PEYTO

Exploration & Development Corp.

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Interim Report
for the three and nine months ended September 30, 2023

HIGHLIGHTS

	Three Months Ended Sep 30		%	Nine Months Ended Sep 30		%
	2023	2022	Change	**2023**	2022	Change
Operations						
Production						
Natural gas (Mcf/d)	**520,504**	544,843	*-4%*	**530,418**	540,544	*-2%*
NGLs (bbl/d)	**11,231**	13,263	*-15%*	**11,471**	12,986	*-12%*
Thousand cubic feet equivalent (Mcfe/d @ 1:6)	**587,888**	624,423	*-6%*	**599,245**	618,461	*-3%*
Barrels of oil equivalent (boe/d @ 6:1)	**97,981**	104,071	*-6%*	**99,874**	103,077	*-3%*
Production per million common shares (boe/d)	**558**	608	*-8%*	**570**	608	*-6%*
Product prices (after hedging)						
Natural gas ($/Mcf)	**3.33**	3.68	*-10%*	**3.46**	3.94	*-12%*
NGLs ($/bbl)	**70.25**	78.07	*-10%*	**73.02**	82.54	*-12%*
Operating expenses ($/Mcfe)	**0.44**	0.38	*16%*	**0.47**	0.39	*21%*
Transportation ($/Mcfe)	**0.29**	0.26	*12%*	**0.27**	0.27	*0%*
Field netback(1) ($/Mcfe)	**3.29**	3.65	*-10%*	**3.42**	3.82	*-10%*
General & administrative expenses ($/Mcfe)	**0.04**	0.02	*100%*	**0.04**	0.02	*100%*
Interest expense ($/Mcfe)	**0.28**	0.21	*33%*	**0.24**	0.22	*9%*
Financial ($000, except per share)						
Revenue and realized hedging gains/losses (2)	**231,938**	279,661	*-17%*	**729,679**	874,385	*-17%*
Funds from operations(1)	**147,980**	197,388	*-25%*	**470,152**	606,781	*-23%*
Funds from operations per share - basic(1)	**0.84**	1.15	*-27%*	**2.69**	3.58	*-25%*
Funds from operations per share - diluted(1)	**0.84**	1.13	*-26%*	**2.66**	3.48	*-24%*
Total dividends declared(3)	**59,802**	25,686	*133%*	**175,195**	76,529	*129%*
Total dividends declared per share(3)	**0.34**	0.15	*127%*	**1.00**	0.45	*122%*
Earnings	**57,444**	84,861	*-32%*	**204,840**	277,222	*-26%*
Earnings per share – basic	**0.33**	0.50	*-34%*	**1.17**	1.63	*-28%*
Earnings per share – diluted	**0.33**	0.48	*-31%*	**1.16**	1.59	*-27%*
Total capital expenditures(1)	**93,579**	140,400	*-33%*	**297,701**	391,820	*-24%*
Corporate acquisition	**-**	-	-	**-**	22,220	*-100%*
Total payout ratio(1)	**104%**	84%	*24%*	**101%**	77%	*31%*
Weighted average common shares outstanding - basic	**175,573,752**	171,230,853	*3%*	**175,085,253**	169,642,562	*3%*
Weighted average common shares outstanding - diluted	**176,732,946**	175,140,910	*1%*	**176,589,394**	174,204,741	*1%*
Net debt(1)				**877,011**	970,489	*-10%*
Shareholders' equity				**2,290,511**	1,800,985	*27%*
Total assets				**4,325,691**	3,934,616	*10%*

(1) This is a Non-GAAP financial measure or ratio. See "non-GAAP and Other Financial Measures" in this news release and in the Q3 2023 MD&A

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

(3) Total dividends declared in the three and nine months ended September 30, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts. See note 3 in the financial statements for additional information.

Report from President

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to celebrate 25 years of successful operations in the Canadian energy industry with its financial results for the third quarter of 2023 and a preliminary capital plan for 2024.

Q3 2023 Highlights:

- Peyto announced on September 6, 2023, the acquisition of Repsol Canada Energy Partnership ("Repsol") for cash consideration of $US468 million ($636 million) prior to post-closing adjustments (the "Acquisition"). The Acquisition provides Peyto with over 800 low-risk, high-quality drilling locations[1] and synergistic infrastructure to allow for the optimization of production and costs in the Greater Sundance Area. Peyto closed the Acquisition on October 17, 2023, therefore no contribution from the assets are included in third quarter results.
- Average production volumes of 97,981 boe/d (520.5MMcf/d of natural gas, 11,231 bbls/d of NGLs) delivered $148 million in funds from operations[2,3] ("FFO"), or $0.84/diluted share, and $54 million of free funds flow[4] in the quarter.
- Peyto generated earnings of $57 million, or $0.33/diluted share, in the quarter and $205 million or $1.16/diluted share, for the year to date. Of these profits to date, approximately 85% or $175 million ($1.00/share) have been returned to shareholders as dividends.
- Quarterly cash costs of $1.05/Mcfe, before royalties of $0.29/Mcfe, consist of operating costs of $0.44/Mcfe, transportation of $0.29/Mcfe, G&A of $0.04/Mcfe and interest expense of $0.28/Mcfe. Peyto continues to have the lowest cash costs in the Canadian natural gas industry.
- Total capital expenditures[5] were $94 million in the quarter. Peyto drilled 19 wells (18.1 net), completed 19 wells (18.3 net), and brought 20 wells (18.9 net) on production for $81 million. The Company's drilling and completions costs per meter decreased 3% from Q2 2023 as the effects of inflation have moderated.
- Peyto delivered a 69% operating margin[6] and a 25% profit margin[7], resulting in a 12% return on capital employed[8] ("ROCE") and a 14% return on equity[8] ("ROE"), on a trailing 12-month basis.
- Peyto has increased its hedge position materially in conjunction with closing the Acquisition, which currently protects approximately 68% and 56% of forecast gas production for 2024 and 2025, respectively.
- Over the past three years, Peyto has increased production from 78,200 boe/d to 97,981 boe/d, returned over $300 million in dividends to shareholders, while reducing net debt by over $300 million.

Third Quarter 2023 in Review

Production volumes averaged 97,981 boe/d in the quarter, 6% lower than Q3 2022 due mainly to a reduced capital expenditure program in response to the sharp decline in natural gas prices in early 2023. Additionally, Peyto had an extended turnaround at the Oldman deep-cut gas plant in September that decreased production by approximately 1,000 boe/d in the quarter. Total capital expenditures were $298 million for the year to date, $94 million lower than the same period of 2022. Natural gas prices stabilized in the quarter from the sharp decline in the first half of 2023. Henry Hub daily averaged US$2.58/MMBtu, and AECO daily averaged $2.46/GJ, down 68% and 38%, respectively, year over year. Peyto's systematic hedging program resulted in realized hedging gains of $33.7 million and helped deliver another strong quarter of funds from operations, which totaled $148.0 million. Operating costs improved to $0.44/Mcfe in the quarter, down from $0.47/Mcfe in Q2 2023 as inflationary cost pressures have stabilized. Interest costs included an incremental $0.05/Mcfe due to financing fees incurred in the quarter for the Acquisition. The Company's operating margin and profit margin remain strong at 69% and 25%, respectively. Earnings totaled $57.4 million and $59.8 million in dividends were declared in the quarter.

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[1] See "Drilling Locations" in this news release for further information.
[2] This press release contains certain non-GAAP and other financial measures to analyze financial performance, financial position, and cash flow including, but not limited to "operating margin", "profit margin", "return on capital", "return on equity", "netback", "funds from operations", "free funds flow", "total cash costs", 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, cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance. See "Non-GAAP and Other Financial Measures" included at the end of this press release and in Peyto's most recently filed MD&A for an explanation of these financial measures and reconciliation to the most directly comparable financial measure under IFRS.
[3] Funds from operations is a non-GAAP financial measure. See "non-GAAP and Other Financial Measures" in this news release and in the Q3 2023 MD&A.
[4] Free funds flow is a non-GAAP financial measure. See "non-GAAP and Other Financial Measures" in this news release and in the Q3 2023 MD&A.
[5] Total capital expenditures is a non-GAAP financial measure. See "non-GAAP and Other Financial Measures" in this news release and in the Q3 2023 MD&A.
[6] Operating Margin is a non-GAAP financial ratio. See "non-GAAP and Other Financial Measures" in this news release.
[7] Profit Margin is a non-GAAP financial ratio. See "non-GAAP and Other Financial Measures" in this news release.
[8] Return on capital employed and return on equity are non-GAAP financial ratios. See "non-GAAP and Other Financial Measures" in this news release and in the Q3 2023 MD&A.

Exploration & Development

The third quarter 2023 activity was spread out amongst the existing core areas of Greater Sundance and Greater Brazeau. Target formations were also widespread, as summarized in the following table.

	Zone						
Area	Cardium	Dunvegan	Notikewin	Falher	Wilrich	Bluesky	**Total**
Greater Sundance Area	-	-	5	6	-	-	**11**
Greater Brazeau Area	1	-	4	-	3	-	**8**
Other	-	-	-	-	-	-	**-**
Total	**1**	**-**	**9**	**6**	**3**	**-**	**19**

Peyto's average drilling and completion costs decreased in the third quarter both on an aggregate and on a per unit basis. Drilling cost per meter was reduced by 3% while completion cost per meter and cost per stage were reduced by 3% and 7%, respectively, over Q2 2023. Inflationary costs have stabilized and Peyto continues to optimize its operations through drilling extended reach horizontal (ERH) wells as well as taking advantage of pad drilling to maximize efficiency. Peyto also drilled a larger proportion of Notikewin wells in the quarter which resulted in a slight reduction in average lateral length over the previous quarter in which Peyto drilled a larger proportion of Wilrich wells.

	2016	2017	2018	2019	2020	2021	2022	2022 Q1	2022 Q2	2022 Q3	2022 Q4	2023 Q1	2023 Q2	**2023 Q3[1]**
Gross Hz Spuds	126	135	70	61	64	95	95	29	23	23	20	19	15	**19**
Measured Depth (m)	4,197	4,229	4,020	3,848	4,247	4,453	4,611	4,291	4,571	4,994	4692	5,198	4,768	**4,728**
Drilling ($MM/well)	$1.82	$1.90	$1.71	$1.62	$1.68	$1.89	$2.56	$2.13	$2.56	$2.90	$2.80	$3.05	$2.74	**$2.64**
$ per meter	$433	$450	$425	$420	$396	$424	$555	$496	$560	$580	$596	$587	$574	**$559**
Completion ($MM/well)	$0.86	$1.00	$1.13	$1.01[2]	$0.94	$1.00	$1.35	$1.22	$1.16	$1.49	1.58	$1.73	$1.64	**$1.38**
Hz Length (m)	1,460	1,241	1,348	1,484	1,682	1,612	1,661	1,529	1,602	1,654	1870	1,947	2,140	**1,853**
$ per Hz Length (m)	$587	$803	$751	$679	$560	$620	$813	$801	$727	$902	$845	$888	$776	**$743**
$ '000 per Stage	$79	$81	$51	$38	$36	$37	$47	$44	$40	$51	$52	$59	$50	**$46**

(1) Based on field estimates and may be subject to minor adjustments going forward.
(2) Peyto's Montney well is excluded from drilling and completion cost comparison.

Marketing

Commodity Prices

During Q3 2023, Peyto realized a natural gas price after hedging and diversification of $3.33/Mcf, or $2.90/GJ, 18% higher than the average AECO daily price of $2.46/GJ. Peyto's natural gas hedging activity resulted in a realized gain of $0.76/Mcf ($36 million) due to the sharp decline in AECO and Henry Hub natural gas prices.

Condensate and pentanes volumes were sold in Q3 2023 for an average price of $100.52/bbl, which is down 7% from $107.83/bbl in Q3 2022, while Canadian WTI decreased 8% to $119.46/bbl over the same period. Butane and propane volumes were sold in combination at an average price of $32.47/bbl, or 29% of light oil price, down 31% from $46.96/bbl in Q3 2022. NGL hedging losses decreased the combined realized NGL price of $72.64/bbl by $2.38/bbl to $70.25/bbl in the quarter.

Hedging

The Company has been active in hedging future production with financial and physical fixed price contracts to protect a portion of its future revenue from commodity price and foreign exchange volatility. Currently, Peyto has 405 MMcf/d of natural gas hedged at $4.19/mcf for Q4 2023, 459 MMcf/d hedged at $3.91/Mcf for 2024, and 402 MMcf/d hedged at $4.08/Mcf for 2025. Commodity price risk on condensate and pentane production is managed through WTI swaps and collars and Peyto currently has 4,000 bbls/d hedged for Q4 2023, and 2,700 bbls/d hedged for 2024.

Peyto is exposed to volatility in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. The Company protects a portion of its US dollar exposure with foreign exchange forward contracts and has hedged US$55.5 million for Q4 2023 at 1.3565 CAD/USD, US$290 million at 1.3481 CAD/USD for 2024, and $US156 million at 1.3459 CAD/USD for 2025.

The Company's fixed price contracts combined with its diversification to the Cascade power plant, expected to commence in Q1 of 2024, and other premium market hubs in North America allow for revenue security and support continued shareholder returns through dividends and debt reduction. Details of Peyto's ongoing marketing and diversification efforts are available on Peyto's website at https://www.peyto.com/Marketing.aspx

Financial Results

The Company's realized natural gas and NGL sales yielded a combined revenue stream of $3.67/Mcfe before hedging gains of $0.62/Mcfe, resulting in a net sales price of $4.29/Mcfe in the quarter. This net sales price was 12% lower than the $4.88/Mcfe realized in Q3 2022 due to the sharp decline in natural gas prices, partially offset by hedging. Total cash costs of $1.34/Mcfe were 15% lower than the $1.57/Mcfe in Q3 2022 due to lower royalties. Peyto's cash netback (net sales price including other income, third-party sales net of purchases, realized gain on foreign exchange, less total cash costs), was $2.98/Mcfe resulting in a strong 69% operating margin. Historical cash costs and operating margins are shown in the following table:

	2020				2021				2022				2023		
($/Mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Revenue (1)	2.30	1.73	2.15	2.71	3.70	2.92	3.33	4.42	5.25	5.48	5.01	5.74	5.10	4.07	**4.32**
Royalties	0.12	0.06	0.14	0.18	0.29	0.26	0.36	0.53	0.60	0.95	0.70	0.72	0.53	0.18	**0.29**
Op Costs	0.39	0.36	0.32	0.31	0.36	0.35	0.35	0.32	0.41	0.39	0.38	0.41	0.50	0.47	**0.44**
Transportation	0.19	0.17	0.16	0.15	0.17	0.22	0.23	0.23	0.28	0.27	0.26	0.22	0.24	0.29	**0.29**
G&A	0.04	0.04	0.04	0.04	0.04	0.05	0.02	0.02	0.03	0.02	0.02	0.02	0.03	0.05	**0.04**
Interest	0.29	0.33	0.35	0.38	0.38	0.33	0.26	0.22	0.21	0.20	0.21	0.21	0.22	0.22	**0.28**
Cash cost pre-royalty	0.91	0.90	0.87	0.88	0.95	0.95	0.86	0.79	0.93	0.88	0.87	0.86	0.99	1.03	**1.05**
Total Cash Costs[9]	1.03	0.96	1.01	1.06	1.24	1.21	1.22	1.32	1.53	1.83	1.57	1.58	1.52	1.21	**1.34**
Cash Netback[10]	1.27	0.77	1.14	1.65	2.46	1.71	2.11	3.10	3.72	3.65	3.44	4.16	3.58	2.86	**2.98**
Operating Margin	55%	45%	53%	61%	67%	59%	63%	70%	71%	67%	69%	72%	71%	70%	**69%**

(1) Revenue includes other income, net third party sales and realized gains on foreign exchange.

