PEYTO

Exploration & Development Corp.

2023

HIGHLIGHTS

	Three Months Ended Dec 31		%	Year Ended Dec 31		%
	2023	2022	Change	**2023**	2022	Change
Operations						
Production						
Natural gas (Mcf/d)	**622,963**	552,627	*13%*	**553,745**	543,590	*2%*
NGLs (bbl/d)	**16,175**	12,840	*26%*	**12,657**	12,949	*-2%*
Thousand cubic feet equivalent (Mcfe/d @ 1:6)	**720,014**	629,667	*14%*	**629,686**	621,286	*1%*
Barrels of oil equivalent (boe/d @ 6:1)	**120,002**	104,944	*14%*	**104,948**	103,548	*1%*
Production per million common shares (boe/d)	**631**	608	*4%*	**587**	606	*-3%*
Product prices						
Realized natural gas price – after hedging and diversification ($/Mcf)	**3.87**	4.62	*-16%*	**3.57**	4.12	*-13%*
Realized NGL price – after hedging ($/bbl)	**64.32**	75.95	*-15%*	**70.22**	80.39	*-13%*
Operating expenses ($/Mcfe)	**0.55**	0.41	*34%*	**0.49**	0.39	*26%*
Transportation ($/Mcfe)	**0.26**	0.22	*18%*	**0.27**	0.26	*4%*
Field netback(1) ($/Mcfe)	**3.73**	4.39	*-15%*	**3.51**	3.96	*-11%*
General & administrative expenses ($/Mcfe)	**0.06**	0.02	*200%*	**0.05**	0.02	*150%*
Interest expense ($/Mcfe)	**0.40**	0.21	*90%*	**0.29**	0.21	*38%*
Financial ($000, except per share)						
Natural gas and NGL sales including realized hedging gains (losses)(2)	**317,246**	324,614	*-2%*	**1,046,925**	1,198,999	*-13%*
Funds from operations(1)	**200,319**	220,815	*-9%*	**670,471**	827,596	*-19%*
Funds from operations per share - basic(1)	**1.05**	1.28	*-18%*	**3.75**	4.85	*-23%*
Funds from operations per share - diluted(1)	**1.05**	1.26	*-17%*	**3.72**	4.73	*-21%*
Total dividends	**63,811**	25,908	*146%*	**239,006**	102,437	*133%*
Total dividends per share	**0.33**	0.15	*120%*	**1.32**	0.60	*120%*
Earnings	**87,795**	113,441	*-23%*	**292,635**	390,663	*-25%*
Earnings per share – basic	**0.46**	0.66	*-30%*	**1.64**	2.29	*-28%*
Earnings per share – diluted	**0.46**	0.64	*-28%*	**1.62**	2.23	*-27%*
Total capital expenditures(1)	**115,218**	115,040	*0%*	**412,919**	506,860	*-19%*
Corporate acquisition	**699,358**	-		**699,358**	22,220	*3047%*
Total payout ratio(1)	**89%**	64%	*39%*	**97%**	74%	*31%*
Weighted average common shares outstanding - basic	**190,196,093**	172,726,293	*10%*	**178,894,013**	170,739,471	*5%*
Weighted average common shares outstanding - diluted	**191,271,677**	175,892,139	*9%*	**180,311,890**	175,040,978	*3%*
Net debt(1)				**1,362,777**	885,137	*54%*
Shareholders' equity				**2,714,943**	2,061,666	*32%*
Total assets				**5,909,642**	4,012,523	*47%*

(1) This is a Non-GAAP financial measure or ratio. See "non-GAAP and Other Financial Measures" in this news release and in the Q4 2023 MD&A

(2) Excludes revenue from sale of third-party volumes

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 7, 2024 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the years ended December 31, 2023 and 2022, as well as Peyto’s Annual Information Form, each of which is available at at www.sedarplus.ca 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"). 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, 2023, the Company’s total Proved plus Probable reserves were 7.8 trillion cubic feet equivalent (1.3 billion barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 87 per cent to natural gas and 13 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 25 years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

REPSOL ACQUISITION

On October 17, 2023, Peyto completed its acquisition of Repsol Canada Energy Partnership (the "Acquisition"), which held the Canadian upstream oil and gas business of Repsol Exploración, S.A.U. ("Repsol"), including all related midstream facilities and infrastructure located predominantly in the Deep Basin area of Alberta (the "Repsol Assets"), for cash consideration of $699 million, including a post-closing adjustment of $63 million. The Acquisition included production of ~23,000 boe/d (75% natural gas, 25% NGLs), added years of drilling inventory and included extensive gas processing and pipeline infrastructure that complement Peyto’s legacy assets in the Edson area.

The Acquisition was partially funded by a bought deal financing that closed on September 26, 2023, whereby Peyto issued 16,916,500 subscription receipts (the "Subscription Receipts") at a price of $11.90 per Subscription Receipt for gross proceeds of $201.3 million, which included the full exercise of the over-allotment option granted to the underwriters.

On closing of the Acquisition, the net proceeds from the sale of the Subscription Receipts were released from escrow to Peyto to partially fund the purchase price of the Acquisition with the remainder of the purchase price funded by drawing on Peyto's credit facilities, as described below. In addition, on closing of the Acquisition, in accordance with the terms of the Subscription Receipts, each Subscription Receipt was exchanged for one common share of Peyto.

In conjunction with the closing of the Acquisition, the Company amended and restated its credit facilities with a syndicate of banks increasing the committed revolving facility from $800 million to $1 billion and added a new $174 million two-year amortizing term loan. The term loan requires equal quarterly payments in the amount of $14.5 million commencing March 31, 2024, with a lump sum payment due on October 13, 2025, in the amount of $58 million.

ANNUAL FINANCIAL INFORMATION

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

Year Ended December 31 ($000 except per share amounts)	**2023**	2022	2021
Natural gas and NGL sales including realized hedging gains (losses) (1)	**1,046,925**	1,198,999	716,922
Funds from operations(2)	**670,471**	827,596	469,672
Per share – basic (2)	**3.75**	4.85	2.83
Per share – diluted (2)	**3.72**	4.73	2.76
Earnings	**292,635**	390,633	152,248
Per share – basic	**1.64**	2.29	0.92
Per share – diluted	**1.62**	2.23	0.89
Total capital expenditures(2)	**412,919**	506,860	365,058
Total assets	**5,509,642**	4,012,523	3,784,195
Total current and long-term debt(3)	**1,398,751**	859,176	1,065,712
Dividends per share(2)	**1.32**	0.60	0.13
Total payout ratio (%)(2)	**97%**	74%	82%

(1) Excludes revenue from sale of natural gas and NGLs 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.

QUARTERLY FINANCIAL INFORMATION

	2023				2022			
($000 except per share amounts)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Natural gas and NGL sales, net of royalties and including realized hedging gains/losses (1)	**297,647**	216,456	209,714	248,766	282,999	239,637	253,992	253,991
Funds from operations(2)	**200,319**	147,980	142,354	179,817	220,815	197,388	205,901	203,492
Per share – basic (2)	**1.05**	0.84	0.81	1.03	1.28	1.15	1.21	1.20
Per share – diluted (2)	**1.05**	0.84	0.81	1.02	1.26	1.13	1.18	1.17
Earnings	**87,795**	57,444	57,415	89,981	113,441	84,861	94,545	97,816
Per share – basic	**0.46**	0.33	0.33	0.51	0.66	0.50	0.56	0.58
Per share – diluted	**0.46**	0.33	0.33	0.51	0.64	0.48	0.54	0.56
Total dividends declared(3)	**63,811**	59,802	57,715	57,678	25,908	25,686	25,485	25,358
Per share	**0.33**	0.33	0.33	0.33	0.15	0.15	0.15	0.15
Total capital expenditures(2)	**115,218**	93,579	82,319	121,802	115,040	140,400	108,089	143,331
Corporate Acquisitions	**699,358**	-	-	-	-	-	-	22,220
Total payout ratio (%)(2)	**89%**	104%	98%	100%	64%	84%	65%	83%

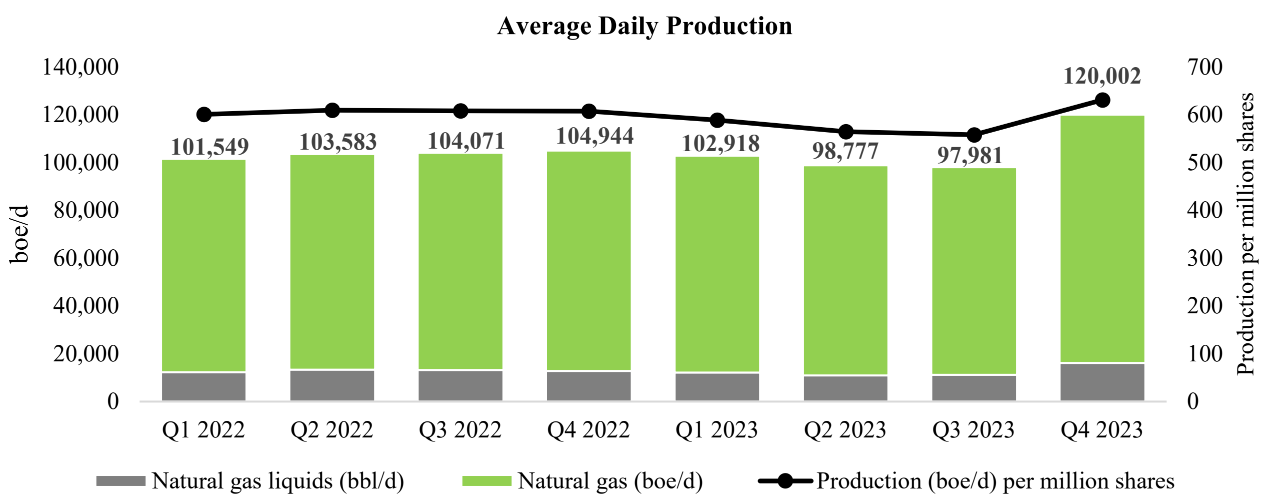
(1) Excludes revenue from sale of natural gas volumes from third parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.
(3) Total dividends declared in the third quarter of 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts. See note 7 in the financial statements for additional information.

RESULTS OF OPERATIONS

Production

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Natural gas (MMcf/d)	**623.0**	552.6	*13%*	**553.7**	543.6	*2%*
NGLs (or "Liquids") (bbl/d)	**16,175**	12,840	*26%*	**12,657**	12,949	*-2%*
Total (boe/d)	**120,002**	104,944	*14%*	**104,948**	103,548	*1%*
Total (MMcfe/d)	**720.0**	629.7	*14%*	**629.7**	621.3	*1%*

Peyto's total production in the fourth quarter of 2023 increased 14 per cent to 120,002 boe/d, compared to 104,944 boe/d in the fourth quarter of 2022. For the year ended December 31, 2023, total production increased one per cent to 104,948 boe/d, compared to 103,548 boe/d in 2022. The production increase in the three months and year ended December 31, 2023, is due to production volumes associated with the Acquisition, which was partially offset by lower of legacy Peyto production as a result of a reduced capital expenditure program in 2023 in response to lower natural gas prices.



Natural Gas Liquids Production by Component

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Condensate and Pentanes Plus (bbl/d)	**8,359**	7,535	*11%*	**7,175**	7,656	*-6%*
Other Natural gas liquids (bbl/d)	**7,816**	5,305	*47%*	**5,482**	5,293	*4%*
Natural gas liquids (bbl/d)	**16,175**	12,840	*26%*	**12,657**	12,949	*-2%*
Liquid to gas ratio (bbls/MMcf)	**26.0**	23.2	*12%*	**22.9**	23.8	*-4%*

The liquid to gas ratio increased 12 per cent to 26.0 bbls/MMcf in the fourth quarter of 2023 from 23.2 bbls/MMcf in the fourth quarter of 2022. The liquids to gas ratio fluctuates depending on the mix of rich and lean gas wells drilled as Peyto attempts to maximize overall returns based on the relative prices of NGLs and natural gas. In addition, the liquids to gas ratio increased in the fourth quarter due to higher ethane recovery associated with the Repsol Assets.

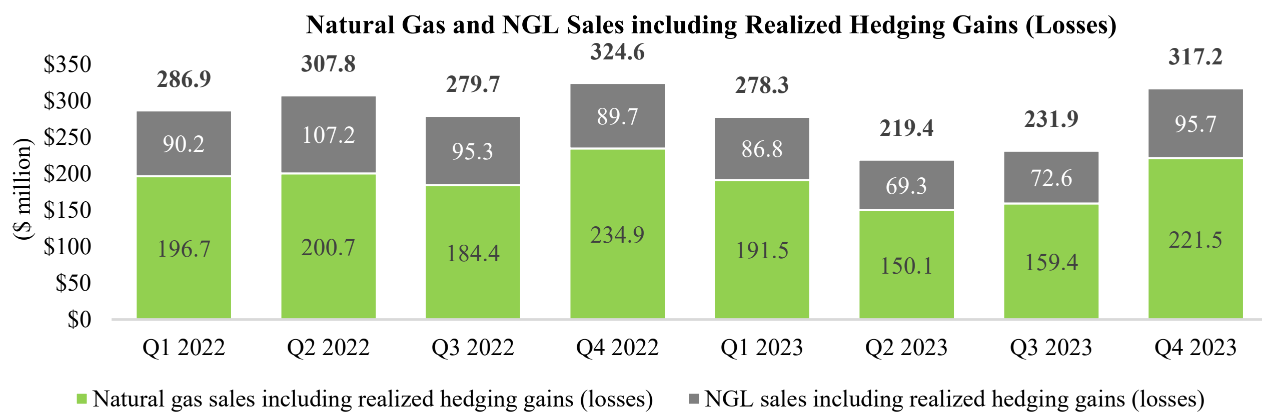
Revenue from Natural Gas and NGL Sales and Realized Hedging Gains (Losses)

	Three Months Ended December 31			Year Ended December 31		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Natural gas sales[(1)]	**174,095**	321,137	*-46%*	**664,675**	1,111,897	*-40%*
Realized hedging gains (losses) - gas	**47,432**	(86,237)	*-155%*	**57,860**	(295,222)	*-120%*
Natural gas sales including realized hedging gains (losses)	**221,527**	234,900	*-6%*	**722,535**	816,675	*-12%*
NGL sales	**96,250**	94,293	*2%*	**321,062**	427,539	*-25%*
Realized hedging gains (losses) - NGLs	**(531)**	(4,579)	*-88%*	**3,328**	(45,215)	*-107%*
NGL sales including realized hedging gains (losses)	**95,719**	89,714	*7%*	**324,390**	382,324	*-15%*
Natural gas and NGL sales	**270,345**	415,430	*-35%*	**985,737**	1,539,436	*-36%*
Realized hedging gains (losses)	**46,901**	(90,816)	*-152%*	**61,188**	(340,437)	*-118%*
Natural gas and NGL sales including realized hedging gains (losses)	**317,246**	324,614	*-2%*	**1,046,925**	1,198,999	*-13%*

(1) Excludes revenue from sale of natural gas and NGLs purchased from third parties

In the fourth quarter of 2023, natural gas and NGL sales net of realized hedging gains (losses) decreased two per cent to $317.2 million from $324.6 million in the fourth quarter of 2022. For the year ended December 31, 2023, natural gas and NGL sales net of realized hedging gains (losses) decreased 13 per cent to $1.05 billion from $1.20 billion in 2022. The decreases for the three months and year ended December 31, 2023 were a result of the sharp decline in commodity prices in 2023, partially offset by higher production volumes.

