, to assess the sustainability of Peyto's dividend and capital program.

	Three Months ended December 31		**Year Ended December 31**	
($000, except total payout ratio)	**2022**	2021	**2022**	2021
Total dividends declared	**25,908**	16,779	**102,437**	21,758
Total capital expenditures	**115,040**	108,951	**506,860**	365,058
Total payout	**140,948**	125,730	**609,297**	368,816
Funds from operations	**220,815**	166,165	**827,596**	469,672
Total payout ratio (%)	**64%**	76%	**74%**	82%

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.

"Third party sales net of purchases per Mcfe" is comprised of sales of natural gas from third parties less natural gas purchased from third parties, 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.

"Other income per Mcfe" is comprised of other income, 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 gain on foreign exchange per Mcfe" is comprised of realized gain on foreign exchange, as determined in accordance with IFRS, divided by the Company's total 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.
Realized gain on foreign exchange and other income

"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:

- the 2023 capital expenditure budget of $425 to $475 million;
- Peyto's belief that funds from operations based on current strip pricing, together with available borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program;
- 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;
- 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 latest Annual Information Form.

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
	Q4	Q3	Q2	Q1	Q4
Operations					
Production					
Natural gas (Mcf/d)	**552,627**	544,843	541,030	535,660	517,606
NGLs (bbl/d)	**12,840**	13,263	13,411	12,273	11,038
Total (boe/d @ 6:1)	**104,944**	104,071	103,583	101,549	97,306
Total (Mcfe/d @ 6:1)	**629,667**	624,426	621,499	609,294	583,834
Liquid to gas ratio (bbl per MMcf)	**23.2**	24.3	24.8	22.9	21.3
Average product prices					
Realized natural gas price – after hedging and diversification ($/Mcf)	**4.62**	3.68	4.08	4.08	3.58
Realized NGL price – after hedging ($/bbl)	**75.95**	78.07	87.80	81.66	64.71
$/Mcfe					
Net sale price ($/Mcfe)	**5.60**	4.88	5.45	5.24	4.41
Net third party sales ($/Mcfe)	**0.01**	0.07	0.02	-	-
Other income ($/Mcfe)	**0.13**	0.04	0.01	0.01	0.01
Royalties ($/Mcfe)	**(0.72)**	(0.70)	(0.95)	(0.60)	(0.53)
Operating costs ($/Mcfe)	**(0.41)**	(0.38)	(0.39)	(0.41)	(0.32)
Transportation ($/Mcfe)	**(0.22)**	(0.26)	(0.27)	(0.28)	(0.23)
Field netback ($/Mcfe) [(2)]	**4.39**	3.65	3.87	3.96	3.34
General & administrative expense ($/Mcfe)	**(0.02)**	(0.02)	(0.02)	(0.03)	(0.02)
Interest expense ($/Mcfe)	**(0.21)**	(0.21)	(0.20)	(0.21)	(0.22)
Realized gain on foreign exchange	**-**	0.02	-	-	-
Cash netback ($/Mcfe) [(2)]	**4.16**	3.44	3.65	3.72	3.10
Financial ($000 except per share)					
Revenue and realized hedging losses [(1)]	**324,614**	279,661	307,830	286,894	236,360
Royalties	**41,615**	40,024	53,838	32,903	28,304
Funds from operations[(2)]	**220,815**	197,388	205,901	203,492	166,165
Funds from operations per share[(2)]	**1.28**	1.15	1.21	1.20	0.99
Funds from operations per diluted share[(2)]	**1.26**	1.13	1.18	1.17	0.96
Total dividends	**25,908**	25,686	25,485	25,358	16,779
Total dividends per share[(2)]	**0.15**	0.15	0.15	0.15	0.10
Earnings	**113,441**	84,861	94,545	97,816	71,718
Earnings per share	**0.66**	0.50	0.56	0.58	0.43
Earnings per diluted share	**0.64**	0.48	0.54	0.56	0.42
Total capital expenditures[(2)]	**115,040**	140,400	108,089	143,331	108,951
Corporate acquisition	**-**	-	-	22,220	-
Total payout ratio (%)[(2)]	**64%**	84%	65%	83%	76%
Weighted average shares outstanding (basic)	**172,726,293**	171,230,853	169,896,849	169,058,178	167,546,601
Weighted average shares outstanding (diluted)	**175,892,139**	175,140,910	175,040,905	173,320,559	172,582,450

(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