Depletion, depreciation, and amortization charges of $1.37/Mcfe, along with provisions for current tax, deferred tax and stock-based compensation payments resulted in earnings of $1.08/Mcfe, or a 25% profit margin. Dividends to shareholders totaled $1.11/Mcfe.

Activity Update

Since the end of the quarter, Peyto activity has been steady with four rigs running across the core lands in Greater Sundance and Greater Brazeau. Peyto plans to maintain this level of activity for the remainder of the year and into 2024. Since the beginning of October, Peyto has drilled 9 gross (8.4 net) wells and has brought 10 gross (9.6 net) wells on-stream in the Notikewin, Falher and Wilrich at an average lateral length of over 2,000 meters.

On October 17, 2023, Peyto closed the Acquisition of Repsol's remaining Canadian upstream assets, primarily in the Alberta Deep Basin and which are adjacent to the Company's greater Sundance area. Peyto recognizes over 800 drilling locations on these lands which have not been developed and where Peyto has had significant operational success. These opportunities are directly adjacent to many of Peyto's best wells and will receive the added benefit of the latest drilling and completion designs to further improve results. Peyto's activity, after closing the Acquisition, has immediately shifted to begin the development of the newly acquired assets. Already, Peyto has rig released 1 gross (1 net) well, spud another 2 gross (2 net) wells and has plans to drill a total of 7 gross (7 net) wells on the acquired lands before the end of the year. These locations are comprised of high quality Notikewin and Falher targets which will be followed by an additional 40 locations in 2024, making up a significant portion of Peyto's activity next year. The Company's 2023 capital program, which is now expected to total approximately $425 million, continues to deliver strong results. The projected before tax full-cycle internal rate of return on this capital is

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[9] Total Cash costs is a non-GAAP financial ratio. See "non-GAAP and Other Financial Measures" in this news release.
[10] Cash netback is a non-GAAP financial ratio. See "non-GAAP and Other Financial Measures" in this news release and in the Q3 2023 MD&A.

estimated to be approximately 60% based on current strip pricing, year-to-date results, and current drilling plans for the remainder of the year.

2024 Preliminary Budget and Plans

Peyto's preliminary capital budget for 2024 includes a low-risk development program on both the recently acquired Repsol assets and the Company's legacy core properties. Well activity will be dispersed across all core areas but with a larger portion in the Greater Sundance area where the Company now operates 11 gas plants and where aggregate utilization is approximately 56% excluding two temporarily suspended facilities. Peyto will continue to apply its successful ERH drilling design across all lands where applicable and pursue a mix of liquid rich formations across the Deep Basin stratigraphic stack. The Company expects to utilize 4 drilling rigs for this capital program with well-related costs representing approximately 80% of the 2024 budget.

Major facility projects for 2024 include a maintenance turnaround at the recently acquired Edson Gas Plant, modifications at the Oldman and Oldman North plants, and a variety of pipeline and plant optimization projects to take advantage of the significant infrastructure synergies in the Greater Sundance area. Additionally, the Company plans to spend approximately $10 million on closure related activities to proactively reduce abandonment retirement obligations.

While specific details of the 2024 budget are still being finalized, a capital program between $450–$500 million is anticipated and is estimated to add approximately 40,000 to 45,000 boe/d of new production by the end of the year. This volume addition would be more than sufficient to offset the annual forecast decline of 25% on anticipated 2023 exit production of between 126,000 to 128,000 boe/d.

This production addition cost represents an improvement of current capital efficiency due to the increased quality of the largely under-developed opportunities on the Repsol lands. Similar to prior years, there may also be opportunities throughout the year for unplanned acquisitions or infrastructure investments that the Company chooses to pursue. As always, Peyto will ensure any capital plans will be nimble with the ability to react to changes in commodity prices, service costs and the global economic environment.

2023 Sustainability Report

Peyto has released its 2023 Sustainability Report which details the Company's environmental, social, and governance activities for the year ended December 31, 2022. The complete Sustainability report (the "Report") can be found at www.peyto.com. Peyto believes good environmental, social, and governance performance is essential to managing a long-term sustainable business. The Company has reported on environmental and safety performance over the past 8 years through its annual sustainability reports. The Company's core values of efficiency, cost control, and operational excellence naturally lead to less environmental impact, strong social conscience and effective corporate governance. Longstanding relationships with suppliers, regulators, and local communities has allowed Peyto to conduct business safely and responsibly for 25 years.

Key highlights in the report include:

- 63% reduction of methane emissions and flared volumes since 2016.
- Continued reduction in new land disturbances using pad drilling and existing infrastructure.
- Lower fresh water use intensity through high flowback recovery and more effective stimulations.

During 2024, Peyto will re-establish baseline quantities for emissions, land and water use intensity and re-evaluate targets and priorities including the new Repsol assets. Ongoing initiatives include further methane emissions reducing projects and investigation of carbon capture and sequestration options.

Peyto's 25th Anniversary

This past October marks the Company's 25th anniversary. During the past 25 years Peyto has invested $7.6 billion into the development of Alberta's natural gas resource plays, contributing approximately $1 billion to Alberta royalty coffers, generating $3.3 billion in earnings, of which $2.8 billion was returned to shareholders in distributions and dividends. One thousand dollars invested in the Company in October 1998 would have generated a cumulative total return of approximately $500,000 (inclusive of share price appreciation, distributions and dividends). This enduring performance has proven that the Peyto strategy continues to be successful.

Management Changes

Peyto is pleased to announce the promotion of Riley Frame to Chief Operating Officer effective January 1, 2024. Mr. Frame has been with Peyto for 10 years as an exploitation engineer, Manager of Exploitation, and most recently, the VP Engineering. Mr. Frame has been instrumental to the growth of the Company's reserves, enhancing well designs, and integral to managing Peyto's development programs. Mr. Frame has a deep understanding of the Peyto business model and unique culture. Mr. Frame will be responsible for all the operations of the Company.

As part of the Peyto's orderly leadership succession process, Kathy Turgeon is retiring as Chief Financial Officer (CFO) effective March 31, 2024. Ms. Turgeon started with Company in 2004 as Controller and was appointed Vice President of Finance in January 2006 and later appointed CFO in January 2008. The Board would like to thank Ms. Turgeon for her contributions and dedication to the Company over the last 20 years and wish her all the best in retirement. Peyto is pleased to announce that Tavis Carlson, VP Finance will be promoted to the role of CFO effective April 1, 2024. Mr. Carlson joined the Company in March 2022 and has been a key contributor to recent financings including playing a critical role in the recent Repsol acquisition. Prior to Peyto, Mr. Carlson was the VP Finance and CFO at Altura Energy Inc. from 2015 to 2021 and has over 20 years of industry experience.

Peyto's purposeful approach to senior management appointments has always been to promote from within to ensure the culture and core values of the Company are maintained. With the addition of the Repsol assets, the leadership team is focused and excited to embark on a new chapter in Peyto's rich history of operational excellence, profitable growth and shareholder returns.

Outlook

Peyto expects to grow production to over 160,000 boe/d by the end of 2026 through capital investments ranging between $450–$500 million per year and believes this growth plan is well-timed with the expansion of LNG facilities in both the US and Canada. Peyto's low cost, long reserve life assets, combined with a systematic hedging approach provides assurance against market volatility over that period. The Company's diversification to gas markets across North America provides excellent exposure to premium seasonal markets such as Malin in California, Ventura and Chicago in the US mid-west, and to local Alberta power markets which reduces the risk of selling into potential dislocated markets like AECO. The securing of revenues coupled with a disciplined capital program provides confidence for future dividends and continued strengthening of the balance sheet.

Jean-Paul Lachance
President & Chief Executive Officer
November 8, 2023

Cautionary Statements

Forward-Looking Statements

This news release contains certain forward-looking statements or information ("forward-looking statements") as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: macro-economic conditions, including public health concerns and other geopolitical risks, the condition of the global economy and, specifically, the condition of the crude oil and natural gas industry, and the ongoing significant volatility in world markets; other industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the availability of qualified operating or management personnel; fluctuations in other commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: Repsol acquisition synergies including Peyto's ability to optimize production and costs; management's assessment of Peyto's future plans and operations; the 2023 activity plans and capital expenditure program; project economics including internal rate of return; the commencement date of the Cascade Power Plant; Peyto's preliminary budget and capital activity plans for 2024; estimated new production of 40,000 to 45,000 boe/d by the end of 2024; forecasted 2024 base decline of 25%; estimated 2023 production exit rate of 126,000 to 128,000 boe/d; Peyto's 2024 management changes; management's projection to grow production to over 160,000 boe/d by the end of 2026 through capital investments ranging between $450–$500 million per year; and the Company's overall strategy and focus.

The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Peyto's actual financial results, performance or achievement in future periods to differ materially from those expressed in, or implied by, these forward-looking statements, including but not limited to, risks associated with: continued changes and volatility in general global economic conditions including, without limitations, the economic conditions in North America and public health concerns (including the impact of the COVID-19 pandemic); continued fluctuations and volatility in commodity prices, foreign exchange or interest rates; continued stock market volatility; imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; increased competition; the lack of availability of qualified operating or management personnel; environmental risks; changes in laws and regulations including, without limitation, the adoption of new environmental and tax laws and regulations and changes in how they are interpreted and enforced; the results of exploration and development drilling and related activities; and the ability to access sufficient capital from internal and external sources. In addition, to the extent that any forward-looking statements presented herein constitutes future-oriented financial information or financial outlook, as defined by applicable securities legislation, such information has been approved by management of Peyto and has been presented to provide management's expectations used for budgeting and planning purposes and for providing clarity with respect to Peyto's strategic direction based on the assumptions presented herein and readers are cautioned that this information may not be appropriate for any other purpose. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2022 under the heading "Risk Factors" and in Peyto's annual management's discussion and analysis under the heading "Risk Factors".

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Peyto will derive there from. The forward-looking statements, including any future-oriented financial information or financial outlook, contained in this news release speak only as of the date hereof and Peyto does not assume any obligation to publicly update or revise them to reflect new information, future events or circumstances or otherwise, except as may be required pursuant to applicable securities laws.

Barrels of Oil Equivalent

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

Thousand Cubic Feet Equivalent (Mcfe)

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). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

Drilling Locations

This news release discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. In respect of Repsol assets, proved locations and probable locations are derived from a report prepared by GLJ Ltd. that evaluated 100% of the producing reserves associated with the Repsol lands dated effective June 1, 2023 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates based on prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves. In respect of the assets acquired pursuant to the Acquisition, the 800 gross drilling locations identified herein, 215 gross are proved locations, 82 gross are probable locations and 503 gross are unbooked *locations. Unbooked locations have been identified by management as an estimation of Peyto's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that Peyto will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves or production. The drilling locations on which Peyto actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are further away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations, and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves or production.*

Non-GAAP and Other Financial Measures

Throughout this press release, Peyto employs certain measures to analyze financial performance, financial position, and cash flow. These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as net income (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance.

Non-GAAP Financial Measures

Funds from Operations

"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital, 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 September 30		***Nine months Ended September 30***	
($000)	***2023***	*2022*	***2023***	*2022*
Cash flows from operating activities	***139,406***	*205,464*	***471,621***	***611,835***
Change in non-cash working capital	***6,352***	*(14,155)*	***(3,691)***	***(13,633)***
Decommissioning expenditures	***1,026***	*3,579*	***1,026***	***3,579***
Performance based compensation	***-***	*2,500*	***-***	***5,000***
Transaction costs	***1,196***	*-*	***1,196***	***-***
Funds from operations	***147,980***	*197,388*	***470,152***	***606,781***

Free Funds Flow

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

	Three Months Ended September 30		***Nine months Ended September 30***	
($000)	***2023***	*2022*	***2023***	*2022*
Cash flows from operating activities	***139,406***	*205,464*	***471,621***	*611,835*
Change in non-cash working capital	***6,352***	*(14,155)*	***(3,691)***	*(13,633)*
Decommissioning expenditures	***1,026***	*3,579*	***1,026***	*3,579*
Performance based compensation	***-***	*2,500*	***-***	*5,000*
Transaction costs	***1,196***	*-*	***1,196***	***-***
Total capital expenditures	***(93,579)***	*(140,400)*	***(297,701)***	*(391,820)*
Free funds flow	***54,401***	*56,988*	***172,451***	*214,961*

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 September 30		Nine months Ended September 30	
($000)	**2023**	2022	**2023**	2022
Cash flows used in investing activities	**350,780**	140,934	**579,104**	401,612
Change in prepaid capital	**(4,051)**	(6,740)	**(664)**	8,190
Deposit for acquisition	**(63,303)**	-	**(63,303)**	-
Subscription receipt funds in escrow	**(201,307)**	-	**(201,307)**	-
Corporate acquisitions	**-**	-	**-**	(22,220)
Change in non-cash working capital relating to investing activities	**11,460**	6,206	**(16,129)**	4,238
Total capital expenditures	**93,579**	140,400	**297,701**	391,820

Net Debt

"Net debt" is a non-GAAP financial measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current portion of lease obligations 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 September 30, 2023**	As at December 31, 2022	As at September 30, 2022
Long-term debt	**818,080**	759,176	934,828
Current assets	**(481,090)**	(218,550)	(180,885)
Current liabilities	**449,048**	471,858	506,950
Financial derivative instruments - current	**94,213**	(126,081)	(289,149)
Current portion of lease obligation	**(1,300)**	(1,266)	(1,255)
Decommissioning provision - current	**(1,940)**	-	-
Net debt	**877,011**	885,137	970,489

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 net third party sales, 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 (loss) on foreign exchange, divided by production. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.

	Three Months Ended September 30		Nine months Ended September 30	
($/Mcfe)	**2023**	2022	**2023**	2022
Gross Sale Price	**3.67**	6.48	**4.37**	6.66
Realized hedging loss (gain)	**0.62**	(1.60)	**0.09**	(1.48)
Net Sale Price	**4.29**	4.88	**4.46**	5.18
Third party sales net of purchases	**-**	0.07	**-**	0.03
Other income	**0.02**	0.04	**0.03**	0.02
Royalties	**(0.29)**	(0.70)	**(0.33)**	(0.75)
Operating costs	**(0.44)**	(0.38)	**(0.47)**	(0.39)
Transportation	**(0.29)**	(0.26)	**(0.27)**	(0.27)
Field netback	**3.29**	3.65	**3.42**	3.82
Net general and administrative	**(0.04)**	(0.02)	**(0.04)**	(0.02)
Interest and financing	**(0.28)**	(0.21)	**(0.24)**	(0.22)
Realized gain on foreign exchange	**0.01**	0.02	**-**	0.01
Cash netback ($/Mcfe)	**2.98**	3.44	**3.14**	3.59
Cash netback ($/boe)	**17.85**	20.62	**18.85**	21.56

Return on Equity
Peyto calculates ROE, expressed as a percentage, as Earnings divided by Equity. Peyto uses ROE as a measure of long- term financial performance, to measure how effectively Management utilizes the capital it has been provided by shareholders and to demonstrate to shareholders the returns generated over the long term.

Return on Capital Employed
Peyto calculates ROCE, expressed as a percentage, as EBIT divided by Total Assets less Current Liabilities per the Financial Statements. Peyto uses ROCE as a measure of long-term financial performance, to measure how effectively Management utilizes the capital (debt and equity) it has been provided and to demonstrate to shareholders the returns generated over the long term.

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

	Three Months Ended September 30		Nine months Ended September 30	
($000, except total payout ratio)	**2023**	2022	**2023**	2022
Total dividends declared[(1)]	**59,802**	25,686	**175,195**	76,529
Total capital expenditures	**93,579**	140,400	**297,701**	391,820
Total payout	**153,381**	166,086	**472,896**	468,349
Funds from operations	**147,980**	197,388	**470,152**	606,781
Total payout ratio (%)	**104%**	84%	**101%**	77%

(1) Total dividends declared in the three and nine months ended September 30, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts. See note 3 in the financial statements for additional information.