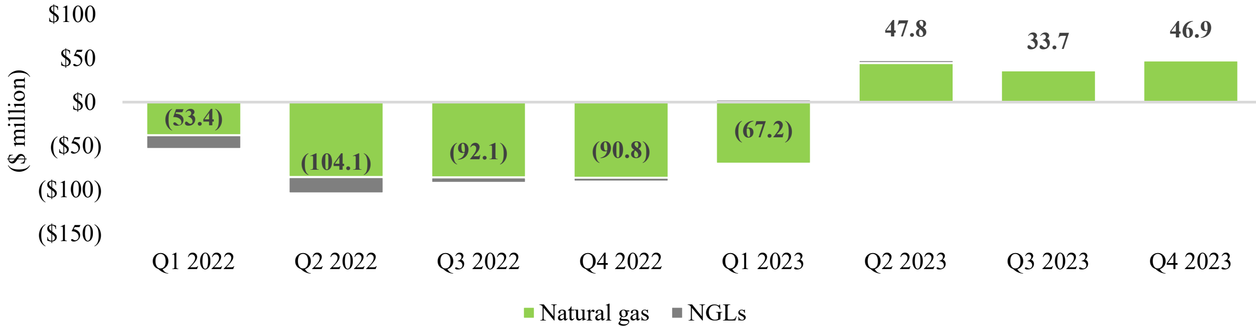
Peyto's natural gas and NGL sales including realized hedging gains (losses) over the past eight quarters is summarized below.



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 $196 million.

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

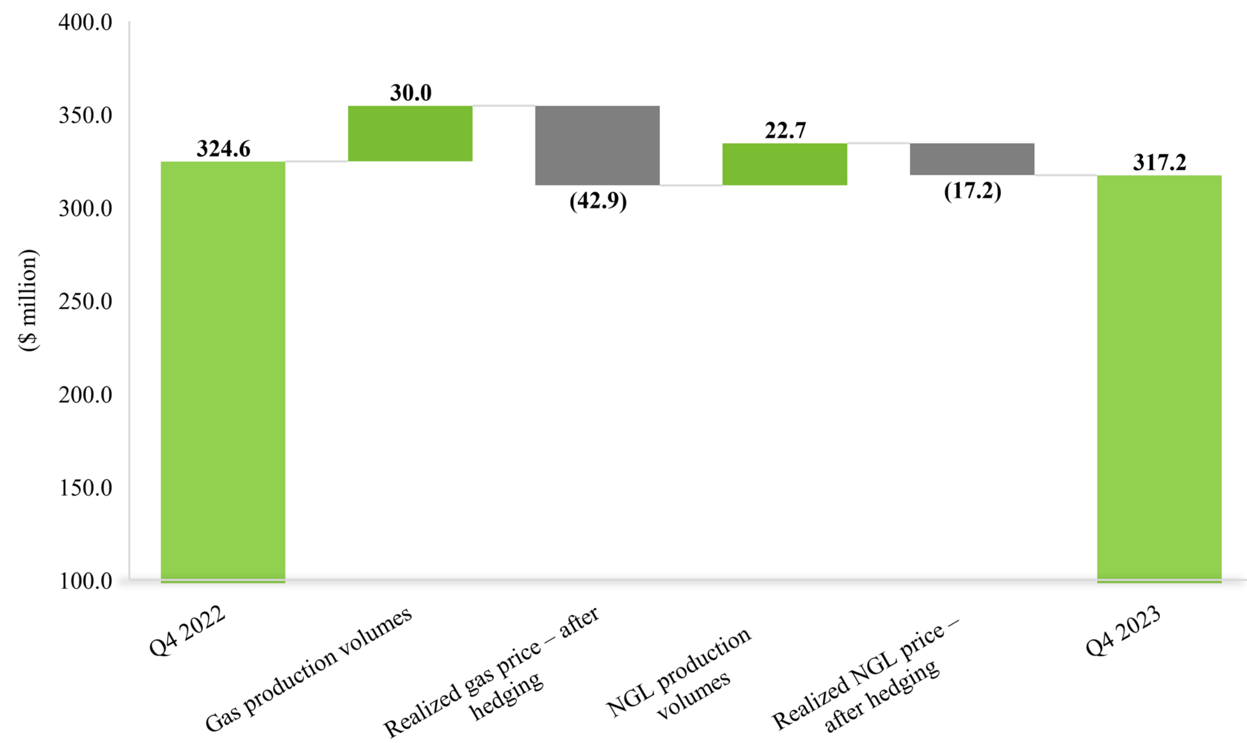
Realized Hedging Gains (Losses)



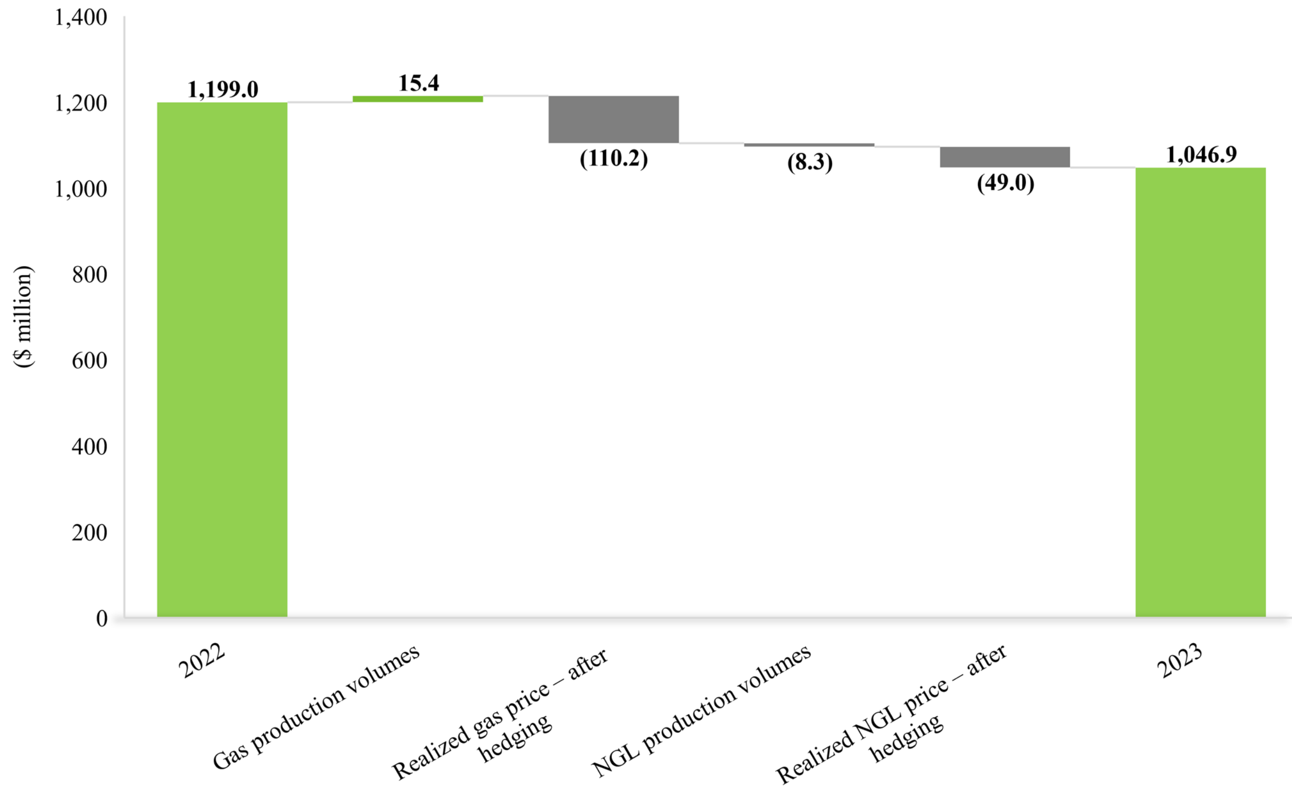
The change in revenue from natural gas and NGL sales including realized hedging losses in the three months and year ended December 31, 2023 from the same periods of 2022, are detailed in the following table and charts:

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	**$ million**	2023	2022	**$ million**
2022			**324.6**			**1,199.0**
change due to:						
Natural gas						
Volume (MMcf)	57,313	50,842	**30.0**	202,117	198,410	**15.4**
Price ($/Mcf)	$3.87	$4.62	**(42.9)**	$3.57	$4.12	**(110.2)**
NGL						
Volume (Mbbl)	1,488	1,191	**22.7**	4,620	4,726	**(8.3)**
Price ($/bbl)	$64.32	$75.95	**(17.2)**	$80.89	$80.89	**(49.0)**
2023			**317.2**			**1,046.9**

Change in Natural Gas and NGL Sales, including Realized Hedging Gains and Losses
Three Months Ended December 31



Change in Natural Gas and NGL Sales, including Realized Hedging Gains and Losses
Year Ended December 31



Benchmark Commodity Prices

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
AECO 7A monthly ($/GJ)	**2.52**	5.29	*-52%*	**2.78**	5.27	*-47%*
AECO 5A daily ($/GJ)	**2.18**	4.85	*-55%*	**2.50**	5.04	*-50%*
Henry Hub daily (US$/MMBtu)	**2.74**	5.55	*-51%*	**2.53**	6.38	*-60%*
Emerson2 (US$/MMBtu)	**2.00**	4.94	*-60%*	**2.20**	5.58	*-61%*
Malin monthly (US$/MMBtu)	**4.65**	8.45	*-45%*	**7.52**	7.23	*4%*
Dawn (US$/MMBtu)	**2.28**	5.16	*-56%*	**2.33**	6.04	*-61%*
Ventura daily (US$/MMBtu)	**2.23**	5.61	*-60%*	**2.29**	6.09	*-62%*
Canadian WTI ($/bbl)	**106.72**	112.22	*-5%*	**104.78**	122.38	*-14%*
Conway C3 (US$/bbl)	**27.04**	34.21	*-21%*	**28.93**	46.03	*-37%*
Exchange rate (CDN/USD)	**1.36**	1.36	-	**1.35**	1.30	*4%*

Commodity Prices

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Condensate and Pentanes Plus(1) ($/bbl)	**96.30**	109.29	*-12%*	**97.69**	117.94	*-17%*
Other Natural gas liquids(1) ($/bbl)	**30.86**	37.97	*-19%*	**32.59**	50.63	*-36%*
Realized NGL price – before hedging ($/bbl)	**64.68**	79.83	*-19%*	**69.50**	90.46	*-23%*
Realized hedging gain (loss) ($/bbl)	**(0.36)**	(3.88)	*-91%*	**0.72**	(9.57)	*-108%*
Realized NGL price – after hedging ($/bbl)	**64.32**	75.95	*-15%*	**70.22**	80.89	*-13%*
Natural gas(2) ($/Mcf)	**3.75**	6.98	*-46%*	**3.97**	6.34	*-37%*
Diversification activities ($/Mcf)	**(0.71)**	(0.66)	*8%*	**(0.68)**	(0.73)	*-7%*
Realized natural gas price ($/Mcf)	**3.04**	6.32	*-52%*	**3.29**	5.61	*-41%*
Realized hedging gain (loss) ($/Mcf)	**0.83**	(1.70)	*-149%*	**0.29**	(1.49)	*-119%*
Realized natural gas price – after hedging and diversification ($/Mcf)	**3.87**	4.62	*-16%*	**3.57**	4.12	*-13%*
Total realized hedging gain (loss) ($/Mcfe)	**0.71**	(1.57)	*-145%*	**0.27**	(1.50)	*-118%*
Total realized hedging gain (loss) ($/boe)	**4.25**	(9.41)	*-145%*	**1.60**	(9.01)	*-118%*

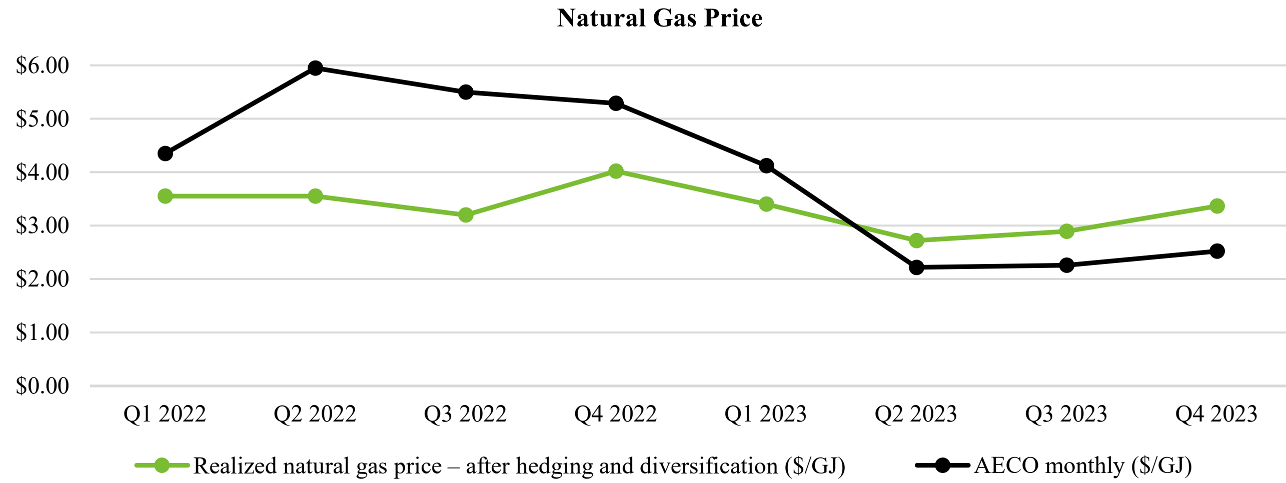
(1) Condensate, pentanes plus and other liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation
(2) Excludes revenue from sale of natural gas volumes from third parties but includes fixed price physical contracts

Peyto's realized natural gas price, before hedging, averaged $3.04/Mcf during the fourth quarter of 2023, a decrease of 52 per cent from $6.32/Mcf in the fourth quarter of 2022. For the year ended December 31, 2023, Peyto's realized natural gas price, before hedging, decreased 41 per cent to $3.29/Mcf from $5.61/Mcf in the same period of 2022. Decreases in Peyto's natural gas price in the three months and year ended December 31, 2023, were driven by the sharp decreases in benchmark natural gas prices over the past year, partially offset by realized hedging gains in the periods.

The Company's NGL price, before hedging, averaged $64.68/bbl, in the fourth quarter of 2023, a decrease of 19 per cent from $79.83/bbl a year earlier. For the year ended December 31, 2023, Peyto's NGL price, before hedging, decreased 23 per cent to $69.50/bbl from $90.46/bbl in the same period of 2022.

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 and NGLs from Third Parties

	Three Months Ended December 31			Year Ended December 31		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Sales of natural gas and NGLs from third parties	**24,403**	9,326	*162%*	**24,403**	92,625	*-74%*
Natural gas and NGLs purchased from third parties	**(24,511)**	(8,778)	*179%*	**(24,511)**	(86,977)	*-72%*
Third-party sales net of purchases(1)	**(108)**	548	*-120%*	**(108)**	5,648	*-102%*

(1) 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.

In the three months and year ended December 31, 2023, Peyto recorded sales of natural gas and NGLs from third parties totaling $24.3 million, which was purchased for $24.5 million. The third-party purchases in 2023 relate to midstream contracts acquired with the Repsol Assets, with most of these agreements terminating on March 31, 2024.

In the three months and year ended December 31, 2022, Peyto recorded sales of natural gas and NGLs 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 in 2022 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.

Other Income

	Three Months Ended December 31			Year Ended December 31		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Other Income	**2,971**	7,280	*-59%*	**9,716**	10,262	*-5%*

In the three months and year ended December 31, 2023, other income totaled $3.0 million and $9.7 million, respectively, compared to $7.3 million and $10.3 million in the same periods of 2022. Other income includes third-party processing income, marketing income related to selling excess transportation service and electricity sales generated from a cogeneration plant that was acquired with the Repsol Assets.

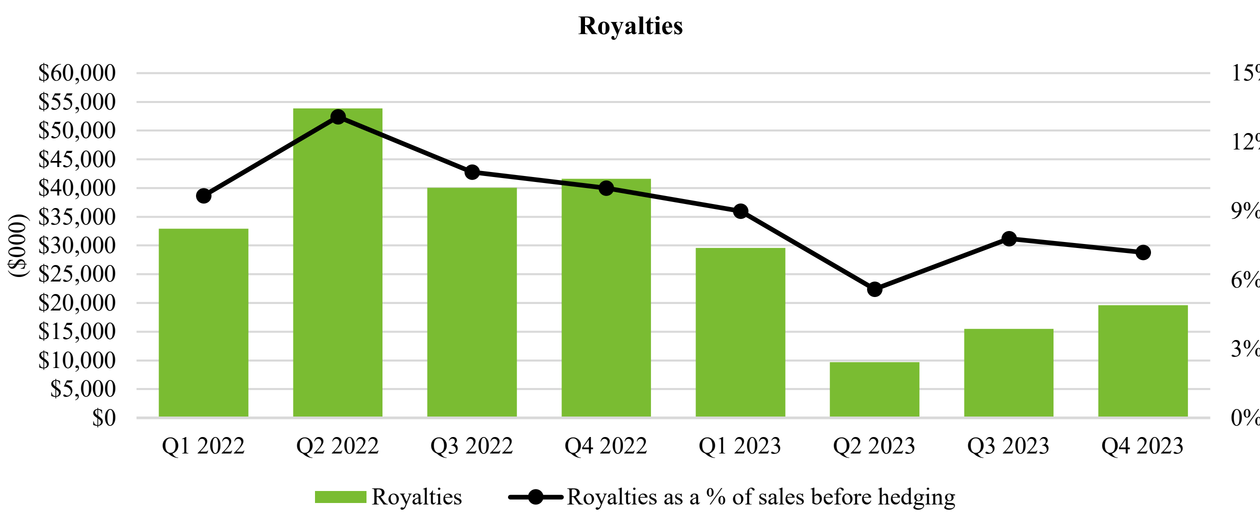
Royalties

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 wells qualify for the Crown's Drilling and Completion Cost Allowance program, which has a five per cent initial royalty rate.

	Three Months Ended December 31			**Year Ended December 31**		
	2023	2022	% Change	**2023**	2022	% Change
Royalties ($000)	**19,599**	41,615	*-53%*	**74,342**	168,379	*-56%*
per cent of sales before hedging	**7.2%**	10.0%	*-28%*	**7.5%**	10.9%	*-31%*
$/Mcfe	**0.30**	0.72	*-58%*	**0.32**	0.74	*-57%*
$/boe	**1.78**	4.31	*-59%*	**1.94**	4.46	*-57%*

For the fourth quarter of 2023, royalties decreased to $0.30/Mcfe or 7.2 per cent of Peyto's natural gas and NGL sales, compared to $0.72/Mcfe or 10.0 per cent in the same period of 2022. For the year ended December 31, 2023, royalties decreased to $0.32/Mcfe or 7.5 per cent of Peyto's natural gas and NGL sales, compared to $0.74/Mcfe or 10.9 per cent in 2022. The decreased royalties were due to declines in AECO and WTI prices coupled with higher gas cost allowance credits in the year ended December 31, 2023, compared to the same periods of 2022.

In its 25-year history, Peyto has invested $8.4 billion in capital projects and acquisitions, found, acquired and developed 6.0 TCFe of natural gas reserves and paid over $1.2 billion in royalties.



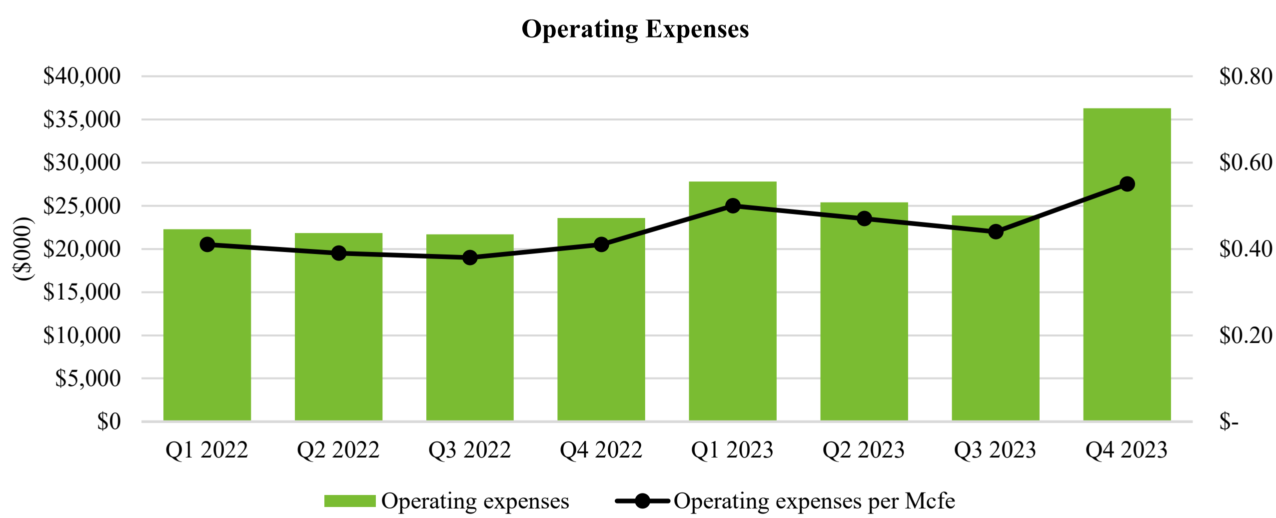
Operating Costs & Transportation
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

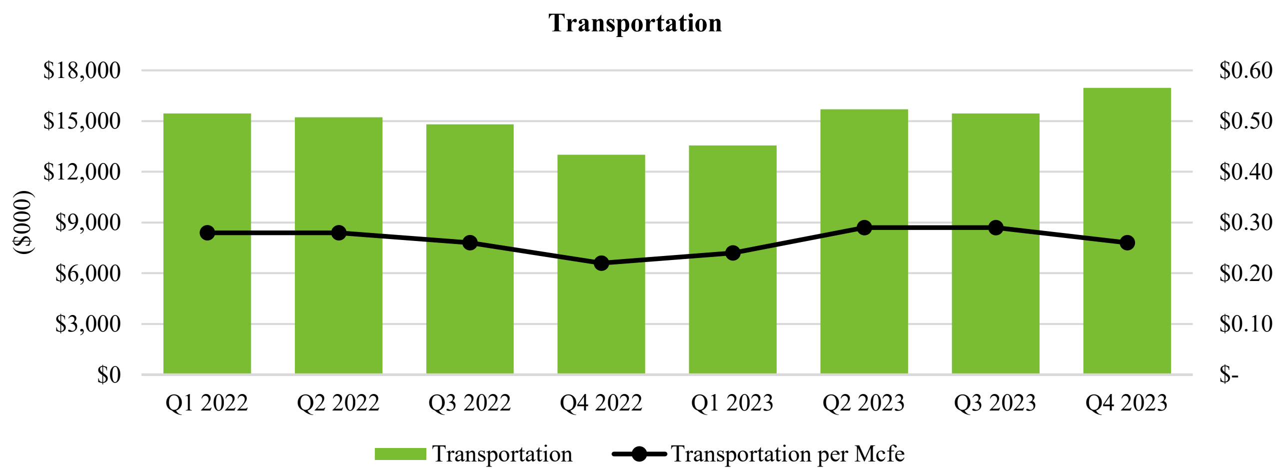
	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Payments to Government ($000)	**9,859**	5,308	*86%*	**27,598**	21,059	*31%*
Other expenses ($000)	**26,440**	18,290	*45%*	**85,793**	68,356	*26%*
Operating costs ($000)	**36,299**	23,598	*54%*	**113,391**	89,415	*27%*
$/Mcfe	**0.55**	0.41	*34%*	**0.49**	0.39	*26%*
$/boe	**3.29**	2.44	*35%*	**2.96**	2.37	*25%*
Transportation ($000)	**16,967**	13,005	*30%*	**61,668**	58,306	*6%*
$/Mcfe	**0.26**	0.22	*18%*	**0.27**	0.26	*4%*
$/boe	**1.54**	1.35	*14%*	**1.61**	1.54	*5%*

For the three months and year ended December 31, 2023, operating expenses were $36.3 million and $113.4 million, respectively, compared to $23.6 million and $89.4 million in the same periods in 2022. The increase in operating expenses in both periods is reflective of increased production due to the Acquisition and general cost inflation compared to the same periods of 2022.

On a unit-of-production basis, operating costs increased 34 per cent to $0.55/Mcfe in the fourth quarter of 2023 from $0.41/Mcfe in the fourth quarter of 2022. This increase is primarily due to the addition of the Repsol Assets in the quarter, which have higher operating expenses than Peyto's legacy assets. For the year ended December 31, 2023, operating costs increased 26 per cent to $0.49/Mcfe compared to $0.39/Mcfe in the same period of 2022. The increase in 2023 was due to higher cost production from the Repsol Assets at the end of the year and higher expenses from inflationary pressures on most cost categories compared to 2022. Peyto focuses on being the industry leader in operating costs and strives for cost reductions on a continuous basis. Driving down per unit costs on the Repsol Assets is a key priority for the Company in 2024.

Transportation expenses increased 18 per cent on a unit-of production basis to $0.26/Mcfe in the fourth quarter 2023 from $0.22/Mcfe in the fourth quarter 2022. For the year ended December 31, 2023, transportation expenses increased four per cent on a unit-of production basis to $0.27/Mcfe compared to $0.26/Mcfe in 2022. The increased transportation expense in the three months and year ended December 31, 2023 is due to an additional 150,000 GJ/d of Empress service that commenced in April 2023, coupled with a January 2023 fee increase on the NGTL system. Physical transportation contracts to Emerson and Empress were entered into as part of Peyto's sales diversification strategy.





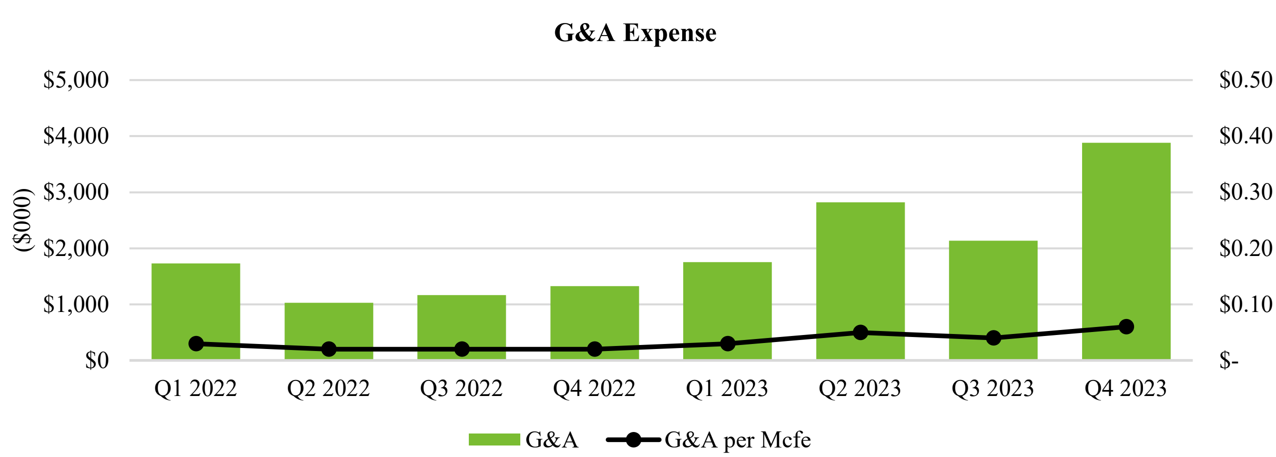
General and Administrative ("G&A") Expenses

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Gross G&A expenses ($000)	**6,898**	4,690	*47%*	**21,725**	19,071	*14%*
Overhead recoveries ($000)	**(3,015)**	(3,363)	*-10%*	**(11,136)**	(13,818)	*-19%*
G&A expenses ($000)	**3,883**	1,327	*193%*	**10,589**	5,253	*102%*
$/Mcfe	**0.06**	0.02	*200%*	**0.05**	0.02	*150%*
$/boe	**0.35**	0.14	*150%*	**0.28**	0.14	*100%*

For the fourth quarter of 2023, G&A expenses (before overhead recoveries) increased to $6.9 million compared to $4.7 million in the fourth quarter of 2022. For the year ended December 31, 2023, G&A expenses increased to $21.7 million compared to $19.1 million in 2022. The increases in the three months and year ended December 31, 2023 were due primarily to increased employment, information technology and insurance costs associated with the Acquisition. Included in the G&A expenses for the quarter, the Company incurred $0.5 million ($0.01/Mcfe) in one-time integration costs relating to the Repsol Acquisition.

Gross G&A expenses averaged $0.11/Mcfe before overhead recoveries of $0.05/Mcfe for G&A expenses of $0.06/Mcfe in the fourth quarter of 2023 ($0.08/Mcfe before overhead recoveries of $0.06/Mcfe for G&A expenses of $0.02/Mcfe in the fourth quarter of 2022).

In the three months and year ended December 31, 2023, overhead recoveries decreased 10 per cent and 19 per cent, respectively, compared to the same periods of 2022. The decreased overhead recoveries were due to Peyto's decreased capital investing activities over the same periods of 2022.



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 $3.3 million for performance-based compensation expense in the three months and year ended December 31, 2023 (2022 - $0.6 million and $5.6 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 (5.1 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, 2023 were $4.5 million and $15.2 million, respectively (2022 - $3.9 million and $11.7 million).