Operating Margin
Operating Margin is a non-GAAP financial ratio defined as funds from operations, before current tax, divided by revenue before royalties but including realized hedging gains/losses and third-party sales net of purchases.

Profit Margin
Profit Margin is a non-GAAP financial ratio defined as net earnings divided by revenue before royalties but including realized hedging gains/losses and third-party sales net of purchases.

Free Cash flow Ratio
Free Cash Flow Ratio is a non-GAAP financial ratio defined as Free Funds Flow for the quarter divided by Funds From Operations for the quarter. Management monitors its Free Cash Flow Ratio to inform its capital allocation decisions.

Total Cash Costs
Total cash costs is a non-GAAP financial ratio defined as the sum of royalties, operating expenses, transportation expenses, G&A and interest, on a per Mcfe basis. Peyto uses total cash costs to assess operating margin and profit margin.

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 November 8, 2023 and should be read in conjunction with the unaudited condensed consolidated financial statements (the "financial statements") as at and for the three and nine months ended September 30, 2023, and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2022, as well as Peyto's Annual Information Form, each of which is available 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, 2022, the Company's total Proved plus Probable reserves were 5.6 trillion cubic feet equivalent (929 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 89 per cent to natural gas and 11 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 (the "Acquisition") of Repsol Canada Energy Partnership, 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, for cash consideration of US$468 million ($636 million) prior to post-closing adjustments that will be finalized in the fourth quarter of 2023. The Acquisition increases Peyto's current production to 123,000 boe/d (86% natural gas, 14% NGLs), adds over 800 high-impact gross drilling locations[1] and includes extensive gas processing and pipeline infrastructure that complement Peyto's legacy assets in the Edson area. Peyto commenced drilling operations on the Repsol lands immediately following close.

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[1] See "*Drilling Locations*" in the advisories section of this MD&A.

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 approximately $201 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 adding a new $174 million two-year amortizing term loan.

QUARTERLY FINANCIAL INFORMATION

	2023			2022				2021
($000 except per share amounts)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Natural gas and NGL sales, net of royalties and including realized hedging gains/losses (1)	**216,456**	209,714	248,766	282,999	239,637	253,992	253,991	208,055
Funds from operations(2)	**147,980**	142,354	179,817	220,815	197,388	205,901	203,492	166,165
Per share – basic (2)	**0.84**	0.81	1.03	1.28	1.15	1.21	1.20	0.99
Per share – diluted (2)	**0.84**	0.81	1.02	1.26	1.13	1.18	1.17	0.96
Earnings	**57,444**	57,415	89,981	113,441	84,861	94,545	97,816	71,718
Per share – basic	**0.33**	0.33	0.51	0.66	0.50	0.56	0.58	0.43
Per share – diluted	**0.33**	0.33	0.51	0.64	0.48	0.54	0.56	0.42
Total dividends declared(3)	**59,802**	57,715	57,678	25,908	25,686	25,485	25,358	16,779
Per share(3)	**0.34**	0.33	0.33	0.15	0.15	0.15	0.15	0.10
Total capital expenditures(2)	**93,579**	82,319	121,802	115,040	140,400	108,089	143,331	108,951
Corporate Acquisition	**-**	-	-	-	-	-	22,220	-
Total payout ratio (%)(2)	**104%**	98%	100%	64%	84%	65%	83%	76%

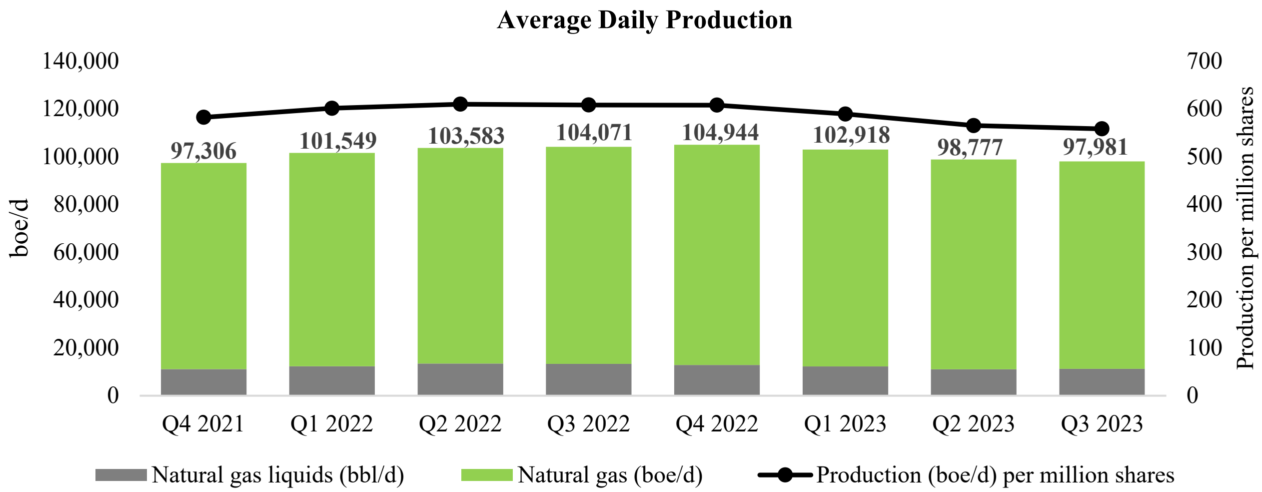
(1) Excludes revenue from sale of natural gas volumes from third parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information
(3) Total dividends declared in the third quarter of 2023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

RESULTS OF OPERATIONS

Production

	Three Months Ended September 30			**Nine Months Ended September 30**		
	2023	2022	% Change	**2023**	2022	% Change
Natural gas (MMcf/d)	**520.5**	544.8	*-4%*	**530.4**	540.5	*-2%*
NGLs (or "Liquids") (bbl/d)	**11,231**	13,263	*-15%*	**11,471**	12,986	*-12%*
Total (boe/d)	**97,981**	104,071	*-6%*	**99,874**	103,077	*-3%*
Total (MMcfe/d)	**587.9**	624.4	*-6%*	**599.2**	618.5	*-3%*

Peyto’s total production in the third quarter of 2023 decreased six per cent to 97,981 boe/d, compared to 104,071 boe/d in the third quarter of 2022. In the nine months ended September 30, 2023, total production decreased to 99,874 boe/d, compared to 103,077 boe/d in the same period of 2022. The production decrease in the three and nine months ended September 30, 2023, is primarily attributable to Peyto’s reduced capital expenditure program year to date compared to the same period of 2022, in response to the decline in commodity prices in early 2023. Additionally, Peyto completed an extended turnaround at the Oldman deep cut gas plant in September that decreased production by approximately 1,000 boe/d in the quarter.



Natural Gas Liquids Production by Component

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Condensate and Pentanes Plus (bbl/d)	**6,628**	7,903	*-16%*	**6,777**	7,707	*-12%*
Other Natural gas liquids (bbl/d)	**4,603**	5,360	*-14%*	**4,694**	5,279	*-11%*
Natural gas liquids (bbl/d)	**11,231**	13,263	*-15%*	**11,471**	12,986	*-12%*
Liquid to gas ratio (bbls/MMcf)	**21.6**	24.3	*-11%*	**21.6**	24.0	*-10%*

The liquid to gas ratio decreased 11 per cent to 21.6 bbls/MMcf in the third quarter of 2023 from 24.3 bbls/MMcf in the third 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 extended turnaround at the Oldman deep cut gas plant in September had a minor impact on the liquids to gas ratio in the quarter.

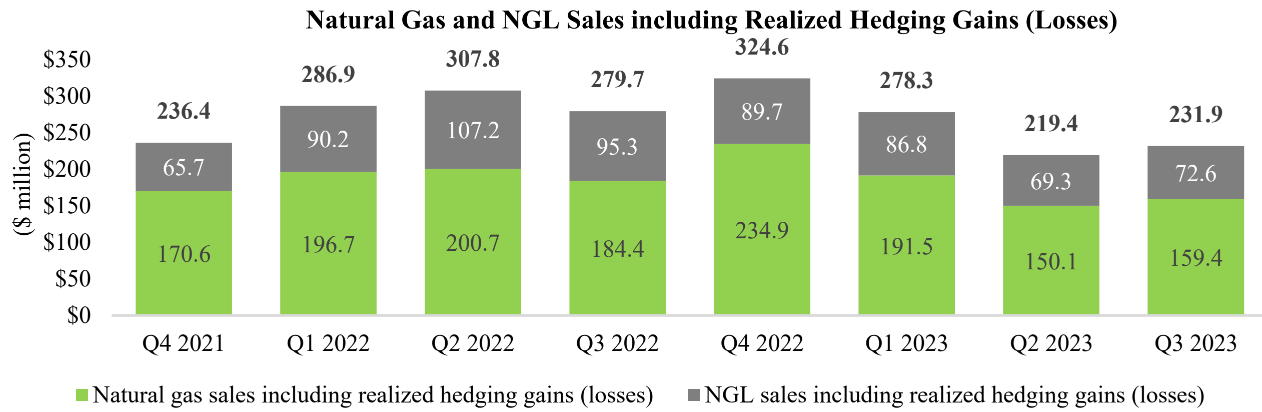
Revenue from Natural Gas and NGL Sales and Realized Hedging Gains (Losses)

	Three Months Ended September 30			Nine Months Ended September 30		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Natural gas sales[(1)]	**123,191**	271,219	*-55%*	**490,580**	790,760	*-38%*
Realized hedging gains (losses) - gas	**36,159**	(85,823)	*-142%*	**10,428**	(208,985)	*-105%*
Natural gas sales including realized hedging gains (losses)	**159,350**	184,396	*-14%*	**501,008**	581,775	*-14%*
NGL sales	**75,050**	101,567	*-26%*	**224,812**	333,246	*-33%*
Realized hedging gains (losses) - NGLs	**(2,462)**	(6,302)	*-61%*	**3,859**	(40,636)	*-109%*
NGL sales including realized hedging gains (losses)	**72,588**	95,265	*-24%*	**228,671**	292,610	*-22%*
Natural gas and NGL sales	**198,241**	371,786	*-47%*	**715,392**	1,124,006	*-36%*
Realized hedging gains (losses)	**33,697**	(92,125)	*-137%*	**14,287**	(249,621)	*-106%*
Natural gas and NGL sales including realized hedging gains (losses)	**231,938**	279,661	*-17%*	**729,679**	874,385	*-17%*

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

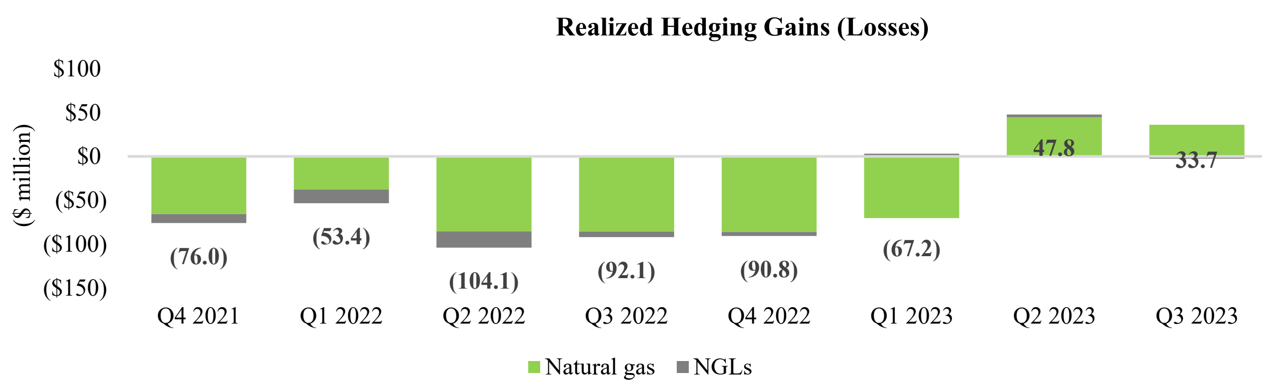
In the third quarter of 2023, natural gas and NGL sales including realized hedging gains (losses) decreased 17 per cent to $231.9 million from $279.7 million in the third quarter of 2022. For the nine months ended September 30, 2023, natural gas and NGL sales including realized hedging gains (losses) decreased 17 per cent to $729.7 million from $874.4 million in the same period of 2022. The decreases for the three and nine months ended September 30, 2023 were a result of the sharp decline in commodity prices in 2023, coupled with lower 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 $150 million.

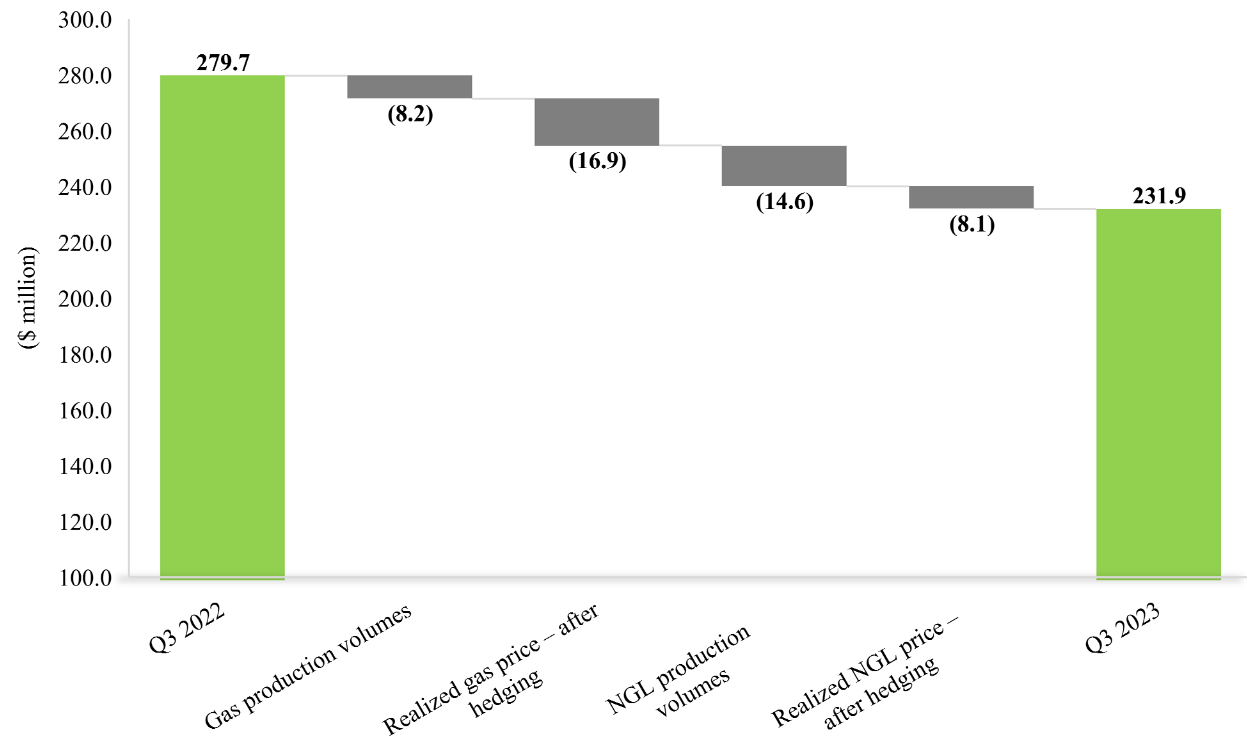
Realized hedging gains (losses) over the past eight quarters are summarized below.