Stock Option Plan

	Number of Options	**Weighted average exercise price ($)**
Balance, December 31, 2022	9,940,868	9.86
Stock options granted	5,491,300	12.69
Exercised	(3,249,239)	6.64
Forfeited	(1,433,063)	10.37
Expired	(881,543)	14.32
Balance, December 31, 2023	**9,868,323**	**12.02**

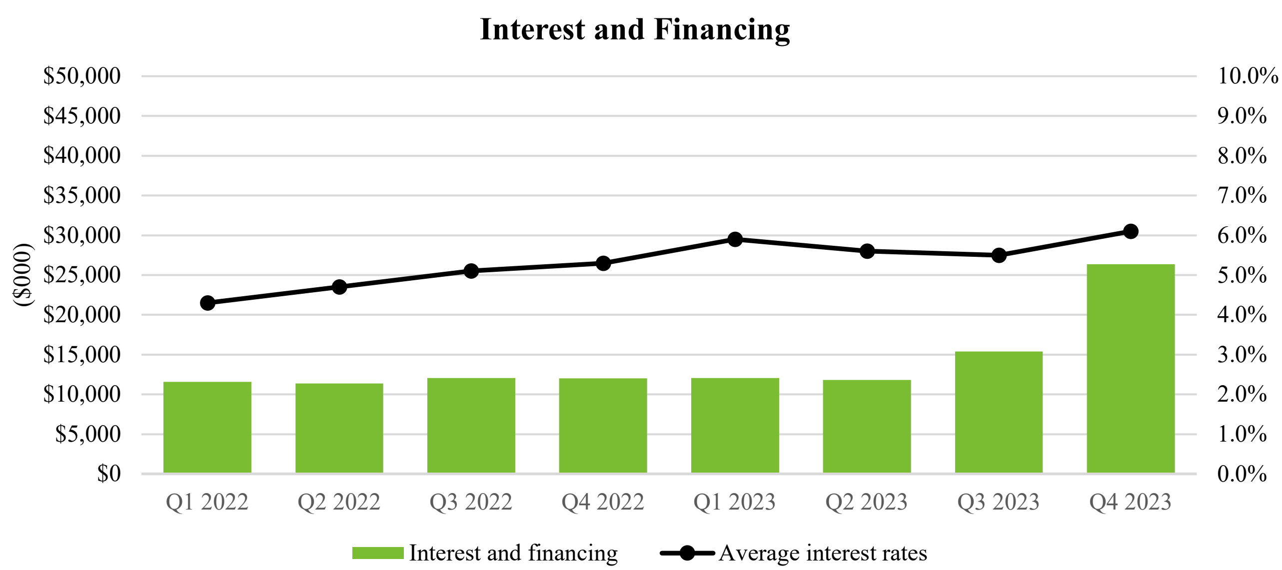
Deferred Share Units

	Number of DSUs
Balance, December 31, 2022	217,236
DSU's granted	73,795
DSU's settled	(42,994)
Balance December 31, 2023	**248,037**

Finance Expense

	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Accretion of decommissioning provision ($000)	**1,331**	1,755	*-24%*	**5,224**	6,228	*-16%*
Financing costs ($000)	**5,141**	-	-	**8,319**	-	-
Interest ($000)	**21,218**	12,031	*76%*	**57,317**	47,042	*22%*
Interest and financing costs	**26,359**	12,031	*119%*	**65,636**	47,042	*40%*
Finance expense	**27,690**	13,786	*101%*	**70,860**	53,270	*33%*
Interest and financing $/Mcfe	**0.40**	0.21	*90%*	**0.29**	0.21	*38%*
Interest and financing $/boe	**2.39**	1.25	*91%*	**1.71**	1.24	*38%*
Average interest rate	**6.1%**	5.3%	*15%*	**5.8%**	4.8%	*21%*
Average Bank of Canada rate	**5.00%**	3.75%	*33%*	**4.74%**	1.94%	*144%*

For the three months and year ended December 31, 2023, finance expense increased to $27.7 million and $70.9 million, respectively, compared to $13.8 million and $53.3 million for the same periods of 2022. Peyto's average interest rate increased to 6.1 per cent and 5.8 per cent in the three months and year ended December 31, 2023, respectively compared to 5.3 per cent and 4.8 per cent in the same periods of 2022. The increase in the three months and year ended December 31, 2023 is due to financing costs associated with closing the Acquisition, and higher interest costs due to increased average debt outstanding on the Company's credit facilities. The acquisition financing costs totaled $5.1 million ($0.08/Mcfe) and $8.3 million ($0.04/Mcfe) in the three months and year ended December 31, 2023 compared to nil in the same periods of 2022.

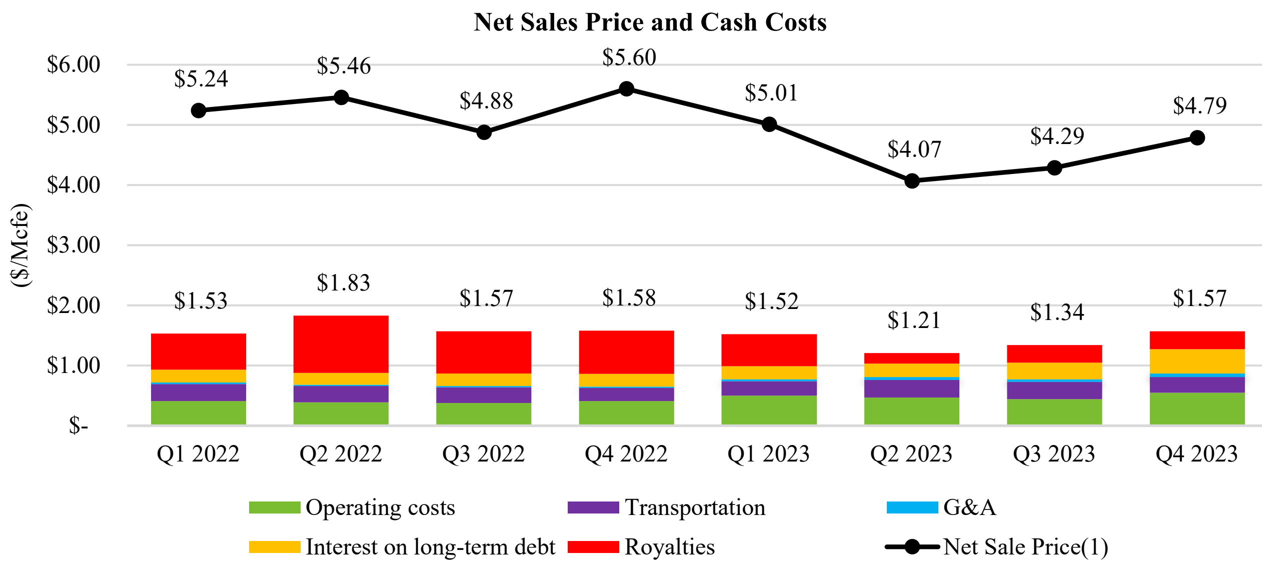


Netbacks

($/Mcfe)	Three Months Ended December 31 2023	2022	% Change	Year Ended December 31 2023	2022	% Change
Gross Sale Price	**4.08**	7.17	*-43%*	**4.29**	6.78	*-37%*
Realized hedging gain (loss)	**0.71**	(1.57)	*-145%*	**0.27**	(1.50)	*-118%*
Net Sale Price	**4.79**	5.60	*-14%*	**4.56**	5.28	*-14%*
Third party sales net of purchases(1)	**-**	0.01	*-100%*	**-**	0.02	*-100%*
Other income	**0.05**	0.13	*-62%*	**0.03**	0.05	*-40%*
Royalties	**(0.30)**	(0.72)	*-58%*	**(0.32)**	(0.74)	*-57%*
Operating costs	**(0.55)**	(0.41)	*34%*	**(0.49)**	(0.39)	*26%*
Transportation	**(0.26)**	(0.22)	*18%*	**(0.27)**	(0.26)	*4%*
Field netback(1)	**3.73**	4.39	*-15%*	**3.51**	3.96	*-11%*
G&A	**(0.06)**	(0.02)	*200%*	**(0.05)**	(0.02)	*150%*
Interest and financing	**(0.40)**	(0.21)	*90%*	**(0.29)**	(0.21)	*38%*
Realized gain (loss) on foreign exchange	**(0.01)**	-	-	**-**	0.01	*-100%*
Cash netback(1) ($/Mcfe)	**3.26**	4.16	*-22%*	**3.17**	3.74	*-15%*
Cash netback(1) ($/boe)	**19.54**	24.97	*-22%*	**19.04**	22.43	*-15%*

(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

The Company's depletion and depreciation totaled $90.1 million ($1.36/Mcfe) in the fourth quarter of 2023 compared to $79.6 million ($1.37/Mcfe) in the fourth quarter of 2022. For the year ended December 31, 2023, depletion and depreciation totaled $316.1 million ($1.38/Mcfe) compared to $302.6 million ($1.33/Mcfe) in 2022. The increase in depletion and depreciation for the year ended December 31, 2023 is due to a marginally higher depletion rate associated with cost inflation over 2022.

Income Taxes

Peyto recorded current income tax expense of $15.4 million and $59.0 million for the three months and year ended December 31, 2023, compared to $20.3 million and $20.3 million for the same periods in 2022, respectively. For the three months and year ended December 31, 2023, Peyto recognized $11.1 million and $33.1 million of deferred income tax expense, compared to $21.0 million and $106.1 million for the same periods in 2022, respectively.

The increase in current income tax and decrease in deferred income tax in the three months and year ended December 31, 2023 is due to lower income tax pools available to claim compared to the same periods in 2022. Peyto's estimated income tax pools are as follows:

Income Tax Pool Type ($ millions)	**Annual Deductibility**	**December 31, 2023**
Canadian Oil and Gas Property Expense	10% declining balance	162.4
Canadian Development Expense (CDE)	30% declining balance	557.5
Successored CDE	30% declining balance	22.4
Successored Canadian Exploration Expense	100%	47.4
Undepreciated Capital Cost	Primarily 25% declining balance	340.7
Other	20%	16.6
Total Federal Tax Pools		**1,147.0**

MARKETING AND RISK MANAGEMENT

Financial Derivative Instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil, 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.

Financial derivative instruments are valued on the consolidated balance sheet using quoted market prices at period end. Physical delivery contracts are not considered financial instruments and therefore, no asset or liability is recognized on the consolidated balance sheet.

Commodity Price Risk Management

During the three months and year ended December 31, 2023, Peyto recorded realized hedging gains on commodity contracts of $47.4 million and $60.3 million, respectively, as compared to losses of $90.8 million and $340.4 million in the same periods of 2022. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged – AECO Monthly Index	**Type**	**Daily Volume (GJ)**	**Average Price (AECO CAD/GJ)**
Q1 2024	Fixed Price	175,000	$3.91
Q2 2024	Fixed Price	170,000	$2.83
Q3 2024	Fixed Price	170,000	$2.83
Q4 2024	Fixed Price	232,989	$3.65
Q1 2025	Fixed Price	265,000	$3.92
Q2 2025	Fixed Price	290,000	$3.33
Q3 2025	Fixed Price	290,000	$3.33
Q4 2025	Fixed Price	256,848	$3.85
Q1 2026	Fixed Price	240,000	$4.17
Q2 2026	Fixed Price	160,000	$3.34
Q3 2026	Fixed Price	160,000	$3.34
Q4 2026	Fixed Price	53,913	$3.34

Natural Gas Period Hedged – AECO Daily Index	**Type**	**Daily Volume (GJ)**	**Average Price (AECO CAD/GJ)**
Q2 2024	Fixed Price	45,000	$2.72
Q3 2024	Fixed Price	45,000	$2.72
Q4 2024	Fixed Price	15,163	$2.72
Q2 2025	Fixed Price	25,000	$3.60
Q3 2025	Fixed Price	25,000	$3.60
Q4 2025	Fixed Price	8,424	$3.60

Natural Gas Period Hedged – NYMEX	Type	Daily Volume (MMBTU)	Average Price (NYMEX USD/MMBtu)
Q1 2024	Fixed Price	275,000	$4.11
Q2 2024	Fixed Price	205,000	$3.60
Q3 2024	Fixed Price	205,000	$3.60
Q4 2024	Fixed Price	208,315	$3.89
Q1 2025	Fixed Price	210,000	$4.03
Q2 2025	Fixed Price	195,000	$3.80
Q3 2025	Fixed Price	195,000	$3.80
Q4 2025	Fixed Price	75,652	$3.89
Q1 2026	Fixed Price	15,000	$4.51

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
Q1 2024	Fixed Price	3,900	$104.39
Q2 2024	Fixed Price	3,100	$103.31
Q3 2024	Fixed Price	2,300	$104.03
Q4 2024	Fixed Price	1,500	$103.03
Q1 2025	Fixed Price	200	$104.60

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI USD/bbl)
Q1 2024	Fixed Price	200	$70.15

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Put - Call (WTI CAD/bbl)
Q1 2024	Collar	500	$90.00–$110.20
Q2 2024	Collar	500	$90.00–$100.25
Q3 2024	Collar	500	$85.00–$95.00

As at December 31, 2023, Peyto had committed to the future sale of 239,840,000 gigajoules (GJ) of natural gas at an average price of $3.50 per GJ or $4.03 per Mcf, 144,600,000 MMBtu at an average price of $3.85 USD per MMBtu, 1,004,600 barrels of crude at an average price of $103.83 CAD per bbl, 18,200 barrels of crude at an average price of $70.15 USD per bbl and 137,000 barrels of crude with an average collar of $88.33–$101.82 CAD per bbl. Had these contracts closed on December 31, 2023, Peyto would have realized a gain in the amount of $352.7 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income. Total hedged volumes represent approximately 10 per cent of Peyto's December 31, 2023 Proved plus Probable Developed reserves.

Subsequent to December 31, 2023, Peyto entered into the following hedging contracts:

Natural Gas Period Hedged – AECO Monthly Index	Type	Daily Volume (Gj)	Average Price (AECO CAD/GJ)
April 1, 2026 to October 31, 2026	Fixed	20,000	$3.18

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
January 1, 2024 to March 31, 2024	Fixed	400	$98.30
April 1, 2024 to June 30, 2024	Fixed	800	$101.71
January 1, 2024 to June 30, 2024	Fixed	100	$99.05
July 1, 2024 to September 30, 2024	Fixed	1,000	$97.91
October 1, 2024 to December 31, 2024	Fixed	1,000	$97.01
April 1, 2024 to December 31, 2024	Fixed	300	$101.05
January 1, 2025 to March 31, 2025	Fixed	500	$95.38
April 1, 2025 to June 30, 2025	Fixed	100	$96.80
January 1, 2025 to June 30, 2025	Fixed	500	$96.36

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
October 1, 2024 to December 31, 2024	Collar	500	$90.00–$104.50
January 1, 2025 to March 31, 2025	Collar	1,000	$85.00–$102.63
April 1, 2025 to June 30, 2025	Collar	500	$90.00–$100.25

Foreign Exchange Forward Contracts
During the three months and year ended December 31, 2023, Peyto recorded a realized hedging loss of $0.5 million, and a realized hedging gain of $0.9 million on foreign exchange forward contracts (2022 - $nil), respectively. Peyto has the following foreign exchange forward contracts in place at December 31, 2023.

Average Rate forward	Amount (USD)	Rate (CAD/USD)
Sold USD Contracts		
Q1 2024	$88.5 million	1.3475
Q2 2024	$74.5 million	1.3537
Q3 2024	$69.0 million	1.3481
Q4 2024	$58.0 million	1.3415
Q1 2025	$54.0 million	1.3458
Q2 2025	$54.0 million	1.3524
Q3 2025	$48.0 million	1.3532
Q4 2025	$28.0 million	1.3501

Had these contracts settled on December 31, 2023, Peyto would have realized a gain in the amount of $14.2 million.

Interest Rate Contracts
During the three months and year ended December 31, 2023, Peyto recorded realized hedging gains on interest rate swaps of $0.2 million and $0.6 million (2022 - $nil), respectively, which was netted against interest expense. Peyto has the following interest rate swap contracts in place at December 31, 2023.

Term	Notional Amount	Peyto pays fixed rate	Peyto receives floating rate
March 17, 2023 to March 17, 2026	$50 million	3.565%	1-Month CDOR

Had these contracts settled on December 31, 2023, Peyto would have realized a gain in the amount of $0.5 million.

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. Peyto uses interest rate swaps on a portion of its floating rate debt to mitigate its interest rate exposure. At December 31, 2023, 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 $2.3 million per quarter. Average debt outstanding for the quarter was $1.39 billion (including $463 million fixed rate debt).

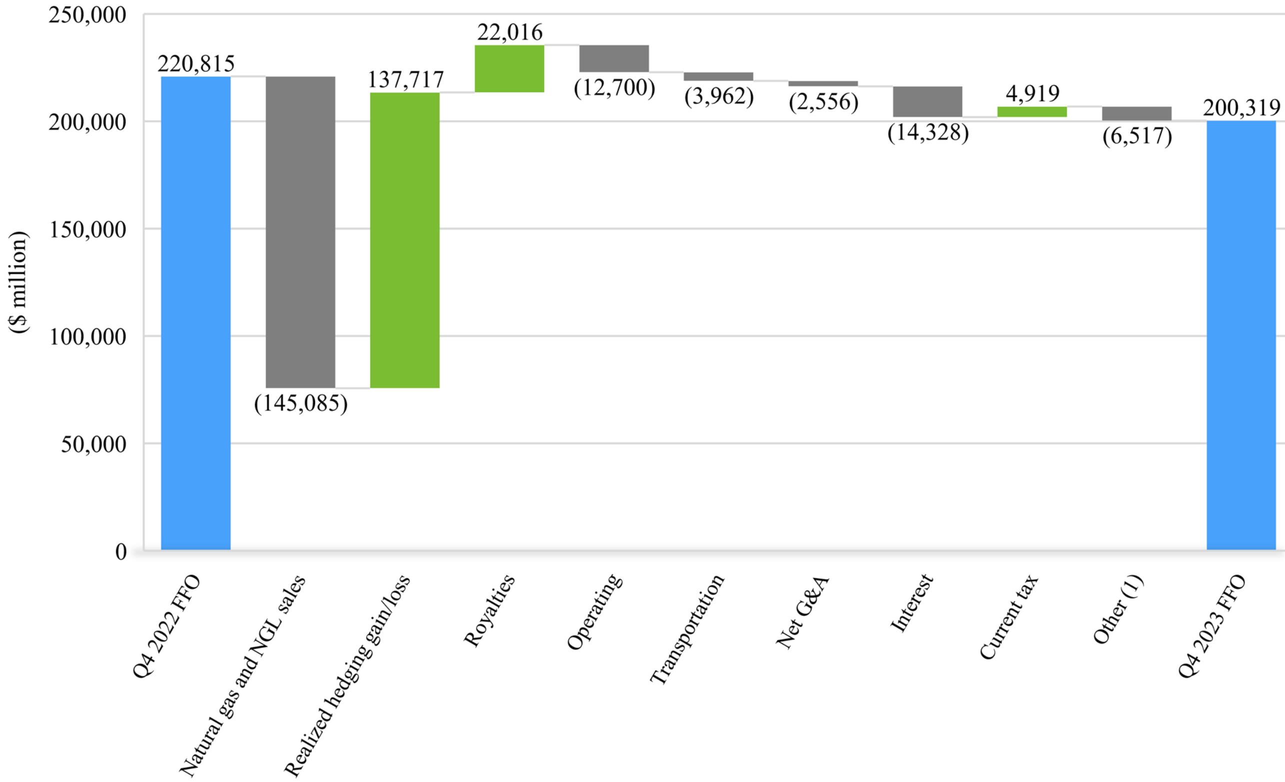
Cash Flow from Operating Activities, Funds from Operations and Earnings

	Three Months Ended December 31			**Year Ended December 31**		
($000, except per share amounts)	**2023**	2022	% Change	**2023**	2022	% Change
Cash Flow from Operating Activities	**173,247**	199,943	*-13%*	**644,868**	811,778	*-21%*
Funds from Operations[1]	**200,319**	220,815	*-9%*	**670,471**	827,596	*-19%*
Funds from operations per share[1] – basic	**1.05**	1.28	*-18%*	**3.75**	4.85	*-23%*
Funds from operations per share[1] – diluted	**1.05**	1.26	*-17%*	**3.72**	4.73	*-21%*
Free Funds Flow[1]	**85,101**	105,775	*-20%*	**257,552**	320,736	*-20%*
Earnings	**87,795**	113,441	*-23%*	**292,635**	390,663	*-25%*
Earnings per share – basic	**0.46**	0.66	*-30%*	**1.64**	2.29	*-28%*
Earnings per share – diluted	**0.46**	0.64	*-28%*	**1.62**	2.23	*-27%*

(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.

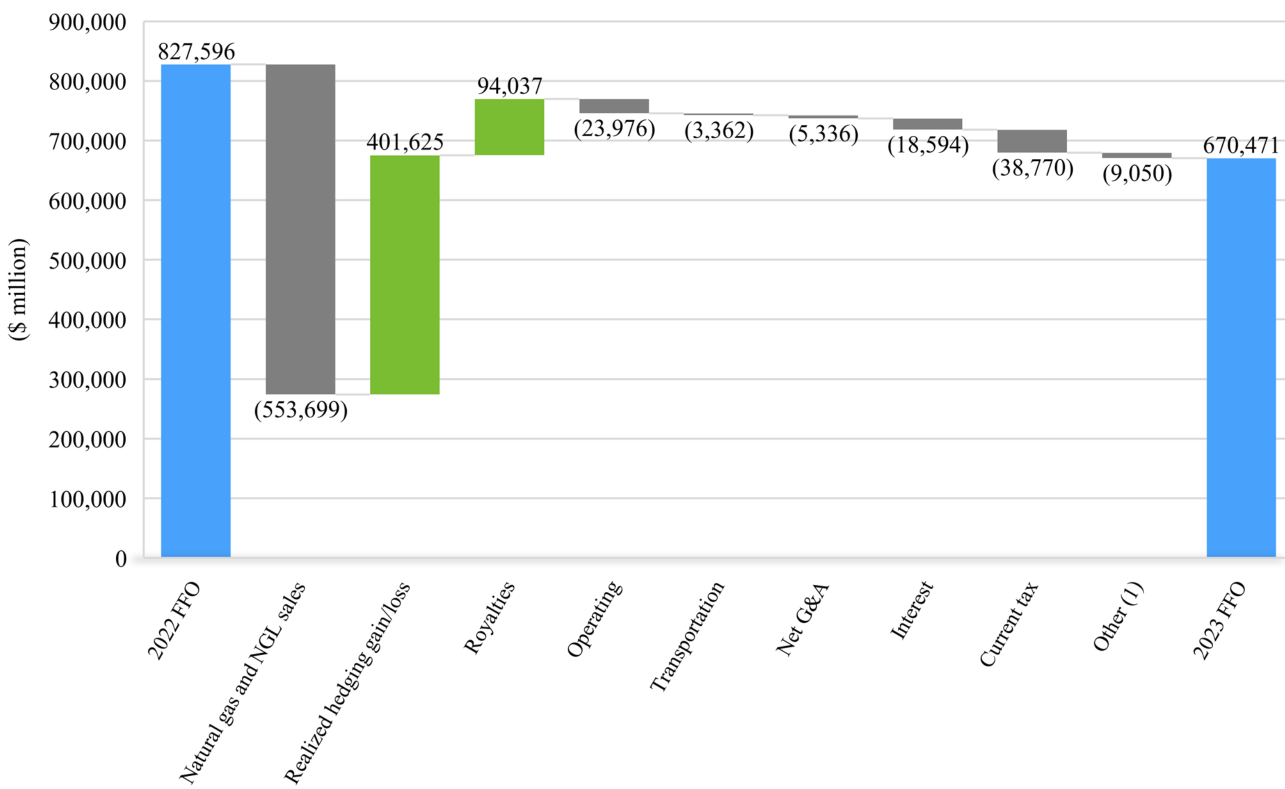
Cash Flow from Operating Activities and Funds from Operations
For the fourth quarter of 2023, cash flow from operating activities decreased to $173.2 million from $199.9 million in the fourth quarter of 2022. Funds from operations ("FFO") decreased nine per cent to $200.3 million in the fourth quarter of 2023, compared to $220.8 million in the fourth quarter of 2022. For the year ended December 31, 2023, cash flow from operating activities decreased to $644.9 million from $811.8 million in 2022. FFO totaled $670.4 million in 2023, compared to $827.6 million in 2022. The decreases in cash flow from operating activities and FFO were mainly due to sharp decreases in commodity prices, and increased operating costs, interest expense and current taxes, partially offset by increased production volumes, higher realized hedging gains and lower royalties. 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, 2023, free funds flow decreased to $85.1 million and $257.6 million, respectively, from $105.8 million and $320.7 million for the same periods of 2022. 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, 2023 decreased to $87.8 million and $292.6 million, respectively, from $113.4 million and $390.7 million for the same periods of 2022. The decreased earnings were driven by the decreased funds from operations and increased depletion and depreciation associated with increased production volumes, partially offset by lower deferred tax expense.

Capital Expenditures

Peyto invested $115.2 million in capital expenditures for the fourth quarter of 2023. The Company drilled 19 gross (18.4 net) wells, completed 22 gross (20.8 net) wells and brought 24 gross (22.5 net) wells on production for drilling, completions, equipping and tie-in capital of $90.1 million. For the year ended December 31, 2023, capital expenditures totaled $412.9 million, down 19% from 2022 in response to the decline in natural gas prices in 2023. Peyto drilled 72 gross (67.8 net) horizontal wells and completed 71 gross (66.8 net) wells in the year for drilling, completions, equipping and tie-in capital of $332.7 million (81 per cent). Facilities and major pipeline projects totaled $64.2 million, which included $16.5 million for the Cascade pipeline connection and $47.7 million for debottlenecking pipeline projects and gas plant upgrades. Seismic investments included $10 million of 3D seismic data to cover the majority of Peyto's new land from the Acquisition.

The following table summarizes capital expenditures for the three months and year ended December 31, 2023 and 2022:

	Three Months Ended December 31			**Year Ended December 31**		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Land	**1,889**	-	-	**4,654**	7,064	*-34%*
Seismic	**10,491**	661	*1487%*	**11,424**	3,374	*239%*
Drilling	**47,027**	49,213	*-4%*	**190,984**	205,263	*-7%*
Completions	**33,772**	39,085	*-14%*	**111,090**	126,665	*-12%*
Equipping & tie-ins	**9,988**	9,815	*2%*	**30,592**	38,907	*-21%*
Facilities & pipelines	**12,051**	16,266	*-26%*	**64,175**	99,523	*-36%*
	115,218	115,040	-	**412,919**	480,796	*-14%*
Asset acquisitions	**-**	-	-	**-**	26,064	*-100%*
Total capital expenditures(1)	**115,218**	115,040	-	**412,919**	506,860	*-19%*
Corporate acquisitions	**699,358**	-	-	**699,358**	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.

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, 2023 and December 31, 2022 is summarized as follows:

($000)	**As at December 31, 2023**	As at December 31, 2022
Long-term debt	**1,340,881**	759,176
Current assets	**(490,936)**	(218,550)
Current liabilities	**279,903**	471,858
Financial derivative instruments - current	**238,865**	(126,081)
Current portion of lease obligation	**(1,310)**	(1,266)
Decommissioning provision - current	**(4,626)**	-
Net debt(1)	**1,362,777**	885,137

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

Peyto's net debt of $1.36 billion as at December 31, 2023 increased by $478 million from December 31, 2022 as a result of partially funding the Acquisition with the Company's credit facilities.

The Company's 2024 capital expenditure budget has been approved at $450 to $500 million. Peyto believes funds from operations based on current strip pricing, together with available borrowings under the Revolving 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 2024 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

	December 31, 2023	December 31, 2022
Revolving credit facility	**746,977**	440,000
Term Loan	**173,870**	-
Long-term senior secured notes	**477,904**	419,176
Balance, end of the year	**1,398,751**	859,176
Current portion of bank debt, net of financing costs	**57,870**	100,000
Non-current portion of bank debt, net of financing costs	**1,340,881**	759,176

On October 17, 2023, in conjunction with the closing of the Acquisition, the Company amended and restated its credit facilities (the "Credit Facilities") with a syndicate of banks increasing the committed revolving facility (the "Revolving Facility") from $800 million to $1 billion and adding a new $174 million two-year amortizing term loan (the "Term Loan"). The Credit Facilities maturity date is October 13, 2025. The Revolving Facility includes a $40 million working capital sub-tranche and a $960 million production line and is available on a revolving basis. The term loan requires equal quarterly payments in the amount of $14.5 million commencing March 31, 2024, with a lump sum payment due on October 13, 2025, in the amount of $58 million.

Borrowings under the Credit Facilities bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar SOFAR loan rates, plus applicable margin and stamping fees. The Company had $6.7 million of Letters of Credit outstanding at December 31, 2023 ($0.3 million at December 31, 2022). The undrawn portion of the Revolving Facility totaled $243.3 million at December 31, 2023 ($359.7 million at December 31, 2022), 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, 2023**	December 31, 2022
Total Debt to EBITDA	Less than 4.0	**1.66**	0.97
Senior Debt to EBITDA	Less than 3.5	**1.66**	0.97
Interest coverage	Greater than 3.0	**14.01**	18.99

Peyto is in compliance with all financial covenants at December 31, 2023.

Outstanding secured senior notes as at December 31, 2023 are as follows:

Senior Secured Notes	Date Issued	Rate	Maturity Date
$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
$160 million (CAD)	October 24, 2023	6.46%	October 24, 2030

On October 24, 2023, Peyto issued $160 million of senior secured notes. The notes have a coupon rate of 6.46% and mature on October 24, 2030. The notes were issued by way of a private placement pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay the $100 million, 3.70% notes that matured on October 24, 2023.