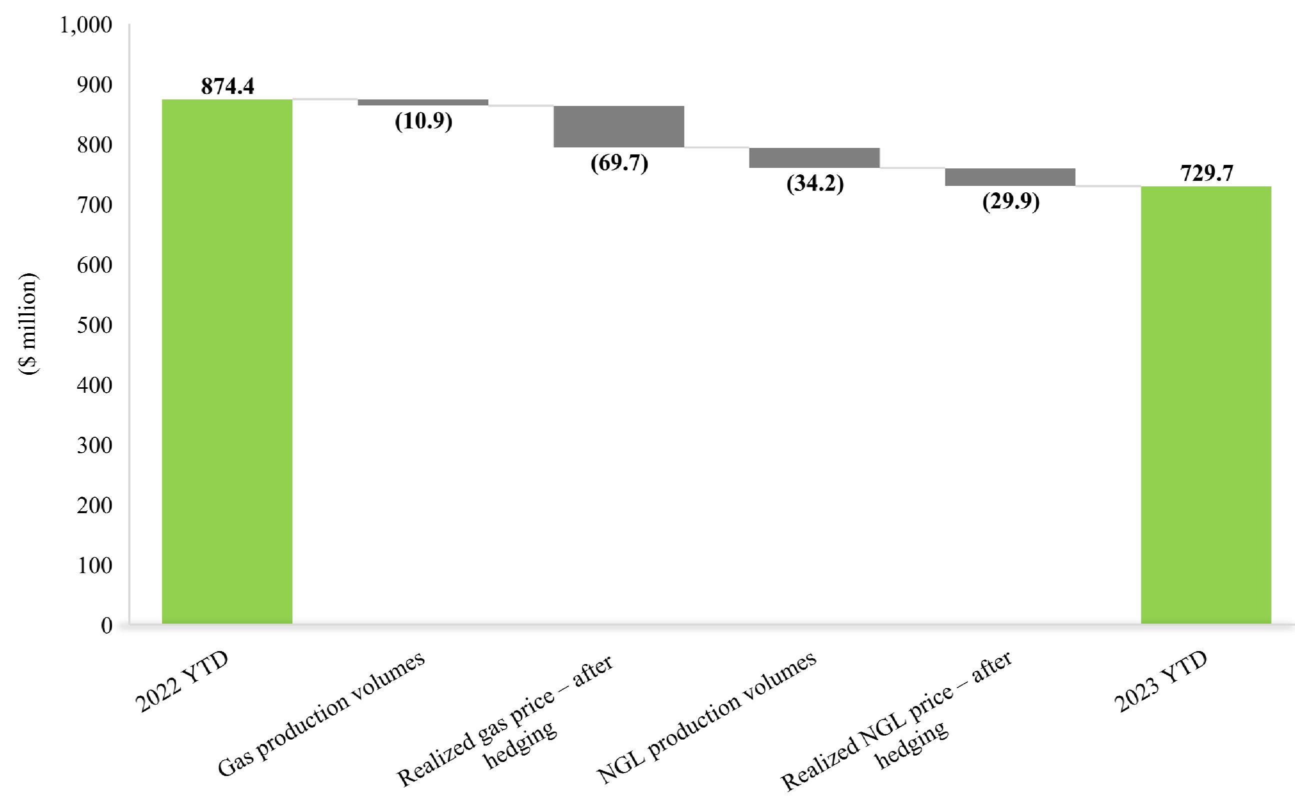
The change in revenue from natural gas and NGL sales including realized hedging losses in the three and nine months ended September 30, 2023 from the same periods of 2022, is detailed in the following table and charts:

	Three Months Ended September 30			**Nine Months Ended September 30**		
	2023	2022	**$ million**	2023	2022	**$ million**
2022			**279.7**			**874.4**
change due to:						
Natural gas						
Volume (MMcf)	47,886	50,126	**(8.2)**	144,804	147,569	**(10.9)**
Price ($/Mcf)	3.33	3.68	**(16.9)**	3.46	3.94	**(69.7)**
NGL						
Volume (Mbbl)	1,033	1,220	**(14.6)**	3,132	3,545	**(34.2)**
Price ($/bbl)	70.25	78.07	**(8.1)**	73.02	82.54	**(29.9)**
2023			**231.9**			**729.7**

Change in Natural Gas and NGL Sales, including Realized Hedging Gains and Losses
Three Months Ended September 30



Change in Natural Gas and NGL Sales, including Realized Hedging Gains and Losses
Nine Months Ended September 30



Benchmark Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
AECO 7A monthly ($/GJ)	**2.26**	5.50	*-59%*	**2.87**	5.27	*-46%*
AECO 5A daily ($/GJ)	**2.46**	3.95	*-38%*	**2.61**	5.10	*-49%*
Henry Hub daily (US$/MMBtu)	**2.58**	7.96	*-68%*	**2.46**	6.65	*-63%*
Emerson2 (US$/MMBtu)	**2.17**	6.22	*-65%*	**2.26**	5.79	*-61%*
Malin monthly (US$/MMBtu)	**3.50**	7.96	*-56%*	**8.48**	6.82	*24%*
Dawn (US$/MMBtu)	**2.17**	7.37	*-71%*	**2.35**	6.33	*-63%*
Ventura daily (US$/MMBtu)	**2.25**	7.26	*-69%*	**2.31**	6.26	*-63%*
Canadian WTI ($/bbl)	**110.36**	119.46	*-8%*	**104.12**	125.77	*-17%*
Conway C3 (US$/bbl)	**27.97**	44.74	*-37%*	**29.57**	49.97	*-41%*
Exchange rate (CDN/USD)	**1.341**	1.306	*3%*	**1.345**	1.283	*5%*

Commodity Prices

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Condensate and Pentanes Plus(1) ($/bbl)	**100.52**	107.83	*-7%*	**98.27**	120.78	*-19%*
Other Natural gas liquids(1) ($/bbl)	**32.47**	46.96	*-31%*	**33.56**	54.92	*-39%*
Realized NGL price – before hedging ($/bbl)	**72.64**	83.24	*-13%*	**71.79**	94.02	*-24%*
Realized hedging gain (loss) ($/bbl)	**(2.38)**	(5.17)	*-54%*	**1.23**	(11.46)	*-111%*
Realized NGL price – after hedging ($/bbl)	**70.25**	78.07	*-10%*	**73.02**	82.54	*-12%*
Natural gas(2) ($/Mcf)	**3.28**	6.18	*-47%*	**4.06**	6.11	*-34%*
Diversification activities ($/Mcf)	**(0.71)**	(0.79)	*-10%*	**(0.67)**	(0.75)	*-11%*
Realized natural gas price ($/Mcf)	**2.57**	5.39	*-52%*	**3.39**	5.36	*-37%*
Realized hedging gain (loss) ($/Mcf)	**0.76**	(1.71)	*-144%*	**0.07**	(1.42)	*-105%*
Realized natural gas price – after hedging and diversification ($/Mcf)	**3.33**	3.68	*-10%*	**3.46**	3.94	*-12%*
Total realized hedging gain (loss) ($/Mcfe)	**0.62**	(1.60)	*-139%*	**0.09**	(1.48)	*-106%*
Total realized hedging gain (loss) ($/boe)	**3.74**	(9.62)	*-139%*	**0.52**	(8.87)	*-106%*

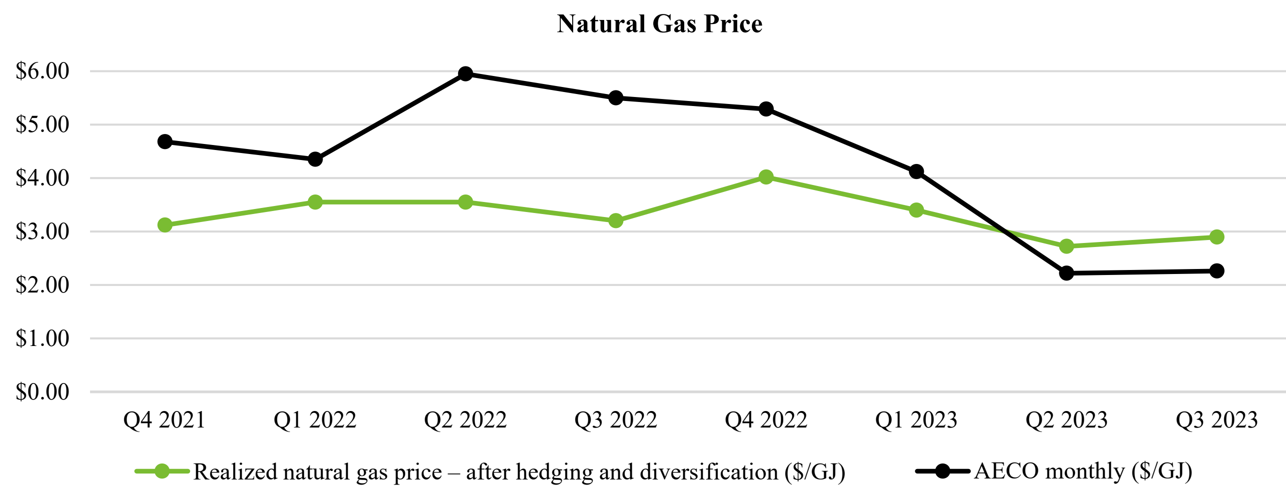
(1) Condensate, pentanes plus and other liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation
(2) Excludes revenue from sale of natural gas volumes from third parties but includes fixed price physical contracts

Peyto's realized natural gas price, before hedging, averaged $2.57/Mcf during the third quarter of 2023, a decrease of 52 per cent from $5.39/Mcf in the third quarter of 2022. In the nine months ended September 30, 2023, Peyto's realized natural gas price, before hedging, decreased 37 per cent to $3.39/Mcf from $5.36/Mcf in the same period of 2022. Decreases in Peyto's natural gas price in the three and nine months ended September 30, 2023, were driven by the sharp decreases in benchmark natural gas prices over the past year, partially offset by realized hedging gains in the three and months ended September 30, 2023.

The Company's NGL price, before hedging, averaged $72.64/bbl, in the third quarter of 2023, a decrease of 10 per cent from $78.07/bbl a year earlier. In the nine months ended September 30, 2023, Peyto's NGL price, before hedging, decreased 24 per cent to $71.79/bbl from $94.02/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.



Other Income

	Three Months Ended September 30			Nine Months Ended September 30		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Other Income	**807**	2,215	*-64%*	**6,745**	2,982	*126%*

In the three and nine months ended September 30, 2023, other income totaled $0.8 million and $6.7 million, respectively, compared to $2.2 million and $2.9 million in the same periods of 2022. The increase in the nine months ended September 30, 2023, compared to the same period of 2022, is due to additional marketing income related to selling excess transportation service.

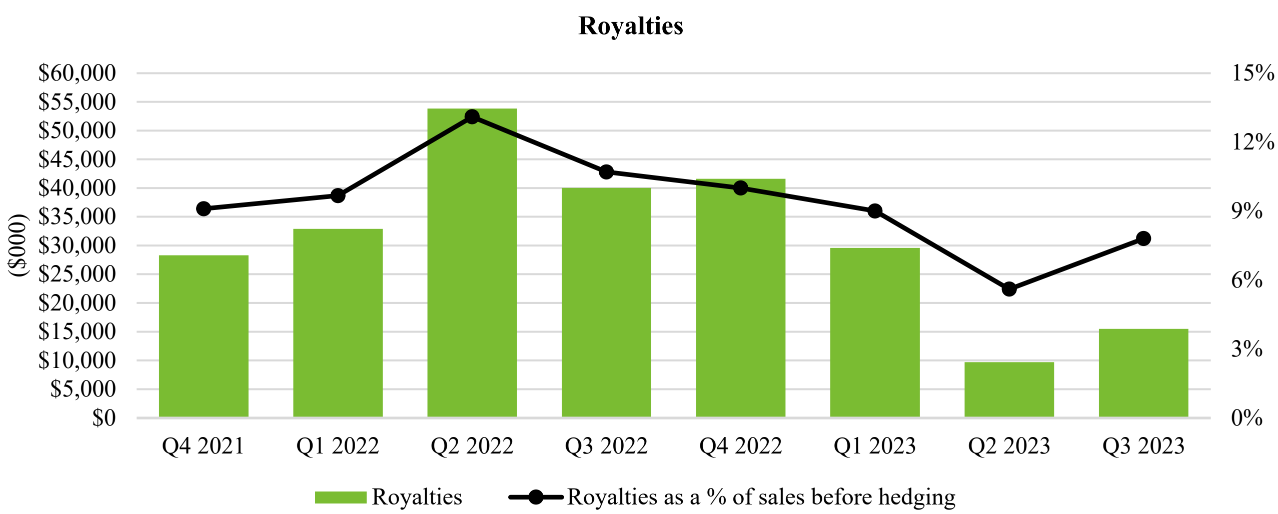
Royalties

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 5 per cent initial royalty rate.

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Royalties ($000)	**15,482**	40,024	*-61%*	**54,743**	126,764	*-57%*
per cent of sales before hedging	**7.8**	10.8	*-28%*	**7.7**	11.3	*-32%*
$/Mcfe	**0.29**	0.70	*-59%*	**0.33**	0.75	*-56%*
$/boe	**1.72**	4.18	*-59%*	**2.01**	4.50	*-55%*

For the third quarter of 2023, royalties decreased to $0.29/Mcfe or 7.8 per cent of Peyto's natural gas and NGL sales, compared to $0.70/Mcfe or 10.8 per cent in the same period of 2022. In the nine months ended September 30, 2023, royalties decreased to $0.33/Mcfe or 7.7 per cent of Peyto's natural gas and NGL sales, compared to $0.75/Mcfe or 11.3 per cent in the same period of 2022. The decreased royalties were due to declines in AECO and WTI prices coupled with higher gas cost allowance credits in the nine months ended September 30, 2023, compared to the same periods of 2022.

In its 24 year history, Peyto has invested $7.6 billion in capital projects, found and developed 4.9 TCFe of natural gas reserves and paid over $1.1 billion in royalties.