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, 2022	**173,470,242**	**1,697,803**
Common shares issued on exercise of stock options	3,249,239	21,591
Common shares issued on public offering	16,916,500	201,306
Common shares issued on settlement of DSUs	42,994	250
Share Issue Costs (net of tax)	-	(6,804)
Contributed surplus on exercise of stock options	-	6,165
Balance, December 31, 2023	**193,678,975**	**1,920,311**

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)	**2023**	2022	% Change	**2023**	2022	% Change
Total dividends declared[1]	**63,811**	25,908	*146%*	**239,006**	102,437	*133%*
Total capital expenditures[2]	**115,218**	115,040	-	**412,919**	506,860	*-19%*
Total payout[2]	**179,029**	140,948	*27%*	**651,925**	609,297	*7%*
Funds from operations[2]	**200,319**	220,815	*-9%*	**670,471**	827,596	*-19%*
Total payout ratio[1]	**89%**	64%	*40%*	**97%**	74%	*32%*

(1) Total dividends declared in the year ended December 31, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts.
(2) 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, 2023:

($000)	2024	2025	2026	2027	2028	Thereafter
Interest payments (1)	23,594	22,210	18,630	16,435	14,460	20,672
Transportation commitments	82,334	86,640	63,643	47,244	26,561	377,652
Operating leases	2,247	2,247	2,247	-	-	-
Methanol	4,087	-	-	-	-	-
Total	112,262	111,097	84,520	63,679	41,021	398,324

(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	
2023	2022	**2023**	2022	**2023**	2022
210.0	204.3	**486.8**	1,145.8	**(134.9)**	82.8

RISK FACTORS

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.

Information technology systems and cyber-security 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.sedarplus.ca 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, 2023 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.

OFF-BALANCE SHEET FINANCING

Peyto does not have any guarantees or off-balance sheet arrangements that have been excluded from the balance sheets other than commitments disclosed in the "Contractual Obligations" section of this MD&A.

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, 2023 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 2024. 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.sedarplus.ca 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, decommissioning expenditure, provision for future performance-based compensation and transaction costs. 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)	**2023**	2022	**2023**	2022
Cash flows from operating activities	**173,247**	199,943	**644,868**	811,778
Change in non-cash working capital	**16,755**	19,226	**13,064**	5,593
Decommissioning expenditures	**2,051**	1,089	**3,077**	4,668
Performance based compensation	**3,280**	557	**3,280**	5,557
Transaction costs	**4,986**	-	**6,182**	-
Funds from operations	**200,319**	220,815	**670,471**	827,596

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)	**2023**	2022	**2023**	2022
Cash flows from operating activities	**173,247**	199,943	**644,868**	811,778
Change in non-cash working capital	**16,755**	19,226	**13,064**	5,593
Decommissioning expenditures	**2,051**	1,089	**3,077**	4,668
Performance based compensation	**3,280**	557	**3,280**	5,557
Transaction costs	**4,986**	-	**6,182**	-
Total capital expenditures	**(115,218)**	(115,040)	**(412,919)**	(506,860)
Free funds flow	**85,101**	105,775	**257,552**	320,736

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)	**2023**	2022	**2023**	2022
Cash flows used in investing activities	**567,762**	115,300	**1,146,866**	516,912
Change in prepaid capital	**2,552**	(594)	**1,888**	7,596
Deposit for acquisition	**63,303**	-	**-**	-
Subscription receipt funds in escrow	**201,307**	-	**-**	-
Corporate acquisitions	**(699,358)**	-	**(699,358)**	(22,220)
Change in non-cash working capital relating to investing activities	**(20,348)**	334	**(36,477)**	4,572
Total capital expenditures	**115,218**	115,040	**412,919**	506,860

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, current portion of lease obligations and current portion of decommissioning provision. 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, 2023**	As at December 31, 2022
Long-term debt	**1,340,881**	759,176
Current assets	**(490,936)**	(218,550)
Current liabilities	**279,903**	471,858
Financial derivative instruments - current	**238,865**	(126,081)
Current portion of lease obligation	**(1,310)**	(1,266)
Decommissioning provision - current	**(4,626)**	-
Net debt	**1,362,777**	885,137

Third-Party Sales Net of Purchases
Peyto uses the term "third-party sales net of purchases" to evaluate the profitability of natural gas and NGLs purchased from third parties. Third-party sales net of purchases is calculated as sales of natural gas and NGLs from third parties less natural gas and NGLs purchased from third parties.

	Three Months Ended December 31		**Year Ended December 31**	
($000)	**2023**	2022	**2023**	2022
Sales of natural gas and NGLs from third parties	**24,403**	9,326	**24,403**	92,625
Natural gas and NGLs purchased from third parties	**(24,511)**	(8,778)	**(24,511)**	(86,977)
Third-party sales net of purchases	**(108)**	548	**(108)**	5,648

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**	
($/Mcfe)	**2023**	2022	**2023**	2022
Gross Sale Price	**4.08**	7.17	**4.29**	6.79
Realized hedging gain (loss)	**0.71**	(1.57)	**0.27**	(1.50)
Net Sale Price	**4.79**	5.60	**4.56**	5.29
Third party sales net of purchases	**-**	0.01	**-**	0.02
Other income	**0.05**	0.13	**0.03**	0.05
Royalties	**(0.30)**	(0.72)	**(0.32)**	(0.74)
Operating costs	**(0.55)**	(0.41)	**(0.49)**	(0.39)
Transportation	**(0.26)**	(0.22)	**(0.27)**	(0.26)
Field netback	**3.73**	4.39	**3.51**	3.96
Net general and administrative	**(0.06)**	(0.02)	**(0.05)**	(0.02)
Interest and financing	**(0.40)**	(0.21)	**(0.29)**	(0.21)
Realized gain on foreign exchange	**(0.01)**	-	**-**	0.01
Cash netback ($/Mcfe)	**3.26**	4.16	**3.17**	3.74
Cash netback ($/boe)	**19.54**	24.97	**19.04**	22.43

Third party sales net of purchases per Mcfe

"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.

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)	**2023**	2022	**2023**	2022
Total dividends declared(1)	**63,811**	25,908	**239,006**	102,437
Total capital expenditures	**115,218**	115,040	**412,919**	506,860
Total payout	**179,029**	140,948	**651,925**	609,297
Funds from operations	**200,319**	220,815	**670,471**	827,596
Total payout ratio (%)	**89%**	64%	**97%**	74%

(1) Total dividends declared in the year ended December 31, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts.

Supplementary Financial Measures

"Diversification activities" are the costs of the basis on physical natural gas sales contracts that access various hubs including Ventura, Emerson 2, Malin, Dawn and Henry Hub, 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.

"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.

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

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

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

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

"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.

"Total realized hedging gain (loss) per Mcfe and boe" is comprised of realized gain (loss) on derivative financial instruments, as determined in accordance with IFRS, divided by the Company's total production.

"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 Company's 2024 capital expenditure budget targeting the low end of the $450 to $500 million range;
- Peyto's ability to lower per unit costs on the Repsol Assets in 2024;
- 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

	2023				2022
	Q4	Q3	Q2	Q1	Q4
Operations					
Production					
Natural gas (Mcf/d)	**622,963**	520,504	526,732	544,278	552,627
NGLs (bbl/d)	**16,175**	11,231	10,989	12,205	12,840
Total (boe/d @ 6:1)	**120,002**	97,981	98,777	102,918	104,944
Total (Mcfe/d @ 6:1)	**720,014**	587,888	592,655	617,508	629,667
Liquid to gas ratio (bbl per MMcf)	**26.0**	21.6	20.9	22.4	23.2
Average product prices					
Realized natural gas price – after hedging and diversification ($/Mcf)	**3.87**	3.33	3.13	3.91	4.62
Realized NGL price – after hedging ($/bbl)	**64.32**	70.25	69.28	79.03	75.95
$/Mcfe					
Net sale price ($/Mcfe)	**4.79**	4.29	4.07	5.01	5.60
Net third party sales ($/Mcfe) (2)	**-**	-	-	-	0.01
Other income ($/Mcfe)	**0.05**	0.02	0.02	0.08	0.13
Royalties ($/Mcfe)	**(0.30)**	(0.29)	(0.18)	(0.53)	(0.72)
Operating costs ($/Mcfe)	**(0.55)**	(0.44)	(0.47)	(0.50)	(0.41)
Transportation ($/Mcfe)	**(0.26)**	(0.29)	(0.29)	(0.24)	(0.22)
Field netback ($/Mcfe) (2)	**3.73**	3.29	3.15	3.82	4.39
General & administrative expense ($/Mcfe)	**(0.06)**	(0.04)	(0.05)	(0.03)	(0.02)
Interest expense ($/Mcfe)	**(0.40)**	(0.28)	(0.22)	(0.22)	(0.21)
Realized gain (loss) on foreign exchange	**(0.01)**	0.01	(0.02)	0.01	-
Cash netback ($/Mcfe) (2)	**3.26**	2.98	2.86	3.58	4.16
Financial ($000 except per share)					
Revenue and realized hedging gains (losses) (1)	**317,246**	231,938	219,409	278,332	324,614
Royalties	**19,599**	15,482	9,695	29,566	41,615
Funds from operations(2)	**200,319**	147,980	142,354	179,817	220,815
Funds from operations per share(2)	**1.05**	0.84	0.81	1.03	1.28
Funds from operations per diluted share(2)	**1.05**	0.84	0.81	1.02	1.26
Total dividends declared(3)	**63,811**	59,802	57,715	57,678	25,908
Total dividends declared per share(2)	**0.33**	0.33	0.33	0.33	0.15
Earnings	**87,795**	57,444	57,415	89,981	113,441
Earnings per share	**0.46**	0.33	0.33	0.51	0.66
Earnings per diluted share	**0.46**	0.33	0.33	0.51	0.64
Total capital expenditures(2)	**115,218**	93,579	82,319	121,802	115,040
Total payout ratio (%)(2)	**89%**	104%	98%	100%	64%
Weighted average shares outstanding (basic)	**190,196,093**	175,573,752	174,895,215	174,778,048	172,726,293
Weighted average shares outstanding (diluted)	**191,271,677**	176,732,946	176,305,942	176,570,310	175,892,139

(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) Includes the dividend equivalent payment in the three months ended September 30, 2023

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Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

Opinion

We have audited the consolidated financial statements of Peyto Exploration & Development Corp., and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2023 and 2022, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

Key Audit Matter Description

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

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

How the Key Audit Matter Was Addressed in the Audit

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

- Evaluated future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.

- Evaluated the Company's independent reservoir engineer by examining reports and assessing their scope of work and findings and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.

- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Repsol Acquisition - Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

On October 17, 2023, the Company acquired Repsol Canada Energy Partnership. The acquisition was accounted for as a business combination using the acquisition method whereby the acquired assets, including oil and natural gas properties and liabilities assumed are recorded at their estimated fair value at the date of acquisition. Management used a discounted future cash flow model to determine the fair value of the oil and natural gas properties acquired, which required management to determine the future net cash flows of the underlying proved and probable oil and natural gas reserves. The Company engaged an independent reservoir engineer to estimate these reserves using estimates, assumptions, and engineering data. The development of the reserves and their future net cash flows required management to make significant estimates and assumptions related to future oil and natural gas prices, discount rate, reserves, and future operating and development costs.

While there are several estimates and assumptions that are required to determine the fair value of the oil and natural gas properties, those with the highest degree of subjectivity are future oil and natural gas prices, discount rate, reserves, and future operating and development costs. This required a high degree of auditor judgement and an increased extent of audit effort, including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and natural gas prices, discount rate, reserves, and future operating and development costs used to determine the fair value of the oil and natural gas properties included the following, among others:

- Evaluated future oil and natural gas prices by comparing management forecasts to third party forecasts.

- With the assistance of fair value specialists, evaluated the reasonableness of the discount rate by developing a range of independent estimates and comparing those to the discount rate selected by management.

- Evaluated the Company's independent reservoir engineer by:
    - Examining reports and assessing their scope of work and findings, including verifying that the assumptions included in their estimate of the reserves remained appropriate as of the acquisition date; and
    - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to actual production volumes.

- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to actual results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Other Information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

March 7, 2024

Peyto Exploration & Development Corp.
Consolidated Balance Sheets
(Amounts in $ thousands)

	December 31 2023	December 31 2022
Assets		
Current assets		
Cash	37,177	11,905
Accounts receivable (*Note 12)*	161,735	188,036
Prepaid and other	53,159	18,609
Derivative financial instruments *(Note 14)*	238,865	-
	490,936	218,550
Long-term derivative financial instruments *(Note 14)*	128,519	15,033
Property, plant and equipment, net *(Note 4)*	4,890,187	3,778,940
	5,018,706	3,793,973
	5,509,642	4,012,523
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	171,760	215,560
Dividends payable *(Note 7)*	21,305	8,674
Income tax payable (*Note 13)*	23,032	20,277
Current portion of lease obligation	1,310	1,266
Current portion of decommissioning provision *(Note 6)*	4,626	-
Current portion of long-term debt *(Note 5)*	57,870	100,000
Derivative financial instruments *(Note 14)*	-	126,081
	279,903	471,858
Long-term debt *(Note 5)*	1,340,881	759,176
Decommissioning provision *(Note 6)*	275,287	144,725
Lease obligation	2,764	4,074
Deferred income taxes *(Note 13)*	895,864	571,024
	2,514,796	1,478,999
Equity		
Shareholders' capital *(Note 7)*	1,920,311	1,697,803
Contributed surplus (*Note 11)*	25,021	16,274
Retained earnings	485,072	431,443
Accumulated other comprehensive income (loss)	284,539	(83,854)
	2,714,943	2,061,666
	5,509,642	4,012,523

Approved by the Board of Directors

(signed) *"Debra Gerlach"*
Director

(signed) *"Jean-Paul Lachance"*
Director

Peyto Exploration & Development Corp.

Consolidated Income Statements

(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Revenue		
Natural gas and natural gas liquid sales (*Note 12)*	985,737	1,539,436
Royalties	(74,342)	(168,379)
Sales of natural gas and natural gas liquids from third parties	24,403	92,625
Natural gas and natural gas liquid sales, net of royalties	**935,798**	1,463,682
Realized gain (loss) on derivative financial instruments *(Note 14)*	61,188	(340,437)
Other income	9,716	10,262
Total revenue, other income, and derivative financial instruments	**1,006,702**	1,133,507
Expenses		
Natural gas and natural gas liquids purchased from third parties	24,511	86,977
Operating *(Note 8)*	113,391	89,415
Transportation	61,668	58,306
General and administrative	10,589	5,253
Transaction costs	6,182	-
Performance based compensation *(Note 10)*	3,280	5,557
Stock based compensation *(Note 11)*	15,162	11,703
Finance costs *(Note 9)*	70,860	53,270
Realized loss (gain) on foreign exchange	1,389	(1,359)
Unrealized (gain) loss on foreign exchange on USD senior notes	(1,272)	3,465
Loss on disposition of capital assets	-	1,250
Depletion and depreciation *(Note 4)*	316,135	302,586
	621,895	616,423
Earnings before taxes	**384,807**	517,084
Provision for income taxes		
Current tax *(Note 13)*	59,047	20,277
Deferred tax *(Note 13)*	33,125	106,144
Total income taxes	**92,172**	126,421
Earnings for the year	**292,635**	390,663
Earnings per share *(Note 7)*		
Basic	**$1.64**	$2.29
Diluted	**$1.62**	$2.23
Weighted average number of common shares outstanding *(Note 7)*		
Basic	**178,894,013**	170,739,471
Diluted	**180,311,890**	175,040,978

Peyto Exploration & Development Corp.
Consolidated Statements of Comprehensive Income
(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Earnings for the year	**292,635**	390,663
Other comprehensive income		
Change in unrealized gain (loss) on derivative financial instruments	539,620	(378,114)
Deferred tax (expense) recovery	(110,039)	8,665
Realized (gain) loss on derivative financial instruments	(61,188)	340,437
Comprehensive Income	**661,028**	361,651

Peyto Exploration & Development Corp.