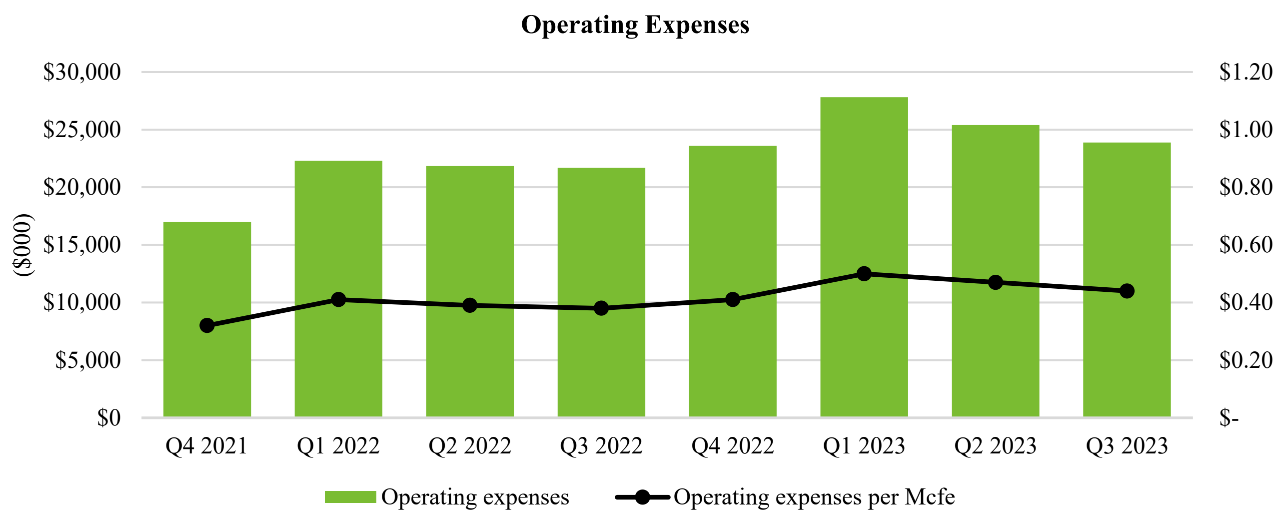
Operating Costs & Transportation

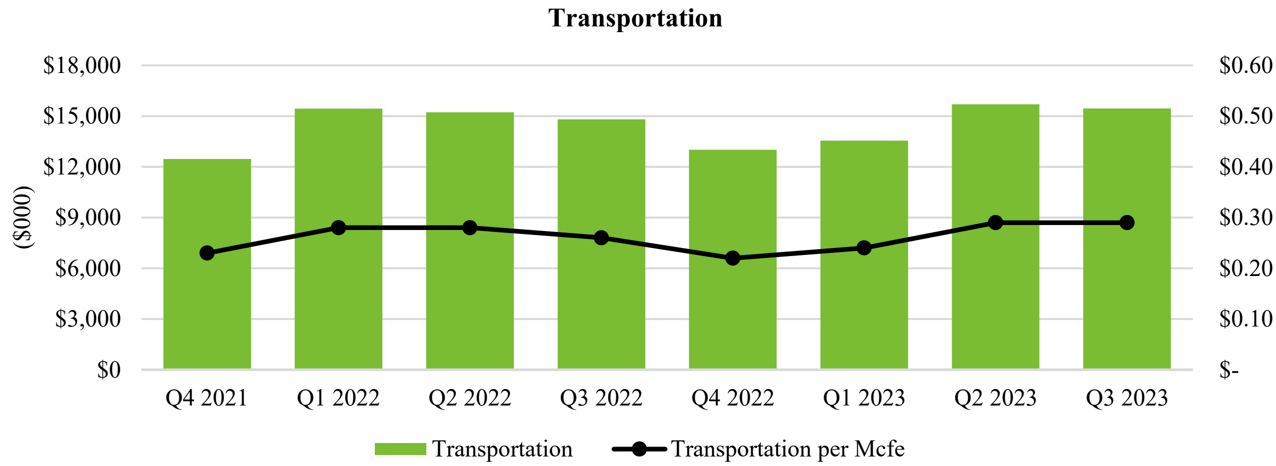
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Payments to Government ($000)	**6,012**	4,989	*21%*	**17,739**	15,751	*13%*
Other expenses ($000)	**17,876**	16,694	*7%*	**59,353**	50,066	*19%*
Operating costs ($000)	**23,889**	21,683	*10%*	**77,092**	65,817	*17%*
$/Mcfe	**0.44**	0.38	*16%*	**0.47**	0.39	*21%*
$/boe	**2.65**	2.26	*17%*	**2.83**	2.34	*21%*
Transportation ($000)	**15,449**	14,807	*4%*	**44,701**	45,301	*-1%*
$/Mcfe	**0.29**	0.26	*12%*	**0.27**	0.27	-
$/boe	**1.71**	1.55	*10%*	**1.64**	1.61	*2%*

For the three and nine months ended September 30, 2023, operating expenses were $23.9 million and $77.1 million, respectively, compared to $21.7 million and $65.8 million in the same periods in 2022. On a unit-of-production basis, operating costs increased 16 per cent to $0.44/Mcfe in the third quarter of 2023 from $0.38/Mcfe in the same period of 2022. In the nine months ended September 30, 2023, operating costs increased 21 per cent to $0.47/Mcfe compared to $0.39/Mcfe in the same period of 2022. The increases in the three and nine months ended September 30, 2023 were due to inflationary cost pressures on plant and well maintenance, insurance, power, trucking, fuels, and lubricants compared to the same periods in 2022. Approximately 20 to 30 per cent of operating expenses are related to government fees, taxes, carbon taxes and levies. Peyto focuses on being the industry leader in operating costs and strives for cost reductions on a continuous basis.

Transportation expense increased 12 per cent on a unit-of production basis to $0.29/Mcfe in the third quarter 2023 from $0.26/Mcfe in the third quarter 2022. In the nine months ended September 30, 2023, transportation expense was $0.27/Mcfe, consistent with the same period of 2022. The increased transportation expense in the quarter 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.





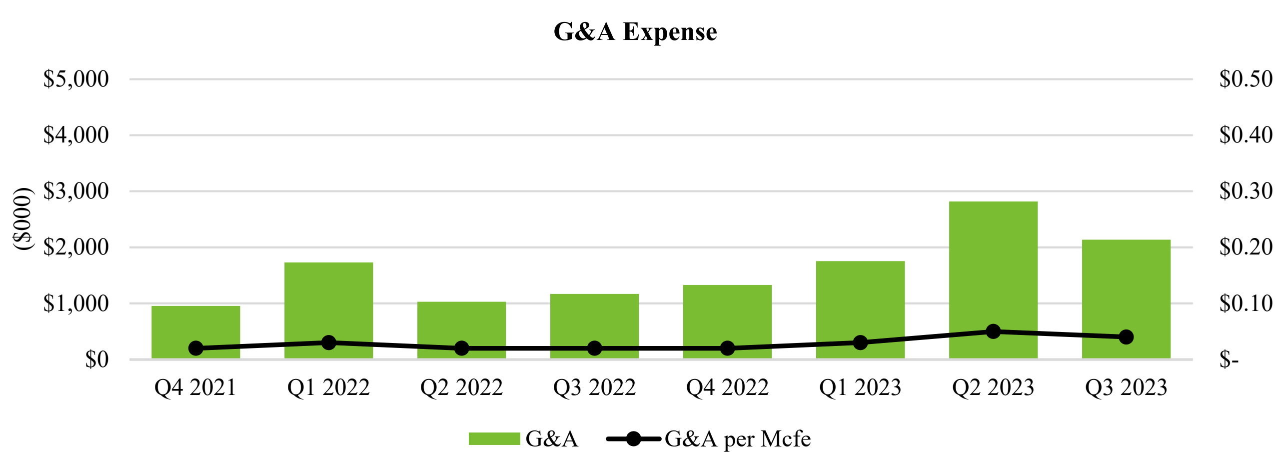
General and Administrative ("G&A") Expenses

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Gross G&A expenses ($000)	**4,835**	4,589	*5%*	**14,827**	14,381	*3%*
Overhead recoveries ($000)	**(2,700)**	(3,422)	*-21%*	**(8,121)**	(10,455)	*-22%*
G&A expenses ($000)	**2,135**	1,167	*83%*	**6,706**	3,926	*71%*
$/Mcfe	**0.04**	0.02	*100%*	**0.04**	0.02	*100%*
$/boe	**0.24**	0.12	*100%*	**0.25**	0.14	*79%*

For the third quarter of 2023, gross G&A expenses increased five per cent to $4.8 million compared to $4.6 million for the same quarter of 2022, due to increased employment and consultant costs. In the nine months ended September 30, 2023, gross G&A expenses increased three per cent to $14.8 million compared to $14.4 million for the same period of 2022.

Gross G&A expenses averaged $0.09/Mcfe before overhead recoveries of $0.05/Mcfe for G&A expenses of $0.04/Mcfe in the third quarter of 2023 ($0.08/Mcfe before overhead recoveries of $0.06/Mcfe for G&A expenses of $0.02/Mcfe in the third quarter of 2022).

In the three and nine months ended September 30, 2023, overhead recoveries decreased 21 per cent and 22 per cent, respectively, compared to the same periods of 2022. The decreased overhead recoveries is 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 accrued $nil for performance based compensation expense in the three and nine months ended September 30, 2023 (September 30, 2022 - $2.5 million and $5.0 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 9.6 million non-vested stock options (5.5 per cent of the total number of common shares outstanding) and 0.2 million vested DSU's (0.1 per cent of the total number of common shares outstanding). 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 and nine months ended September 30, 2023 were $3.9 million and $10.7 million, respectively (September 30, 2022 - $2.9 million and $7.8 million).

Stock Option Plan

	Number of Options	**Weighted average exercise price ($)**
Balance, December 31, 2022	9,940,868	9.86
Stock options granted	3,984,300	12.45
Exercised	(2,495,030)	6.09
Forfeited	(1,423,163)	10.35
Expired	(397,077)	14.22
Balance, September 30, 2023	**9,609,898**	**11.66**

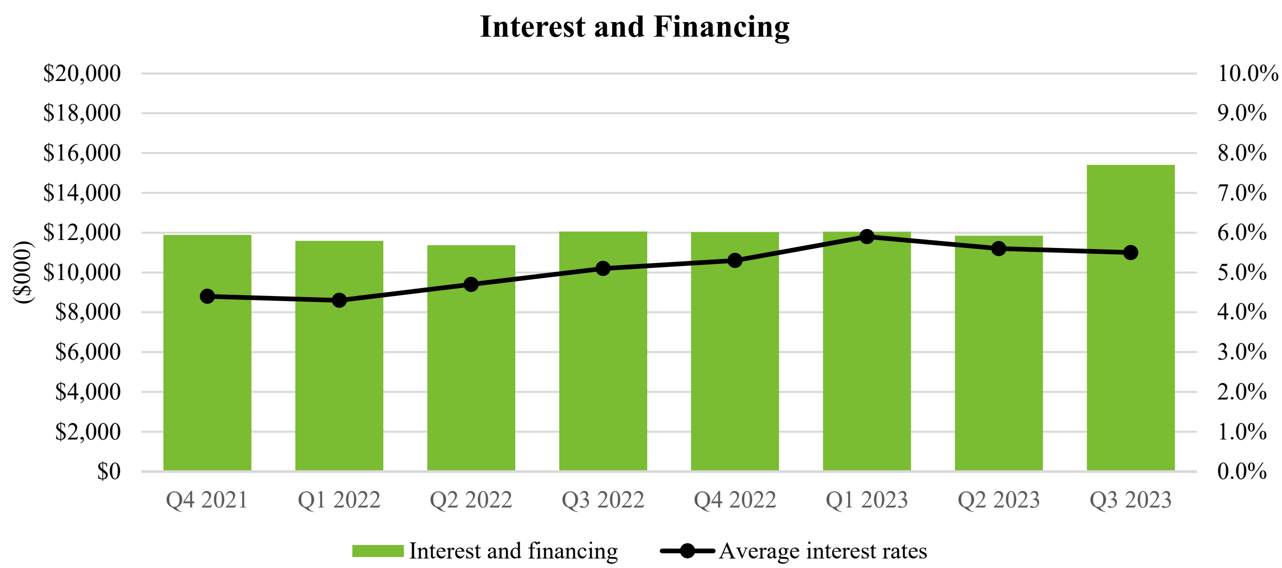
Deferred Share Units

	Number of DSUs
Balance, December 31, 2022	217,236
DSU's granted	48,043
DSU's settled	(42,994)
Balance September 30, 2023	**222,285**

Finance Expense

	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	**2023**	2022	% Change
Accretion of decommissioning provision ($000)	**1,644**	1,632	*1%*	**3,893**	4,473	*-13%*
Financing costs ($000)	**3,178**	-		**3,178**	-	
Interest ($000)	**12,229**	12,054	*1%*	**36,099**	35,011	*3%*
Interest and financing costs	**15,407**	12,054	*28%*	**39,277**	35,011	*12%*
Finance expense	**17,051**	13,686	*25%*	**43,170**	39,484	*9%*
Interest and financing $/Mcfe	**0.28**	0.21	*33%*	**0.24**	0.22	*9%*
Interest and financing $/boe	**1.71**	1.26	*36%*	**1.44**	1.24	*16%*
Average interest rate	**5.5%**	5.1%	*8%*	**5.7%**	4.7%	*21%*
Average Bank of Canada rate	**4.97%**	2.55%	*95%*	**4.66%**	1.33%	*250%*

For the three and nine months ended September 30, 2023, finance expense increased to $17.1 million and $43.2 million, respectively, compared to $13.7 million and $39.5 million for the same periods of 2022. The increase is mainly due to $3.2 million of financing costs ($0.05/Mcfe) in the quarter associated with acquisition financing fees incurred up to September 30, 2023. Peyto's average interest rate increased to 5.5 per cent and 5.7 per cent in the three and nine months ended September 30, 2023, respectively compared to 5.1 per cent and 4.7 per cent in the same periods of 2022. The increase in both periods is due to higher benchmark interest rates, partially offset by lower average debt outstanding on the Company's revolving credit facility and a gain on Peyto's interest rate swaps. See "Interest Rate Contracts" in the Marketing and Risk Management section of this MD&A for additional information on the interest rate hedge.



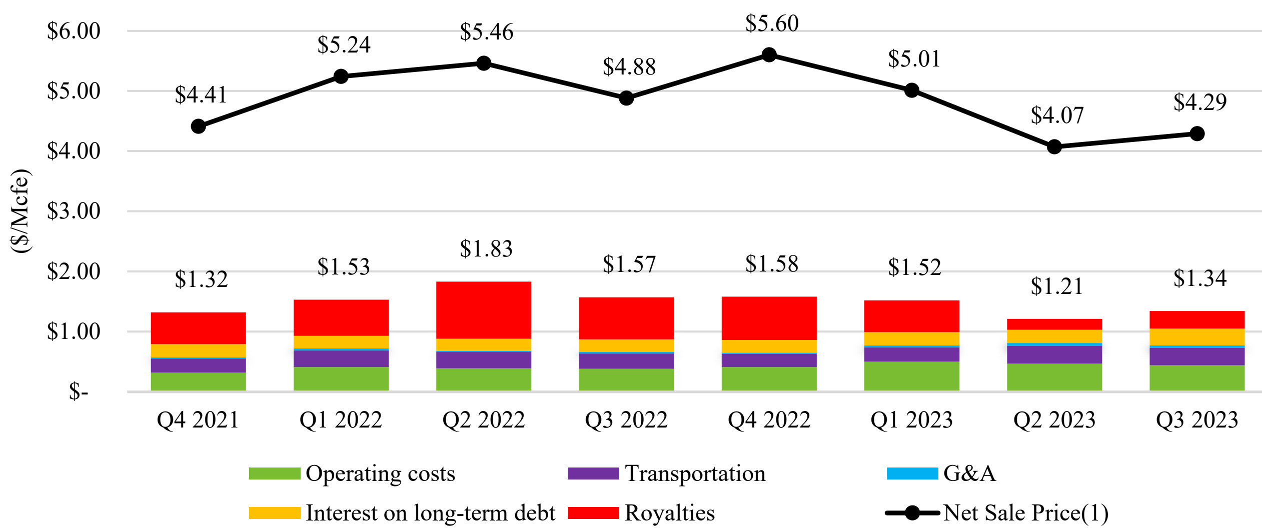
Netbacks

($/Mcfe)	Three Months Ended September 30 **2023**	2022	% Change	Nine Months Ended September 30 **2023**	2022	% Change
Gross Sale Price	**3.67**	6.48	*-43%*	**4.37**	6.66	*-34%*
Realized hedging gain (loss)	**0.62**	(1.60)	*-139%*	**0.09**	(1.48)	*-106%*
Net Sale Price	**4.29**	4.88	*-12%*	**4.46**	5.18	*-14%*
Third party sales net of purchases	**-**	0.07	*-100%*	**-**	0.03	*-100%*
Other income	**0.02**	0.04	*-50%*	**0.03**	0.02	*50%*
Royalties	**(0.29)**	(0.70)	*-59%*	**(0.33)**	(0.75)	*-56%*
Operating costs	**(0.44)**	(0.38)	*16%*	**(0.47)**	(0.39)	*21%*
Transportation	**(0.29)**	(0.26)	*12%*	**(0.27)**	(0.27)	-
Field netback[(1)]	**3.29**	3.65	*-10%*	**3.42**	3.82	*-10%*
G&A	**(0.04)**	(0.02)	*100%*	**(0.04)**	(0.02)	*100%*
Interest and financing	**(0.28)**	(0.21)	*33%*	**(0.24)**	(0.22)	*9%*
Realized gain on foreign exchange	**0.01**	0.02	*-50%*	**-**	0.01	*-100%*
Cash netback[(1)] ($/Mcfe)	**2.98**	3.44	*-13%*	**3.14**	3.59	*-13%*
Cash netback[(1)] ($/boe)	**17.85**	20.62	*-13%*	**18.85**	21.56	*-13%*

(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.

Net Sales Price and Cash Costs



(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 $74.2 million ($1.37/Mcfe) in the third quarter of 2023 compared to $75.9 million ($1.32/Mcfe) in the third quarter of 2022. In the nine months ended September 30, 2023, depletion and depreciation totaled $226.0 million ($1.38/Mcfe) compared to $223.0 million ($1.32/Mcfe) in the same period of 2022. The increase in depletion and depreciation is due to a marginally higher depletion rate from increased exploration and development costs associated with cost inflation over the same period of 2022.

Income Taxes

Peyto recorded current income tax expense of $12.9 million and $43.7 million for the three and nine months ended September 30, 2023, respectively, compared to $nil for the same periods in 2022. For the three and nine months ended September 30, 2023, deferred income tax expense decreased to $6.8 million and $22.0 million, respectively, compared to $26.2 million and $85.1 million for the same periods in 2022.

The increase in current income tax and decrease in deferred income tax in the three and nine months ended September 30, 2023 is due to lower income tax pools available to claim compared to the same periods in 2022.

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 and nine months ended September 30, 2023, Peyto recorded realized hedging gains on commodity contracts of $33.1 million and $13.0 million, respectively, as compared to losses of $92.1 million and $249.6 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)
Q4 2023	Fixed Price	154,348	$3.82
Q1 2024	Fixed Price	137,500	$4.18
Q2 2024	Fixed Price	140,000	$2.90
Q3 2024	Fixed Price	140,000	$2.90
Q4 2024	Fixed Price	176,467	$3.71
Q1 2025	Fixed Price	195,000	$4.00
Q2 2025	Fixed Price	260,000	$3.34
Q3 2025	Fixed Price	260,000	$3.34
Q4 2025	Fixed Price	233,478	$3.85
Q1 2026	Fixed Price	220,000	$4.16
Q2 2026	Fixed Price	115,000	$3.33
Q3 2026	Fixed Price	115,000	$3.33
Q4 2026	Fixed Price	38,750	$3.33

Natural Gas Period Hedged – AECO Daily Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
Q4 2023	Fixed Price	20,217	$2.42
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)
Q4 2023	Fixed Price	226,141	$3.86
Q1 2024	Fixed Price	275,000	$4.11
Q2 2024	Fixed Price	115,000	$3.85
Q3 2024	Fixed Price	115,000	$3.85
Q4 2024	Fixed Price	148,152	$3.97
Q1 2025	Fixed Price	165,000	$4.01
Q2 2025	Fixed Price	100,000	$3.86
Q3 2025	Fixed Price	100,000	$3.86
Q4 2025	Fixed Price	43,641	$4.00
Q1 2026	Fixed Price	15,000	$4.51

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
Q4 2023	Fixed Price	3,300	$105.57
Q1 2024	Fixed Price	2,400	$102.71
Q2 2024	Fixed Price	1,600	$100.76
Q3 2024	Fixed Price	1,200	$102.91
Q4 2024	Fixed Price	900	$103.15

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI USD/bbl)
Q4 2023	Fixed Price	400	$70.80
Q1 2024	Fixed Price	200	$70.15

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Put - Call (WTI CAD/bbl)
Q4 2023	Collar	500	$90.00–$116.25
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 September 30, 2023, Peyto had committed to the future sale of 216,427,500 gigajoules (GJ) of natural gas at an average price of $3.54 per GJ or $4.08 per Mcf, 119,020,000 MMBtu at an average price of $3.95 USD per MMBtu, 860,800 barrels of crude at an average price of $103.46 CAD per bbl, 55,000 barrels of crude at an average price of $70.58 USD per bbl and 183,000 barrels of crude with an average collar of $88.74–$105.43 CAD per barrel. Had these contracts closed on September 30, 2023, Peyto would have realized a gain in the amount of $117.9 million. Total hedged volumes represent approximately 12 per cent of Peyto's December 31, 2022 Proved plus Probable Developed reserves.

Subsequent to September 30, 2023, Peyto entered into the following hedging contracts:

Natural Gas Period Hedged – AECO Monthly Index	Type	Daily Volume (Gj)	Average Price (AECO CAD/GJ)
November 1, 2023 to March 31, 2024	Fixed Price	37,500	$2.91
April 1, 2024 to October 31, 2024	Fixed Price	30,000	$2.50
November 1, 2024 to March 31, 2025	Fixed Price	70,000	$3.68
April 1, 2025 to October 31, 2025	Fixed Price	30,000	$3.30
November 1, 2025 to March 31, 2026	Fixed Price	10,000	$4.20
April 1, 2026 to October 31, 2026	Fixed Price	25,000	$3.42

Natural Gas Period Hedged – NYMEX	Type	Daily Volume (MMBtu)	Average Price (NYMEX USD/MMBtu)
April 1, 2024 to October 31, 2024	Fixed Price	90,000	$3.29
November 1, 2024 to March 31, 2025	Fixed Price	45,000	$4.11
April 1, 2025 to October 31, 2025	Fixed Price	85,000	$3.80

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
October 1, 2023 to December 31, 2023	Fixed Price	300	$112.35
January 1, 2024 to March 31, 2024	Fixed Price	900	$110.68
April 1, 2024 to June 30, 2024	Fixed Price	900	$109.11
July 1, 2024 to September 30, 2024	Fixed Price	800	$106.23
October 1, 2024 to December 31, 2024	Fixed Price	300	$104.87
January 1, 2025 to March 31, 2025	Fixed Price	200	$104.60

Foreign Exchange Forward Contracts

During the three and nine months ended September 30, 2023, Peyto recorded realized hedging gains on foreign exchange forward contracts of $0.6 million and $1.3 million (2022 - $nil), respectively. Peyto has the following foreign exchange forward contracts in place at September 30, 2023. Had these contracts settled on September 30, 2023, Peyto would have realized a loss in the amount of $6.8 million.

Average Rate forward	Amount (USD)	Rate (CAD/USD)
Purchased USD Contracts		
Q4 2023	$495.0 million	1.3594
Sold USD Contracts		
Q4 2023	$47.5 million	1.3521
Q1 2024	$76.5 million	1.3420
Q2 2024	$56.5 million	1.3462
Q3 2024	$48.0 million	1.3360
Q4 2024	$43.0 million	1.3314
Q1 2025	$39.0 million	1.3321
Q2 2025	$25.0 million	1.3252
Q3 2025	$18.0 million	1.3252
Q4 2025	$12.0 million	1.3252

Subsequent to September 30, 2023, Peyto entered into the following foreign exchange forward contracts:

Average Rate forward (Sold USD Contracts)	Amount (USD)	Rate (CAD/USD)
Q4 2023	$8 million	1.3830
Q1 2024	$12 million	1.3830
Q2 2024	$18 million	1.3775
Q3 2024	$21 million	1.3759
Q4 2024	$15 million	1.3704
Q1 2025	$15 million	1.3650
Q2 2025	$17 million	1.3662
Q3 2025	$18 million	1.3667
Q4 2025	$12 million	1.3667

Interest Rate Contracts

During the three and nine months ended September 30, 2023, Peyto recorded realized hedging gains on interest rate swaps of $0.2 million and $0.4 million (2022 - $nil), respectively, which was netted against interest expense. Peyto has the following interest rate swap contracts in place at September 30, 2023. Had these contracts settled on September 30, 2023, Peyto would have realized a gain in the amount of $1.8 million.

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

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 September 30, 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 $1.2 million per quarter. Average debt outstanding for the quarter was $880 million (including $419 million fixed rate debt).

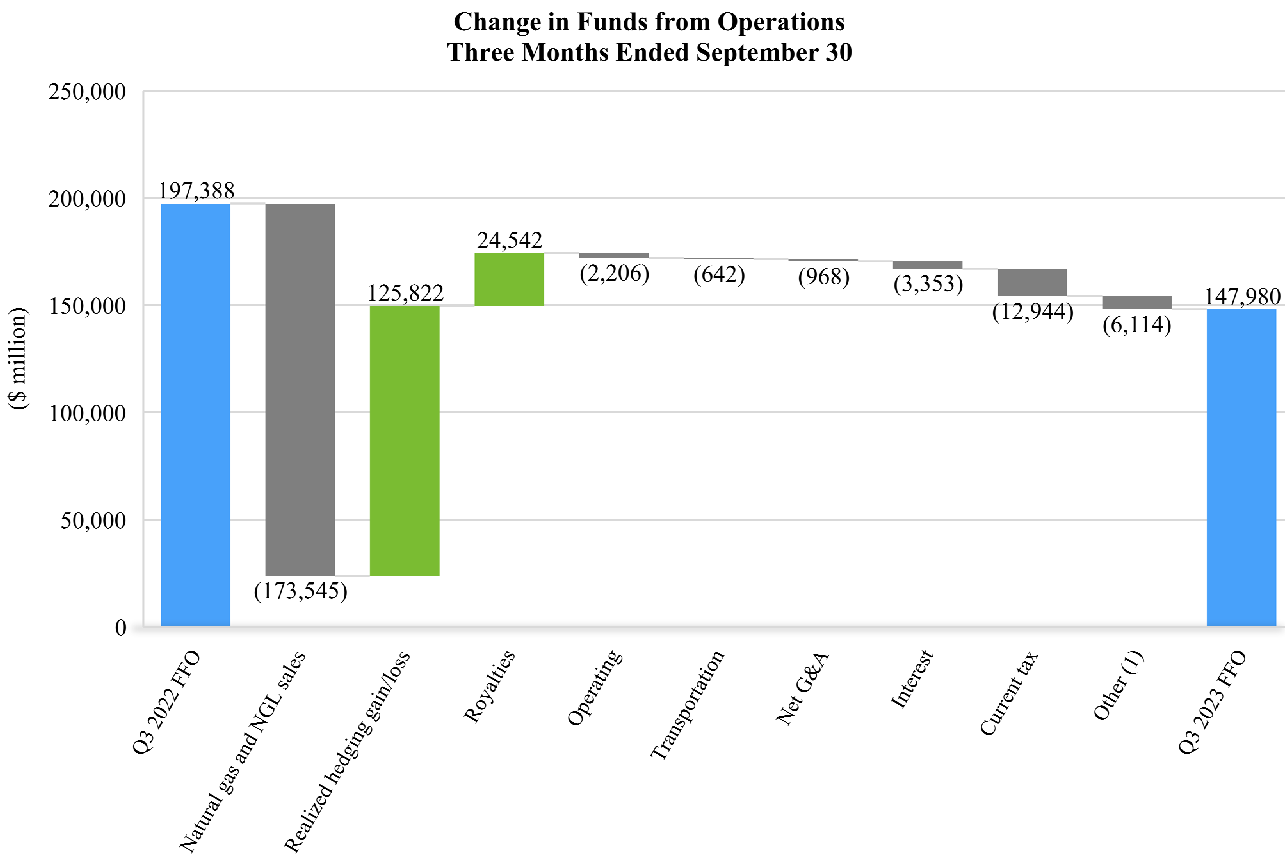
Cash Flow from Operating Activities, Funds from Operations and Earnings

	Three Months Ended September 30			**Nine Months Ended September 30**		
($000, except per share amounts)	**2023**	2022	% Change	**2023**	2022	% Change
Cash Flow from Operating Activities	**139,406**	205,464	*-32%*	**471,621**	611,835	*-23%*
Funds from Operations[1]	**147,980**	197,388	*-25%*	**470,152**	606,781	*-23%*
Funds from operations per share[1] – basic	**0.84**	1.15	*-27%*	**2.69**	3.58	*-25%*
Funds from operations per share[1] – diluted	**0.84**	1.13	*-26%*	**2.66**	3.48	*-24%*
Free Funds Flow[1]	**54,401**	56,988	*-5%*	**172,451**	214,961	*-20%*
Earnings	**57,444**	84,861	*-32%*	**204,840**	277,222	*-26%*
Earnings per share – basic	**0.33**	0.50	*-34%*	**1.17**	1.63	*-28%*
Earnings per share – diluted	**0.33**	0.48	*-31%*	**1.16**	1.59	*-27%*

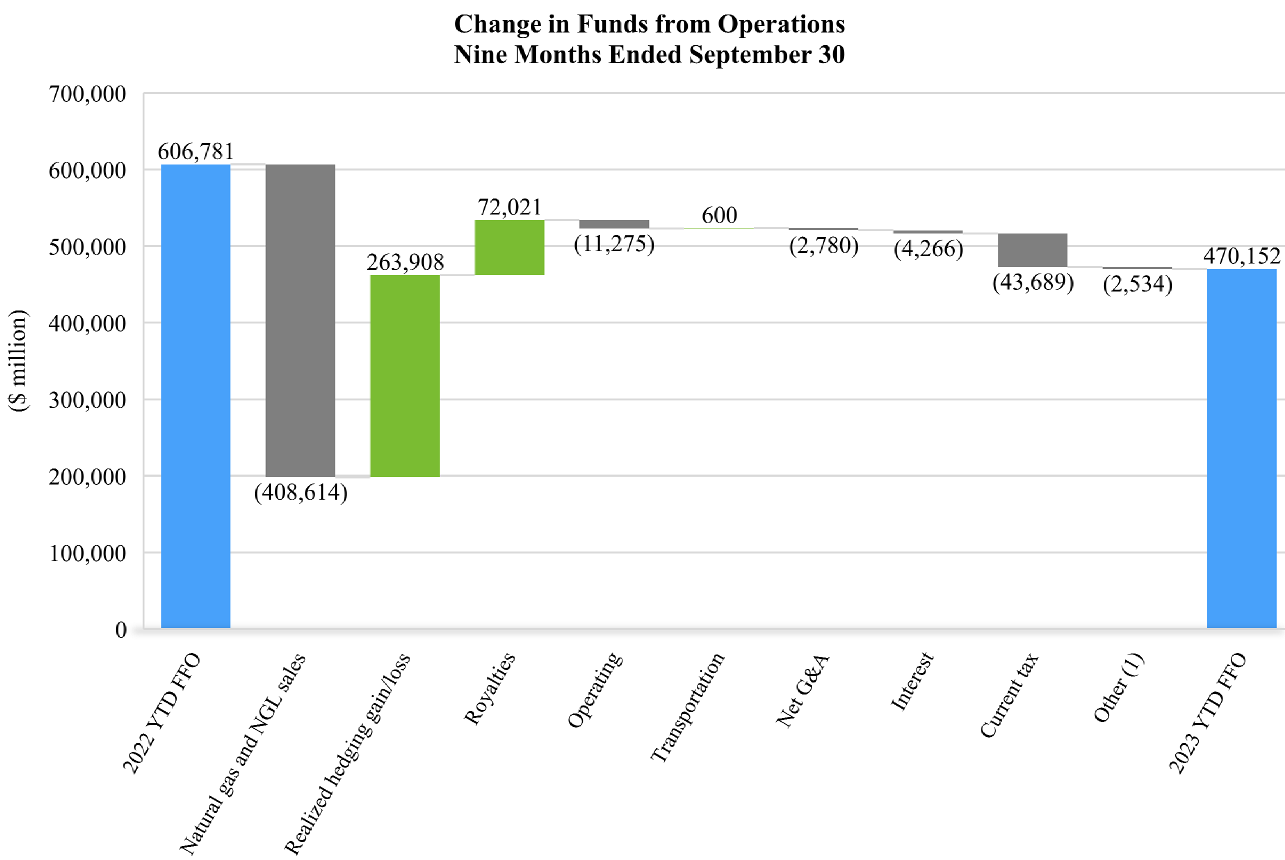
(1) This is a non-GAAP measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.