Consolidated Statements of Changes in Equity

(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Shareholders' capital, Beginning of Year	**1,697,803**	1,664,508
Private Placement	-	2,586
Common shares issued on exercise of stock options	21,591	22,249
Common shares issued on public offering *(Note 3)*	201,306	-
Issued on settlement of DSU's	250	-
Contributed surplus on exercise of stock options	6,165	8,552
Share Issue Costs (net of tax)	(6,804)	(92)
Shareholders' capital, End of Year	**1,920,311**	1,697,803

Contributed surplus, Beginning of Year	**16,274**	13,123
Stock-based compensation expense	15,162	11,703
Recognized under stock-based compensation plans	(6,165)	(8,552)
Recognized under DSU plan	(250)	-
Contributed surplus, End of Year	**25,021**	16,274

Retained earnings, Beginning of Year	**431,443**	143,217
Earnings for the year	292,635	390,663
Dividends *(Note 7)*	(237,145)	(102,437)
Dividend equivalent payment *(Note 7)*	(1,861)	-
Retained earnings, End of Year	**485,072**	431,443

Accumulated other comprehensive income (loss), Beginning of Year	**(83,854)**	(54,842)
Other comprehensive gain (loss)	368,393	(29,012)
Accumulated other comprehensive income (loss), End of Year	**284,539**	(83,854)

Total Equity	**2,714,943**	2,061,666

Peyto Exploration & Development Corp.

Consolidated Statements of Cash Flows

(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Cash provided by (used in)		
Operating activities		
Earnings	292,635	390,663
Items not requiring cash:		
Deferred income tax	33,125	106,144
Depletion and depreciation	316,135	302,586
Loss on disposition of capital assets	-	1,250
Unrealized (gain) loss on foreign exchange	(1,272)	3,465
Accretion of decommissioning provision	5,224	6,228
Stock-based compensation	15,162	11,703
Decommissioning expenditures	(3,077)	(4,668)
Change in non-cash working capital related to operating activities	(13,064)	(5,593)
	644,868	811,778
Financing activities		
Common shares issued under stock option plan *(Note 7)*	21,591	24,716
Common shares issued on public offering (*Note 7)*	192,472	-
Cash dividends paid	(226,374)	(102,172)
Lease interest	163	206
Principal repayment of lease	(1,429)	(1,429)
Interest and financing charges paid	(3,153)	-
Increase (decrease) of bank debt	484,000	(210,000)
Repayment of senior notes *(Note 5)*	(100,000)	-
Issuance of senior notes *(Note 5)*	160,000	-
	527,270	(288,679)
Investing activities		
Additions to property, plant, and equipment	(411,031)	(473,200)
Asset acquisitions *(Note 4)*	-	(26,064)
Corporate Acquisitions *(Note 3)*	(699,358)	(22,220)
Change in non-cash working capital relating to investing activities	(36,477)	4,572
	(1,146,866)	(516,912)
Net increase in cash	**25,272**	6,187
Cash, beginning of year	11,905	5,718
Cash, end of year	**37,177**	11,905

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

Cash interest paid	**61,420**	48,779
Cash taxes paid	**56,278**	-

1. Nature of operations

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 7, 2024.

2. Basis of presentation

These consolidated financial statements ("consolidated financial statements") as at and for the years ended December 31, 2023 and December 31, 2022 represent the Company's results and financial position in accordance with International Financial Reporting Standards ("IFRS").

a) Summary of material accounting policies

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

b) Material accounting estimates and judgements

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

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

Depletion and Recoverability of oil & natural gas properties

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

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

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

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

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

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

Decommissioning provision

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

Derivative financial instruments

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

Stock-based compensation

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

Income Taxes

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

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

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

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

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

f) Exploration and evaluation assets
Pre-license costs
Costs incurred prior to obtaining the legal right to explore for hydrocarbon resources are expensed in the period in which they are incurred. The Company has no pre-license costs.

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

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

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

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

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

h) Business Combination
Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3 Business Combinations ("IFRS 3"). Business combinations are accounted for using the acquisition method of accounting. Management makes estimates of the acquisition-date fair value of assets acquired and liabilities assumed which includes assessing the estimated fair value of oil and natural gas properties (included in property, plant and equipment) derived from estimated recoverable quantities of proved and probable oil and natural gas reserves and the related cash flows being acquired. Transaction costs incurred are expensed.

i) Impairment of non-financial assets

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

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

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

j) Financial instruments

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

The Company has made the following classifications:

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

Impairment of Financial Assets

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

Derivative financial instruments

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

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

Embedded derivatives

An embedded derivative is a component of a contract that causes some of the cash flows of the combined instrument to vary in a way similar to a stand-alone derivative. This causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable, such as interest rate, financial instrument price, commodity price, foreign exchange rate, a credit rating or credit index, or other variables to be treated as a financial derivative.

Normal purchase or sale exemption

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

k) Hedging

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

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

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

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

l) Inventories

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

m) Provisions

General

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

Decommissioning provision

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

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

n) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in Canada.
Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

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

o) Revenue recognition

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

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

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

p) Share-based payments

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

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

q) Earnings per share

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

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

r) Share capital

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

s) Adoption of new standards January 1, 2023

IAS 1 – Disclosure of Accounting Policies

Effective January 1, 2023, the amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies, while providing guidance on how entities can identify material accounting policy information and examples of when accounting policy information is likely to be material. This did not have a material impact on the consolidated financial statements.

IAS 8 – Definition of Accounting Estimates

Effective January 1, 2023, the amendments distinguish how an entity should present and disclose different types of accounting changes in its financial statements and provides updated definitions to changes in accounting estimates to assist issuers in assessing between a change in accounting policy and a change in accounting estimate. This did not have a material impact on the consolidated financial statements.

IAS 12 – Income Taxes

Effective January 1, 2023, the amendments clarify that the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24 does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. This did not have a material impact on the consolidated financial statements.

Future Accounting Pronouncements

Peyto plans to adopt the following amendments to IFRS Accounting Standards that are effective for annual periods beginning on or after January 1, 2024. The pronouncements will be adopted on their respective effective dates; however, neither is expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements ("IAS 1") to clarify its requirements for the presentation of liabilities as current or noncurrent in the statement of financial position. This will be effective on January 1, 2024.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective January 1, 2024.

3. Corporate Acquisitions

Repsol Canada Energy Partnership

On October 17, 2023, Peyto completed its acquisition of Repsol Canada Energy Partnership ("Repsol"), which held the Canadian upstream oil and natural gas business of Repsol Exploración, S.A.U. The acquisition included all related midstream facilities and infrastructure located predominantly in the Deep Basin of Alberta, for cash consideration of $699.4 million. The acquisition was funded through an increase of the Company's existing revolving credit facility, a new two-year amortizing term loan and net proceeds of a public offering (the "Financing") issuing 16,916,500 common shares at a price of $11.90 per common share for gross proceeds of $201.3 million. The transaction has been accounted for as a business combination in accordance with IFRS 3 using the acquisition method.

Results from operations for Repsol are included in the Company's consolidated financial statements from the closing date of the transaction. Total transaction costs incurred by Peyto of $6.2 million associated with this acquisition were expensed in the consolidated statements of income and comprehensive income. The following purchase price allocation is based on Management's best estimate of the assets acquired and liabilities.

Fair value of net assets acquired:	
Cash	363
Accounts receivable	38,033
Prepaids and other	13,656
Property, plant and equipment	906,630
Accounts payable	(52,298)
Deferred income tax liability	(183,705)
Decommissioning provision	(23,321)
Total	**699,358**

Consideration:	
Cash	**699,358**

The acquisition contributed natural gas and NGL sales of $35.4 million and earnings of $1.1 million since October 17, 2023. Had the acquisition of Repsol closed on January 1, 2023, estimated contributed natural gas and NGL sales and earnings would have been approximately $200.4 million and $5.5 million, respectively, for the year ended December 31, 2023.

PrivateCo.

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

Results from operations for PrivateCo are included in the Company's consolidated financial statements from the closing date of the transaction. Total transaction costs incurred by Peyto of $0.6 million associated with this acquisition were expensed in the consolidated statements of income and comprehensive income.

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

Consideration:	
Cash	**22,220**

The acquisition of PrivateCo contributed revenue of $8.3 million and earnings of $3.7 million from February 28, 2022 to December 31, 2022. Had the acquisition of PrivateCo closed on January 1, 2022, estimated contributed revenue and earnings would have been approximately $9.1 million and $3.9 million, respectively, for the year ended December 31, 2022.

4. Property, plant and equipment

Cost	
At December 31, 2021	**6,537,637**
Additions	470,553
Asset acquisitions & dispositions	26,064
Corporate Acquisition	5,900
Change in decommissioning provision	(61,055)
At December 31, 2022	**6,979,099**
Additions	411,032
Corporate Acquisition	906,630
Change in decommissioning provision	109,720
At December 31, 2023	**8,406,481**

Accumulated depletion and depreciation	
At December 31, 2021	**(2,897,812)**
Depletion and depreciation	(302,347)
At December 31, 2022	**(3,200,159)**
Depletion and depreciation	(316,135)
At December 31, 2023	**(3,516,294)**

Carrying amount at December 31, 2022	3,778,940
Carrying amount at December 31, 2023	**4,890,187**

During 2023 Peyto capitalized $10.1 million (2022- $13.3 million) of general and administrative expense directly attributable to exploration and development activities.

At December 31, 2023, the Company identified no indicators of impairment and therefore a test was not performed.

On September 13, 2022, the Company acquired assets in the Brazeau area for cash consideration of $26.2 million. The acquisition resulted in an increase in PP&E of approximately $27.7 million and the assumption of $1.5 million in decommissioning liabilities. The assets acquired include a working interest in production and reserves. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

5. Current and long-term debt

	December 31, 2023	December 31, 2022
Bank credit facility ("credit facility")	746,977	440,000
Term Loan	173,870	-
Long-term senior secured notes	477,904	419,176
Balance, end of the year	**1,398,751**	859,176
Current portion of bank debt, net of financing costs	**57,870**	100,000
Non-current portion of bank debt, net of financing costs	**1,340,881**	759,176

On October 17, 2023, the Company entered into an agreement with its syndicate of lenders to amend the credit facility to reflect an upsized $1 billion revolving credit facility from a $800 million revolving credit facility and a new $174 million two-year amortizing term loan with no change to the maturity of the credit facility of October 13, 2025. The term loan requires equal quarterly payments in the amount of $14.5 million commencing March 31, 2024, with a lump sum payment due on October 13, 2025, in the amount of $58 million. Borrowings under the credit facility and term loan bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar SOFR loan rates, plus applicable margin, and stamping fees. There was no change to the financial covenants in the amended agreement.

The Company had $6.7 million of Letters of Credit outstanding at December 31, 2023 ($0.3 million at December 31, 2022

Peyto is subject to the following financial covenants as defined in the credit facility, term loan and senior secured note agreements:

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

Peyto is in compliance with all financial covenants at December 31, 2023.

Outstanding senior notes are as follows:

Senior Secured Notes	Date Issued	Rate	Maturity Date
$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
$160 million (CAD)	October 24, 2023	6.46%	October 24, 2030

On October 24, 2023, Peyto issued $160 million of senior secured notes. The notes have a coupon rate of 6.46% and mature on October 24, 2030. The notes were issued by way of a private placement pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay the $100 million, 3.7% notes that was due October 24, 2023.

Total interest expense for 2023 was $57.3 million (2022 - $47.0 million) and the weighted average borrowing rate for 2023 was 5.8% (2022 – 4.8%).

6. Decommissioning provision

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

The Company has estimated the net present value of its total decommissioning provision to be $280.0 million as at December 31, 2023 (2022 – $144.7 million) based on a total escalated future undiscounted liability of $655.2 million (2022 – $398 million). At December 31, 2023 management estimates that these payments are expected to be made over the next 50 years (2022 – 48 years) with payments being made in the years 2024 to 2074. The Bank of Canada’s long-term bond rate of 3.02 per cent (2022 – 3.28 per cent) and an inflation rate of 2.0 per cent (2022 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2021	**204,220**
New or increased provisions	7,389
New provisions relating to corporate and asset acquisition	2,880
Accretion of discount	6,228
Change in discount rate and estimates	(71,324)
Decommissioning expenditures	(4,668)
Balance, December 31, 2022	**144,725**
New or increased provisions	3,862
New provisions relating to corporate acquisition	23,321
Accretion of discount	5,224
Change in discount rate and estimates	7,637
Change in discount rate relating to corporate acquisition	98,221
Decommissioning expenditures	(3,077)
Balance, December 31, 2023	**279,913**
Current	**4,626**
Non-current	**275,287**

7. Equity

Share capital
Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2021	**168,151,219**	**1,664,508**
Private placement	247,785	2,586
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**
Common shares issued on exercise of stock options	3,249,239	21,591
Common shares issued on public offering	16,916,500	201,306
Issued on settlement of DSU's	42,994	250
Share issue costs (net of tax)	-	(6,804)
Contributed surplus on exercise of stock options	-	6,165
Balance, December 31, 2023	**193,678,975**	**1,920,311**

Per share amounts

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

	Years ended December 31	
	2023	2022
Weighted average common shares basic	**178,894,013**	170,739,471
Weighted average common shares diluted	**180,311,890**	175,040,978

Dividends
During the year ended December 31, 2023, Peyto declared $1.32 per common share or $0.11 per common share for the months of January to December 2023 totaling $237.0 million (2022-$0.60 per common share or $0.05 per common share for the months of January to December totaling $102.4 million).

Dividend equivalent payment
On September 26, 2023, the Company completed a public offering financing issuing 16,916,500 subscription receipts (the "Subscription Receipts") at a price of $11.90 per Subscription Receipt for gross proceeds of $201.3 million. The gross proceeds from the financing were held in escrow pending completion of the Repsol Acquisition. The Company exchanged each Subscription Receipt for a common share when the acquisition closed on October 17, 2023. Holders of the Subscription Receipts issued on September 26, 2023, were entitled to receive payments per Subscription Receipt equal to the cash dividends ("Dividend equivalent payment") on Peyto's common shares. The Dividend Equivalent Payment equaled to $0.11 per Subscription Receipt. The Dividend Equivalent payment was in the amount of $1.9 million and recognized in dividends for year ended December 31, 2023.

8. Operating expenses

The Company's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering recoveries of costs relate to partner owned production volumes.

	Years ended December 31	
	2023	2022
Gross field expenses	124,474	102,297
Cost recoveries related to processing and gathering of partner production	(11,083)	(12,882)
Total operating expenses	**113,391**	89,415

9. Finance Expense

	Years ended December 31	
	2023	2022
Accretion of decommissioning provision	5,224	6,228
Financing costs	8,319	-
Interest	57,317	47,042
Total finance expenses	**70,860**	53,270

10. Performance-based compensation

Reserve value-based bonus
The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative costs and interest expense, of proved producing reserves calculated using a realized price at December 31 of the current year and a discount rate of 8%. The Company recognized $3.3 million for 2023 (2022 $5.6 million).