Cash Flow from Operating Activities and Funds from Operations

For the third quarter of 2023, cash flow from operating activities decreased to $139.4 million from $205.5 million in the third quarter of 2022. Funds from operations ("FFO") decreased 25 per cent to $148.0 million in the third quarter of 2023, compared to $197.4 million in the third quarter of 2022. For the nine months ended September 30, 2023, cash flow from operating activities decreased to $471.6 million from $611.8 million for the same period of 2022. FFO totaled $470.2 million in the nine months ended September 30, 2023, compared to $606.8 million for the same period of 2022. The decreases in cash flow from operating activities and FFO were mainly due to sharp decreases in commodity prices, lower production volumes, increased operating costs and higher current taxes, partially offset by 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.



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



(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 and nine months ended September 30, 2023, free funds flow decreased to $54.4 million and $172.5 million, respectively, from $57.0 million and $215.0 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 and nine months ended September 30, 2023 decreased to $57.4 million and $204.8 million, respectively, from $84.9 million and $277.2 million for the same periods of 2022. The decreased earnings is driven by the decreased funds from operations, partially offset by lower deferred tax expense.

Capital Expenditures

Peyto invested $93.6 million in capital expenditures for the third quarter of 2023. The Company drilled 19 gross (18.1 net) wells, completed 19 gross (18.3 net) wells and brought 20 gross (18.9 net) wells on production for drilling, completions, equipping and tie-in capital of $80.9 million. Facilities and major pipeline projects included $11.4 million for debottlenecking pipeline projects and gas plant upgrades. Land and seismic investments totaled $1.3 million in the quarter.

The following table summarizes capital expenditures for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30			**Nine Months Ended September 30**		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Land	**1,244**	696	*79%*	**2,765**	7,064	*-61%*
Seismic	**71**	66	*8%*	**933**	2,713	*-66%*
Drilling	**45,837**	59,230	*-23%*	**143,957**	156,050	*-8%*
Completions	**27,770**	29,094	*-5%*	**77,318**	87,580	*-12%*
Equipping & tie-ins	**7,306**	9,564	*-24%*	**20,604**	29,092	*-29%*
Facilities & pipelines	**11,351**	15,634	*-27%*	**52,124**	83,257	*-37%*
	93,579	114,284	*-18%*	**297,701**	365,756	*-19%*
Asset acquisitions & dispositions	**-**	26,116	*-100%*	**-**	26,064	*-100%*
Total capital expenditures[1]	**93,579**	140,400	*-33%*	**297,701**	391,820	*-24%*
Corporate acquisition	**-**	-	-	**-**	22,220	*-100%*

(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 September 30, 2023, December 31, 2022 and September 30, 2022 is summarized as follows:

($000)	**As at September 30, 2023**	As at December 31, 2022	As at September 30, 2022
Long-term debt	**818,080**	759,176	934,828
Current assets	**(481,090)**	(218,550)	(180,885)
Current liabilities	**449,048**	471,858	506,950
Financial derivative instruments - current	**94,213**	(126,081)	(289,149)
Current portion of lease obligation	**(1,300)**	(1,266)	(1,255)
Decommissioning provision - current	**(1,940)**	-	-
Net debt[1]	**877,011**	885,137	970,489

(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 $877.0 million as at September 30, 2023 decreased by $8.1 million from December 31, 2022 and $93.5 million from September 30, 2022.

The Company continues to target the low end of capital guidance of $425 million in 2023. Peyto's preliminary budget for 2024 is expected to be $450 to $500 million. Based on current commodity prices, Peyto's cash flow from operating activities is expected to fully fund the 2024 capital program and dividend payment, with the balance being allocated to debt repayment.

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

($000)	**September 30, 2023**	December 31, 2022
Bank credit facility	**499,000**	440,000
Current senior secured notes	**100,000**	100,000
Long-term senior secured notes	**319,080**	319,176
Balance, end of period	**918,080**	859,176

At September, 2023, Peyto had a $800 million senior secured covenant-based credit facility (the "Credit Facility") with a syndicate of lenders. The maturity date is October 13, 2025. The Credit Facility includes a $40 million working capital sub-tranche and a $760 million production line and is available on a revolving basis. Borrowings under the Credit Facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar SOFAR loan rates, plus applicable margin and stamping fees. The undrawn portion of the Credit Facility totaled $301 million at September 30, 2023 ($360 million at December 31, 2022), and is subject to standby fees.

On October 17, 2023, 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 adding a new $174 million two-year amortizing term loan with no change to the maturity of the facility of October 13, 2025 and no change to the financial covenants. The term loan requires quarterly payments commencing March 31, 2024.

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	**September 30, 2023**	December 31, 2022
Total Debt to EBITDA	Less than 4.0	**1.14**	0.97
Senior Debt to EBITDA	Less than 3.5	**1.14**	0.97
Interest coverage	Greater than 3.0	**17.71**	18.99

Peyto is in compliance with all financial covenants at September 30, 2023.

Outstanding secured senior notes as at September 30, 2023 are as follows:

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

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 have been issued by way of a private placement pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. Interest will be paid semi-annually in arrears. Proceeds from the notes have been 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	2,491,838	15,152
Common shares issued on settlement of DSUs	42,994	250
Contributed surplus on exercise of stock options	-	4,187
Share issue costs (net of tax)	-	(421)
Balance, September 30, 2023	**176,005,074**	**1,716,971**

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 September 30			Nine Months Ended September 30		
($000, except total payout ratio)	**2023**	2022	% Change	**2023**	2022	% Change
Total dividends declared(1)	**59,802**	25,686	*133%*	**175,195**	76,529	*129%*
Total capital expenditures(2)	**93,579**	140,400	*-33%*	**297,701**	391,820	*-24%*
Total payout(2)	**153,381**	166,086	*-8%*	**472,896**	468,349	*1%*
Funds from operations(2)	**147,980**	197,388	*-25%*	**470,152**	606,781	*-23%*
Total payout ratio(1)	**104%**	84%	*24%*	**101%**	77%	*31%*

(1) Total dividends declared in the three and nine months ended September 30, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts. See note 3 in the financial statements for additional information.
(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 September 30, 2023:

($000)	2023	2024	2025	2026	2027	Thereafter
Interest payments (1)	4,309	13,258	11,874	8,294	6,099	4,124
Transportation commitments	14,845	60,033	61,508	42,435	31,836	364,699
Operating leases	557	2,227	2,227	2,227	-	-
Methanol	-	5,753	-	-	-	-
Total	19,711	81,271	75,609	52,956	37,935	368,823

(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 September 30		Nine months ended September 30		As at September 30	
2023	2022	**2023**	2022	**2023**	2022
149.6	113.1	**276.8**	941.5	**8.8**	25.8

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.

Breaches of Peyto's cyber-security and loss of, or unauthorized access to, electronic data may adversely impact Peyto's operations and financial position. Peyto has become increasingly dependent upon the availability, capacity, reliability, and security of our information technology infrastructure and our ability to expand and continually update this infrastructure to conduct daily operations. Peyto depends on various information technology systems to estimate reserve quantities, process and record financial data, manage Peyto's land base, manage financial resources, analyze seismic information, administer contracts with operators and lessees, and communicate with employees and third-party partners.

Further, Peyto is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of Peyto's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities, or Peyto's competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, credit card and banking details, or approval of wire transfer requests by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years.

Increasingly, social media is used as a vehicle to carry out cyber-phishing attacks. Information posted on social media sites, for business or personal purposes, may be used by attackers to penetrate Peyto's systems and obtain confidential information. Peyto provides employees with social media guidelines that align with its Code of Business Conduct and Ethics Policy. Despite these efforts, as social media continues to grow in influence and access to social media platforms becomes increasingly prevalent, there are significant risks that Peyto may not be able to properly regulate social media use and preserve adequate records of business activities.

If Peyto becomes a victim to a cyber-phishing attack it could result in a loss or theft of Peyto's financial resources or critical data and information, or could result in a loss of control of Peyto's technological infrastructure or financial resources. Peyto's employees are often the targets of such cyber-phishing attacks, as they are and will continue to be targeted by parties using fraudulent "spoof" emails to misappropriate information or to introduce viruses or other malware through "Trojan horse" programs to Peyto's computers. These emails appear to be legitimate emails, but direct recipients to fake websites operated by the sender of the email or request recipients to send a password or other confidential information through email or to download malware.

Peyto maintains policies and procedures that address and implement employee protocols with respect to electronic communications and electronic devices and conducts regular cyber-security risk assessments and training and education programs for its employees. Peyto also employs encryption protection of its confidential information on all computers and other electronic devices. Despite Peyto's efforts to mitigate such cyber-phishing attacks through education and training, cyber-phishing activities remain a serious problem that may damage its information technology infrastructure. Peyto applies technical and process controls in line with industry-accepted standards to protect its information, assets and systems, including a written incident response plan for responding to a cybersecurity incident. However, these controls may not adequately prevent cyber-security breaches. Disruption of critical information technology services, or breaches of information security, could have a negative effect on Peyto's performance and earnings, as well as its reputation, and any damages sustained may not be adequately covered by Peyto's current insurance coverage, or at all. The significance of any such event is difficult to quantify, but may in certain circumstances be material and could have a material adverse effect on Peyto's business, financial condition, and results of operations.

For a detailed discussion of the risks, uncertainties and industry conditions associated with Peyto's business, refer to the Company's Annual Information Form dated March 31, 2023, 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.

Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended September 30, 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, 2022 were evaluated by independent petroleum engineers GLJ Ltd.

Depletion and Depreciation Estimate

All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis.

Impairment of Long-Lived Assets

Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

Decommissioning Provision

The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Reserve Value Performance Based Compensation

The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2023. A quarterly provision for the reserve value-based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Accounting Changes
Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

ADDITIONAL INFORMATION

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR+ at www.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 September 30		**Nine months Ended September 30**	
($000)	**2023**	2022	**2023**	2022
Cash flows from operating activities	**139,406**	205,464	**471,621**	611,835
Change in non-cash working capital	**6,352**	(14,155)	**(3,691)**	(13,633)
Decommissioning expenditures	**1,026**	3,579	**1,026**	3,579
Performance based compensation	**-**	2,500	**-**	5,000
Transaction costs	**1,196**	-	**1,196**	-
Funds from operations	**147,980**	197,388	**470,152**	606,781

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 September 30		**Nine months Ended September 30**	
($000)	**2023**	2022	**2023**	2022
Cash flows from operating activities	**139,406**	205,464	**471,621**	611,835
Change in non-cash working capital	**6,352**	(14,155)	**(3,691)**	(13,633)
Decommissioning expenditures	**1,026**	3,579	**1,026**	3,579
Performance based compensation	**-**	2,500	**-**	5,000
Transaction costs	**1,196**	-	**1,196**	**-**
Total capital expenditures	**(93,579)**	(140,400)	**(297,701)**	(391,820)
Free funds flow	**54,401**	56,988	**172,451**	214,961

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 September 30		**Nine months Ended September 30**	
($000)	**2023**	2022	**2023**	2022
Cash flows used in investing activities	**350,780**	140,934	**579,104**	401,612
Change in prepaid capital	**(4,051)**	(6,740)	**(664)**	8,190
Deposit for acquisition	**(63,303)**	-	**(63,303)**	-
Subscription receipt funds in escrow	**(201,307)**	-	**(201,307)**	-
Corporate acquisitions	**-**	-	**-**	(22,220)
Change in non-cash working capital relating to investing activities	**11,460**	6,206	**(16,129)**	4,238
Total capital expenditures	**93,579**	140,400	**297,701**	391,820

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 September 30, 2023**	As at December 31, 2022	As at September 30, 2022
Long-term debt	**818,080**	759,176	934,828
Current assets	**(481,090)**	(218,550)	(180,885)
Current liabilities	**449,048**	471,858	506,950
Financial derivative instruments - current	**94,213**	(126,081)	(289,149)
Current portion of lease obligation	**(1,300)**	(1,266)	(1,255)
Decommissioning provision - current	**(1,940)**	-	-
Net debt	**877,011**	885,137	970,489

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 September 30		**Nine months Ended September 30**	
($/Mcfe)	**2023**	2022	**2023**	2022
Gross Sale Price	**3.67**	6.48	**4.37**	6.66
Realized hedging loss (gain)	**0.62**	(1.60)	**0.09**	(1.48)
Net Sale Price	**4.29**	4.88	**4.46**	5.18
Third party sales net of purchases	**-**	0.07	**-**	0.03
Other income	**0.02**	0.04	**0.03**	0.02
Royalties	**(0.29)**	(0.70)	**(0.33)**	(0.75)
Operating costs	**(0.44)**	(0.38)	**(0.47)**	(0.39)
Transportation	**(0.29)**	(0.26)	**(0.27)**	(0.27)
Field netback	**3.29**	3.65	**3.42**	3.82
Net general and administrative	**(0.04)**	(0.02)	**(0.04)**	(0.02)
Interest and financing	**(0.28)**	(0.21)	**(0.24)**	(0.22)
Realized gain on foreign exchange	**0.01**	0.02	**-**	0.01
Cash netback ($/Mcfe)	**2.98**	3.44	**3.14**	3.59
Cash netback ($/boe)	**17.85**	20.62	**18.85**	21.56

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 September 30		Nine months Ended September 30	
($000, except total payout ratio)	**2023**	2022	**2023**	2022
Total dividends declared(1)	**59,802**	25,686	**175,195**	76,529
Total capital expenditures	**93,579**	140,400	**297,701**	391,820
Total payout	**153,381**	166,086	**472,896**	468,349
Funds from operations	**147,980**	197,388	**470,152**	606,781
Total payout ratio (%)	**104%**	84%	**101%**	77%

(1) Total dividends declared in the three and nine months ended September 30, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts. See note 3 in the financial statements for additional information.

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 2023 capital expenditure budget targeting the low end of the $425 to $475 million range in 2023;
- Peyto's preliminary budget for 2024 is expected to be $450 to $500 million;
- Peyto's belief that funds from operations based on current strip pricing, together with available borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program;
- the existence, operation and strategy of Peyto's commodity price risk management program; and
- the approximate and maximum amount of forward sales and hedging to be employed by Peyto.

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

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

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

CONVERSION RATIO

Natural gas liquids volumes are recorded in barrels of oil (bbl) and are converted to a thousand cubic feet equivalent (Mcfe) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 Mcf:1 bbl may be misleading as an indication of value.

DRILLING LOCATIONS

This MD&A discloses drilling locations in three categories: (i) proved locations; (ii) probable locations; and (iii) unbooked locations. In respect of Repsol assets, proved locations and probable locations are derived from a report prepared by GLJ Ltd. that evaluated 100% of the producing reserves associated with the Repsol lands dated effective June 1, 2023 and account for drilling locations that have associated proved and/or probable reserves, as applicable. Unbooked locations are internal estimates based on prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves. In respect of the assets acquired pursuant to the Acquisition, the 800 gross drilling locations identified herein, 215 gross are proved locations, 82 gross are probable locations and 503 gross are unbooked locations. Unbooked locations have been identified by management as an estimation of Peyto's multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production and reserves information. There is no certainty that Peyto will drill all unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves or production. The drilling locations on which Peyto actually drill wells will ultimately depend upon the availability of capital, regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations have been de-risked by drilling existing wells in relative close proximity to such unbooked drilling locations, some of the other unbooked drilling locations are further away from existing wells where management has less information about the characteristics of the reservoir and therefore there is more uncertainty whether wells will be drilled in such locations, and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves or production.