11. 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. The Company also has a deferred share unit plan ("DSU's) allowing for the granting of DSUs to the Board of Directors. These plans limits the number of stock options and DSU's that may be granted to 10% of the issued and outstanding common shares.

Equity compensation arrangements

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

		Weighted Average Exercise price $
Stock options	9,868,323	12.02
DSU	248,037	7.41

Stock option plans

The following tables summarize the stock options outstanding at December 31, 2023:

		Weighted average exercise price $
Balance, December 31, 2022	**9,940,868**	**9.86**
Stock options granted	5,491,300	12.69
Exercised	(3,249,239)	6.64
Forfeited	(1,433,063)	10.37
Expired	(881,543)	14.32
Balance, December 31, 2023	**9,868,323**	**12.02**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. The balance of the stock option plan at December 31, 2023 has a weighted-average fair value per option of $3.49. The following tables summarize the assumptions used in the Black-Scholes model:

	December 31, 2023
Fair value of options granted (weighted average)	$2.93
Expected volatility	47.40%
Average option life	2 years
Risk-free interest rate	4.33%
Forfeiture rate	5.87%
Dividend Yield	5.14%

Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant. At the vesting, recipients have thirty days to exercise options after which any unexercised options are expired.

At December 31, 2023, no stock options are exercisable.

The following tables summarize the DSU's outstanding at December 31, 2023:

Balance, December 31, 2022	**217,236**
DSU granted	73,795
DSU settled	(42,994)
Balance December 31, 2023	**248,037**

12. Revenue and receivables

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

	Years ended December 31	
	2023	2022
Natural gas sales	664,675	1,111,897
Natural gas liquid sales	321,062	427,539
Natural gas and natural gas liquid sales	**985,737**	1,539,436

	December 31, 2023	December 31, 2022
Accounts receivable from customers	117,201	184,207
Accounts receivable from realized derivative financial instruments	22,135	92
Accounts receivable from joint venture partners and other	22,399	3,737
Accounts Receivable	**161,735**	188,036

13. Income taxes

	Years Ended December 31	
	2023	2022
Earnings before income taxes	**384,807**	517,084
Statutory income tax rate	**23.00%**	23.00%
Expected income taxes	**88,506**	118,929
Increase (decrease) in income taxes from:		
Stock based compensation	**3,487**	2,692
True-up tax pools	**(97)**	2,922
Change in unrecognized deferred tax asset	**(862)**	-
Other	**1,138**	1,878
Total income tax expense	**92,172**	126,421

Deferred income tax expense	**33,125**	106,144
Current income tax expense	**59,047**	20,277
Total income tax expense	**92,172**	126,421

The components of deferred income tax assets and liabilities are as follows:

	December 31, 2023	December 31, 2022
Property, plant and equipment in excess of tax basis	**(880,521)**	(631,649)
Derivative financial instruments	**(84,498)**	25,540
Share issuance costs	**3,807**	36
Long-term debt	**388**	534
Other	**580**	1,228
Decommission provision	**64,380**	33,287
Deferred income taxes	**(895,864)**	(571,024)

The following tables provide a continuity of deferred income taxes during the year ended December 31, 2023 and 2022:

	December 31, 2022	Recognized in Net Earnings	Acquired in Business Combination	Recognized in OCI/Equity	**December 31, 2023**
Property, plant and equipment in excess of tax basis	(631,649)	(59,803)	(189,069)	-	**(880,521)**
Derivative financial instruments	25,540	-	-	(110,038)	**(84,498)**
Share issuance costs	36	1,744	-	2,027	**3,807**
Long-term debt	534	(146)	-	-	**388**
Other	1,228	(648)	-	-	**580**
Provision for decommission provision	33,287	25,729	5,364	-	**64,380**
Deferred income taxes	(571,024)	(33,124)	(183,705)	(108,011)	**(895,864)**

	December 31, 2021	Recognized in Net Earnings	Acquired in Business Combination	Recognized in OCI/Equity	December 31, 2022
Property, plant and equipment in excess of tax basis	(581,525)	(50,124)	-	-	(631,649)
Derivative financial instruments	16,875	-	-	8,665	25,540
Share issuance costs	21	(13)	-	28	36
Long-term debt	-	534	-	-	534
Other	1,645	(417)	-	-	1,228
Provision for decommission provision	46,971	(13,950)	266	-	33,287
Tax loss carry-forwards recognized	25,096	(42,174)	17,078	-	-
Deferred income taxes	(490,917)	(106,144)	17,344	8,693	(571,024)

At December 31, 2023, the Company has federal tax pools of approximately $1,072.5 million (2022 - $1,029.3 million) available for deduction against future income.

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profits will be available against which the Company can use the benefits:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Gross amount	**Tax effect**	Gross amount	Tax effect
Deductible temporary differences	**72,900**	**16,767**	74,196	17,065

14. Financial instruments

Financial instrument classification and measurement
Financial instruments of the Company carried on the balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at December 31, 2023 except for derivative financial instruments.

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

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

The Company's cash and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1 and Level 2, respectively.

Fair values of financial assets and liabilities

The Company's financial instruments include cash, deposits, accounts receivable, accounts payable and accrued liabilities, dividend payable, current portion of long-term debt, long-term debt, and derivative financial instruments. At December 31, 2023 and 2022, cash and derivative financial instruments are carried at fair value. Current assets and current liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company's objectives, processes, and policies for managing market risks have not changed from the previous year.

Commodity price risk management

Financial derivative instruments

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

Following is a summary of all derivative financial instruments in place at December 31, 2023:

Commodity contracts

Natural Gas Period Hedged- Monthly Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
Q1 2024	Fixed Price	175,000	$3.91
Q2 2024	Fixed Price	170,000	$2.83
Q3 2024	Fixed Price	170,000	$2.83
Q4 2024	Fixed Price	232,989	$3.65
Q1 2025	Fixed Price	265,000	$3.92
Q2 2025	Fixed Price	290,000	$3.33
Q3 2025	Fixed Price	290,000	$3.33
Q4 2025	Fixed Price	256,848	$3.85
Q1 2026	Fixed Price	240,000	$4.17
Q2 2026	Fixed Price	160,000	$3.34
Q3 2026	Fixed Price	160,000	$3.34
Q4 2026	Fixed Price	53,913	$3.34

Natural Gas Period Hedged- Daily Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
Q2 2024	Fixed Price	45,000	$2.72
Q3 2024	Fixed Price	45,000	$2.72
Q4 2024	Fixed Price	15,163	$2.72
Q2 2025	Fixed Price	25,000	$3.60
Q3 2025	Fixed Price	25,000	$3.60
Q4 2025	Fixed Price	8,424	$3.60

Natural Gas Period Hedged - NYMEX	Type	Daily Volume (MMBtu)	Average Price (Nymex USD/MMBtu)
Q1 2024	Fixed Price	275,000	$4.11
Q2 2024	Fixed Price	205,000	$3.60
Q3 2024	Fixed Price	205,000	$3.60
Q4 2024	Fixed Price	208,315	$3.89
Q1 2025	Fixed Price	210,000	$4.03
Q2 2025	Fixed Price	195,000	$3.80
Q3,2025	Fixed Price	195,000	$3.80
Q4 2025	Fixed Price	75,652	$3.89
Q1 2026	Fixed Price	15,000	$4.51

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
Q1 2024	Fixed Price	3,900	$104.39
Q2 2024	Fixed Price	3,100	$103.31
Q3 2024	Fixed Price	2,300	$104.03
Q4 2024	Fixed Price	1,500	$103.03
Q1 2025	Fixed Price	200	$104.60

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI USD/bbl)
Q1 2024	Fixed Price	200	$70.15

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)_	Put - Call (WTI CAD/bbl)
Q1 2024	Collar	500	$90.00–$110.20
Q2 2024	Collar	500	$90.00–$100.25
Q3 2024	Collar	500	$85.00–$95.00

As at December 31, 2023, Peyto had committed to the future sale of 239,840,000 gigajoules (GJ) of natural gas at an average price of $3.50 per GJ or $4.03 per Mcf, 144,600,000 MMBtu at an average price of $3.85 USD per MMBtu, 1,004,600 barrels of crude at an average price of $103.83 CAD per bbl, 18,200 barrels of crude at an average price of $70.15 USD per bbl and 137,000 barrels of crude with an average collar of $88.33–$101.82 CAD per bbl. Had these contracts closed on December 31, 2023, Peyto would have realized a gain in the amount of $352.7 million. If the gas price on December 31, 2023 were to increase by $0.10/GJ, the unrealized gain would decrease by approximately $39.2 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Foreign exchange contracts

Average Rate forward	Amount (USD)	Rate (CAD/USD)
Sold USD Contracts		
Q1 2024	$88.5 million	1.3475
Q2 2024	$74.5 million	1.3537
Q3 2024	$69.0 million	1.3481
Q4 2024	$58.0 million	1.3415
Q1 2025	$54.0 million	1.3458
Q2 2025	$54.0 million	1.3524
Q3 2025	$48.0 million	1.3532
Q4 2025	$28.0 million	1.3501

Had these contracts settled on December 31, 2023, Peyto would have realized a gain in the amount of $14.2 million. If the CAD/USD FX rate on December 31, 2023 were to increase by $0.05, the unrealized gain would decrease by approximately $23.7 million to an unrealized loss of $9.5 million. An opposite change in the CAD/USD FX rate would result in an opposite impact on other comprehensive income.

Interest rate contracts

Term	Notional Amount	Peyto pays fixed rate	Peyto receives floating rate
March 17, 2023 to March 17, 2026	$50 million	3.565%	1- month CDOR

Had these contracts closed on December 31, 2023, Peyto would have realized a gain in the amount of $0.5 million.

Subsequent to December 31, 2023, Peyto entered into the following contracts:

Natural Gas Period Hedged – AECO Monthly Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
April 1, 2026 to October 31, 2026	Fixed	20,000	$3.18

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
January 1, 2024 to March 31, 2024	Fixed	400	$98.30
April 1, 2024 to June 30, 2024	Fixed	800	$101.71
January 1, 2024 to June 30, 2024	Fixed	100	$99.05
July 1, 2024 to September 30, 2024	Fixed	1,000	$97.91
October 1, 2024 to December 31, 2024	Fixed	1,000	$97.01
April 1, 2024 to December 31, 2024	Fixed	300	$101.05
January 1, 2025 to March 31, 2025	Fixed	500	$95.38
April 1, 2025 to June 30, 2025	Fixed	100	$96.80
January 1, 2025 to June 30, 2025	Fixed	500	$96.36

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
October 1, 2024 to December 31, 2024	Collar	500	$90.00–$104.50
January 1, 2025 to March 31, 2025	Collar	1,000	$85.00–$102.63
April 1, 2025 to June 30, 2025	Collar	500	$90.00–$100.25

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Peyto uses interest rate swaps on a portion of its floating rate debt to mitigate its interest rate exposure. If the weighted average borrowing rate were to increase by 100 bps (1%) it is estimated that the Company's earnings before income tax for the year ended December 31, 2023, would decrease by $9.9 million. An opposite change in interest rates would result in an opposite impact on earnings before income tax.

Credit risk

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company generally extends unsecured credit to purchasers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. Credit limits exceeding $2,000,000 per month are not granted to non-investment grade counterparties unless the Company receives either i) a parental guarantee from an investment grade parent; or ii) an irrevocable letter of credit for two months revenue. The Company has not previously experienced any material credit losses on the collection of accounts receivable. Of the Company's revenue for the year ended December 31, 2023, approximately 29% was received from two companies (19.2% and10%) (December 31, 2022 –48% was received from four companies 14%,13%,11% and 10%). Of the Company's accounts receivable at December 31, 2023, there were no companies that had a receivable balance over 10% (December 31, 2022 approximately 50% was receivable from four companies (17%, 12%, 11% and 10%). Maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and no accounts have been written off.

The Company's accounts receivable was aged as follows at December 31, 2023:

	December 31, 2023	December 31, 2022
Current (less than 30 days)	134,173	184,668
31-60 days	15,897	894
61-90 days	6,621	279
Over 90 days	5,044	2,195
	161,735	188,036

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

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

The Company assesses quarterly if there should be any impairment of financial assets. At December 31, 2023 and 2022, there was no impairment of any of the financial assets of the Company.

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

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

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

The following are the contractual maturities of financial liabilities as at December 31, 2023:

	< 1 Year	**1-2 Years**	**3-5 Years**	**Thereafter**
Accounts payable and accrued liabilities	171,760	-	-	-
Dividends payable	21,305	-	-	-
Current and long-term debt(1)	58,000	866,000	-	-
Secured senior notes	-	65,000	252,904	160,000

(1) Revolving credit facility (*see Note 5*)

Capital disclosures

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

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

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

	December 31 2023	December 31 2022
Equity	2,714,943	2,061,666
Long-term debt	1,340,881	759,176
Working capital deficit (surplus)	(211,033)	253,308
	3,844,791	3,074,150

15. Changes in non-cash working capital

	December 31 2023	December 31 2022
Change in current assets and liabilities		
Accounts receivable	26,301	(69,088)
Prepaid expense and other [1]	(34,551)	1,095
Accounts payable and accrued liabilities	(41,291)	66,972
	(49,541)	(1,021)
Relating to operating activities	**(13,064)**	(5,593)
Relating to investing activities	**(36,477)**	4,572

(1) The majority of the 2023 prepaid includes deposits held by government agencies, prepaid interest on the credit facility and carbon credits.

16. Related party transactions

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

Expense (Income)		Accounts Payable (Accounts Receivable)	
Year ended December 31		As at December 31	
2023	2022	**2023**	2022
486.8	**1,145.8**	**(134.9)**	**82.8**

The Company has determined that the key management personnel consists of key employees, officers and directors. In addition to the salaries and directors' fees paid to these individuals, the Company also provides compensation in the form of stock options and reserved based bonus to some of these individuals. Compensation expense of $1.8 million is included in general and administrative expenses, $6.5 million in stock-based compensation expense and $1.5 million in performance based compensation expense relating to key management personnel for the year 2023 (2022 - $2.5 million is included in general and administrative expenses, $5.4 million in stock-based compensation expense and $2.7 in performance based compensation expense relating to key management personnel).

17. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at December 31, 2023

	2024	2025	2026	2027	2028	Thereafter
Interest payments [1]	23,594	22,210	18,630	16,435	14,460	20,672
Transportation commitments	82,334	86,640	63,643	47,244	26,561	377,652
Operating leases	2,247	2,247	2,247	-	-	-
Methanol	4,087	-	-	-	-	-
Total	112,262	111,097	84,520	63,679	41,021	398,324

(1) Fixed interest payments on senior secured notes

Officers

Jean-Paul Lachance
President and Chief Executive Officer

Kathy Turgeon
Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Derick Czember
Vice President of Land and Business Development

Riley Frame
Vice President, Engineering & Chief Operating Officer

Tavis Carlson
Vice President, Finance

Stephen Chetner
Corporate Secretary

Directors

Don Gray, Chairman
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
John Rossall
Debra Gerlach
Jean-Paul Lachance
Jocelyn McMinn
Nicki Stevens

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Canadian Imperial Bank of Commerce
National Bank of Canada
ATB Financial
The Toronto-Dominion Bank
China Construction Bank (Canada)
Canadian Western Bank
Bank of China (Canada)
Business Development Bank of Canada

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