GLOSSARY

The following is a list of abbreviations that may be used in this MD&A:

Measurement
bbl barrel
bbl/d barrels per day
Mbbl thousand barrels
MMbbl million barrels
boe (1) barrels of oil equivalent
boe/d (1) barrels of oil equivalent per day
Mboe (1) thousands of barrels of oil equivalent
MMboe (1) millions of barrels of oil equivalent
Mcf thousand cubic feet
Mcf/d thousand cubic feet per day
MMcf million cubic feet
MMcf/d million cubic feet per day
Bcf billion cubic feet
MMBtu million British thermal units
GJ gigajoule

Quarterly information

	2023			2022	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (Mcf/d)	**520,504**	526,732	544,278	552,627	544,843
NGLs (bbl/d)	**11,231**	10,989	12,205	12,840	13,263
Total (boe/d @ 6:1)	**97,981**	98,777	102,918	104,944	104,071
Total (Mcfe/d @ 6:1)	**587,888**	592,655	617,508	629,667	624,426
Liquid to gas ratio (bbl per MMcf)	**21.6**	20.9	22.4	23.2	24.3
Average product prices					
Realized natural gas price – after hedging and diversification ($/Mcf)	**3.33**	3.13	3.91	4.62	3.68
Realized NGL price – after hedging ($/bbl)	**70.25**	69.28	79.03	75.95	78.07
$/Mcfe					
Net sale price ($/Mcfe)	**4.29**	4.07	5.01	5.60	4.88
Net third party sales ($/Mcfe)	**-**	-	-	0.01	0.07
Other income ($/Mcfe)	**0.02**	0.02	0.08	0.13	0.04
Royalties ($/Mcfe)	**(0.29)**	(0.18)	(0.53)	(0.72)	(0.70)
Operating costs ($/Mcfe)	**(0.44)**	(0.47)	(0.50)	(0.41)	(0.38)
Transportation ($/Mcfe)	**(0.29)**	(0.29)	(0.24)	(0.22)	(0.26)
Field netback ($/Mcfe) (2)	**3.29**	3.15	3.82	4.39	3.65
General & administrative expense ($/Mcfe)	**(0.04)**	(0.05)	(0.03)	(0.02)	(0.02)
Interest expense ($/Mcfe)	**(0.28)**	(0.22)	(0.22)	(0.21)	(0.21)
Realized gain (loss) on foreign exchange	**0.01**	(0.02)	0.01	-	0.02
Cash netback ($/Mcfe) (2)	**2.98**	2.86	3.58	4.16	3.44
Financial ($000 except per share)					
Revenue and realized hedging gains (losses) (1)	**231,938**	219,409	278,332	324,614	279,661
Royalties	**15,482**	9,695	29,566	41,615	40,024
Funds from operations(2)	**147,980**	142,354	179,817	220,815	197,388
Funds from operations per share(2)	**0.84**	0.81	1.03	1.28	1.15
Funds from operations per diluted share(2)	**0.84**	0.81	1.02	1.26	1.13
Total dividends declared(3)	**59,802**	57,715	57,678	25,908	25,686
Total dividends declared per share(2)(3)	**59,802**	0.33	0.33	0.15	0.15
Earnings	**57,444**	57,415	89,981	113,441	84,861
Earnings per share	**0.33**	0.33	0.51	0.66	0.50
Earnings per diluted share	**0.33**	0.33	0.51	0.64	0.48
Total capital expenditures(2)	**93,579**	82,319	121,802	115,040	140,400
Total payout ratio (%)(2)	**104%**	98%	100%	64%	84%
Weighted average shares outstanding (basic)	**175,573,752**	174,895,215	174,778,048	172,726,293	171,230,853
Weighted average shares outstanding (diluted)	**176,732,946**	176,305,942	176,570,310	175,892,139	175,140,910

(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

Peyto Exploration & Development Corp.

Condensed Consolidated Balance Sheets *(unaudited)*

(Amount in $ thousands)

As at	**September 30 2023**	**December 31 2022**
Assets		
Current assets		
Cash	15,743	11,905
Subscription receipt funds in escrow *(Note 3)*	201,307	-
Accounts receivable (*Note 11)*	88,880	188,036
Deposit for Acquisition *(Note 3)*	63,303	-
Prepaid expenses	17,644	18,609
Derivative financial instruments *(Note 13)*	94,213	-
	481,090	218,550
Long-term derivative financial instruments *(Note 13)*	18,759	15,033
Property, plant and equipment, net *(Note 4)*	3,825,842	3,778,940
	3,844,601	3,793,973
	4,325,691	4,012,523
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	100,604	215,560
Subscription receipts obligation *(Note 3)*	201,307	-
Dividends payable *(Note 3 and 8)*	21,222	8,674
Income tax payable	22,675	20,277
Current portion of lease obligation *(Note 7)*	1,300	1,266
Decommissioning provision *(Note 6)*	1,940	-
Current portion of long-term debt *(Note 5)*	100,000	100,000
Derivative financial instruments *(Note 13)*	-	126,081
	449,048	471,858
Long-term debt *(Note 5)*	818,080	759,176
Decommissioning provision *(Note 6)*	120,155	144,725
Lease obligation *(Note 7)*	3,095	4,074
Deferred income taxes	644,802	571,024
	1,586,132	1,478,999
Equity		
Share capital *(Note 8)*	1,716,971	1,697,803
Contributed surplus	22,499	16,274
Retained earnings	461,088	431,443
Accumulated other comprehensive income (loss) *(Note 8)*	89,953	(83,854)
	2,290,511	2,061,666
	4,325,691	4,012,523

Subsequent events *(Note 3)*

See accompanying notes to the condensed consolidated financial statements.

Approved by the Board of Directors

(signed) *"Debra Gerlach"*
Director

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

Peyto Exploration & Development Corp.

Condensed Consolidated Income Statements *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2023	**2022**	**2023**	**2022**
Revenue				
Natural gas and natural gas liquid sales (*Note 11)*	198,241	371,786	715,392	1,124,006
Royalties	(15,482)	(40,024)	(54,743)	(126,764)
Sales of natural gas to third parties	-	42,769	-	83,299
Natural gas and natural gas liquid sales, net of royalties	182,759	374,531	660,649	1,080,541
Realized (loss) gain on derivative financial instruments *(Note 13)*	33,697	(92,125)	14,287	(249,621)
Other Income	807	2,215	6,745	2,982
	217,263	284,621	**681,681**	833,902
Expenses				
Natural gas purchased from third parties	-	38,657	-	78,201
Operating	23,889	21,683	77,092	65,817
Transportation	15,449	14,807	44,701	45,301
General and administrative	2,135	1,167	6,706	3,926
Transaction costs *(Note 3)*	1,196	-	1,196	-
Performance based compensation	-	2,500	-	5,000
Stock based compensation *(Note 10)*	3,919	2,948	10,662	7,807
Finance expense *(Note 12)*	17,051	13,686	43,170	39,484
Realized loss (gain) on foreign exchange	(541)	(1,135)	64	(1,135)
Unrealized loss on foreign exchange	2,823	3,284	1,607	4,116
Depletion and depreciation (*Note 4)*	74,173	75,934	225,966	223,025
	140,094	173,531	**411,164**	471,542
Earnings before taxes	**77,169**	111,090	**270,517**	362,360
Income tax				
Current tax	12,944	-	43,689	-
Deferred tax	6,781	26,229	21,988	85,138
Total income taxes	**19,725**	26,229	**65,677**	85,138
Earnings for the period	**57,444**	84,861	**204,840**	277,222
Earnings per share *(Note 8)*				
Basic	**$0.33**	$0.50	**$1.17**	$1.63
Diluted	**$0.33**	$0.48	**$1.16**	$1.59

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Earnings for the period	**57,444**	84,861	**204,840**	277,222
Other comprehensive loss				
Change in unrealized gain (loss) on cash flow hedges	(723)	(114,047)	240,406	(497,518)
Deferred income tax recovery (expense)	7,967	5,042	(51,916)	57,016
Realized loss (gain) on cash flow hedges	(33,914)	92,125	(14,683)	249,621
Comprehensive income	**30,774**	67,981	**378,647**	86,341

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Nine months ended September 30	
	2023	**2022**
Share capital, beginning of period	**1,697,803**	1,664,508
Common shares issued on exercise of stock options and private placement	15,152	24,093
Issued on settlement of DSU's	250	-
Contributed surplus on exercise of stock options	4,187	-
Share Issue Costs (net of tax)	(421)	-
Share capital, end of period	**1,716,971**	1,688,601

Contributed surplus, beginning of period	**16,274**	13,123
Stock based compensation expense	10,662	7,807
Recognized under share-based compensation plans	(4,437)	(6,733)
Contributed surplus, end of period	**22,499**	14,197

Retained earnings, beginning of period	**431,443**	143,217
Earnings for the period	204,840	277,222
Dividends *(Note 8)*	(173,334)	(76,529)
Dividend equivalent payment *(Note 3)*	(1,861)	-
Retained earnings, end of period	**461,088**	343,910

Accumulated other comprehensive loss, beginning of period	**(83,854)**	(54,842)
Other comprehensive income (loss)	173,807	(190,881)
Accumulated other comprehensive income (loss), end of period	**89,953**	(245,723)

Total equity	**2,290,511**	1,800,985

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

Condensed Consolidated Statements of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	**2023**	2022
Cash provided by (used in)				
Operating activities				
Earnings	57,444	84,861	204,840	277,222
Items not requiring cash:				
Deferred income tax	6,781	26,229	21,988	85,138
Depletion and depreciation	74,173	75,934	225,966	223,025
Accretion of decommissioning provision *(Note 12)*	1,644	1,632	3,893	4,473
Stock based compensation	3,919	2,948	10,662	7,807
Unrealized loss (gain) on foreign exchange	2,823	3,284	1,607	4,116
Decommissioning expenditures	(1,026)	(3,579)	(1,026)	(3,579)
Change in non-cash working capital related to operating activities	(6,352)	14,155	3,691	13,633
	139,406	205,464	**471,621**	611,835
Financing activities				
Common shares issued on exercise of stock options and private placement	5,650	6,101	14,605	17,452
Stock option issuance costs	-	(108)	-	(119)
Subscription receipts *(Note 3)*	201,307	-	201,307	-
Cash dividends paid	(57,841)	(25,604)	(162,646)	(76,335)
Lease interest *(Note 7)*	40	51	126	158
Principal repayment of lease *(Note 7)*	(358)	(358)	(1,071)	(1,071)
Increase (decrease) in bank debt	69,000	(45,000)	59,000	(135,000)
	217,798	(64,918)	**111,321**	(194,915)
Investing activities				
Additions to property, plant, and equipment	(97,630)	(121,024)	(298,365)	(357,566)
Deposit for Acquisition *(Note 3)*	(63,303)	-	(63,303)	-
Subscription receipt funds in escrow *(Note 3)*	(201,307)	-	(201,307)	-
Asset acquisitions	-	(26,116)	-	(26,069)
Corporate Acquisition	-	-	-	(22,220)
Change in non-cash working capital relating to investing activities	11,460	6,206	(16,129)	4,243
	(350,780)	(140,934)	**(579,104)**	(401,612)
Net increase (decrease) in cash	**6,424**	(388)	**3,838**	15,308
Cash, beginning of period	**9,319**	21,414	**11,905**	5,718
Cash, end of period	**15,743**	21,026	**15,743**	21,026

The following amounts are included in cash flows from operating activities:				
Cash interest paid	**13,396**	7,837	**34,102**	30,726
Cash taxes paid	**21,000**	-	**67,556**	-

See accompanying notes to the condensed consolidated financial statements.

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 registered office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 8, 2023.

2. Basis of presentation

The condensed consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the years ended December 31, 2022 and 2021.

Significant Accounting Policies

(a) Significant Accounting Judgments Estimates and Assumptions

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

All accounting policies and methods of computation followed in the preparation of these condensed consolidated financial statements are the same as those disclosed in Note 2 of Peyto's consolidated financial statements as at and for the years ended December 31, 2022 and 2021.

(b) 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.

3. Subscription receipt funds in escrow, Subscription receipt obligations and Subsequent Events

On October 17, 2023, Peyto completed its acquisition (the Acquisition") of Repsol Canada Energy Partnership, which held the Canadian upstream oil and 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 US$468 million (CDN$636 million), subject to closing adjustments. The Acquisition was funded through an upsizing of the Company's existing revolving credit facility, a new two-year amortizing term loan and net proceeds of an offering of subscription receipts, as described below.

On September 26, 2023, the Company completed a bought deal financing (the "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 Acquisition. The Company had an obligation to either exchange each Subscription Receipt for a common share, in the event the Acquisition closed, or refund the proceeds from the Financing in the Acquisition did not close. Accordingly, the Company reported a Subscription Receipts obligation and Subscription Receipt funds in escrow of $201.3 million at September 30, 2023. Holders of the Subscription Receipts were entitled to receive payments per Subscription Receipt equal to the cash dividends on Peyto's common shares (the "Dividend Equivalent Payments") actually paid or payable to holders of such common shares in respect of all record dates for such dividends occurring from the closing date of the Financing to, but excluding, the last day on which the Subscription Receipts remained outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend. Peyto announced that a monthly dividend of $0.11 per Common Share was to be paid on October 13, 2023, for shareholders of record on September 30, 2023. Accordingly, holders of Subscription Receipts on September 30, 2023, were entitled to a Dividend Equivalent Payment equal to $0.11 per Subscription Receipt, which was paid on October 13, 2023 concurrently with the dividend on the common shares.

On closing of the Acquisition on October 17, 2023, the net proceeds of $192.0 million from the Financing were released from escrow to Peyto. In accordance with the terms of the Subscription Receipts, each Subscription Receipt was exchanged for one common share of Peyto.

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

As at the date that these financial statements were authorized for issuance, the initial accounting for the acquisition is incomplete and as such the value of the assets acquired and the liabilities assumed have not been disclosed.

4. Property, plant and equipment, net

Cost	
At December 31, 2022	**6,979,099**
Additions	298,365
Decommissioning provision additions	(25,497)
At September 30, 2023	**7,251,967**
Accumulated depletion and depreciation	
At December 31, 2022	**(3,200,159)**
Depletion and depreciation	(225,966)
At September 30, 2023	**(3,426,125)**
Carrying amount at December 31, 2022	**3,778,940**
Carrying amount at September 30, 2023	**3,825,842**

During the three and nine month periods ended September 30, 2023, Peyto capitalized $2.5 million and $7.4 million (2022 - $3.1 million and $10.1 million) of general and administrative expenses directly attributable to exploration and development activities.

As at September 30, 2023, the Company identified no indicators of impairment and therefore a test was not performed.

5. Long-term debt

	September 30, 2023	December 31, 2022
Bank credit facility	499,000	440,000
Current senior secured note	100,000	100,000
Long-term senior secured notes	319,080	319,176
Balance, end of the period	**918,080**	859,176

On October 3, 2022, the Company entered into an agreement with its syndicate of lenders to amend and extend its senior secured covenant-based credit facility to reflect a reduction in credit limit to $800 million. The facility has a maturity date of October 13, 2025, and is made up of a $40 million working capital tranche, a $760 million production line, and is available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar SOFR loan rates, plus applicable margin, and stamping fees.

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

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

On October 17, 2023, Peyto amended its credit facility in conjunction with closing the Acquisition. See note 3 for further information.

Outstanding senior notes are as follows:

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

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

Peyto is in compliance with all financial covenants at September 30, 2023.

Total interest expense for the three and nine month periods ended September 30, 2023, was $12.2 million and $36.1 million (2022 - $12.0 million and $35 million) and the average borrowing rate for the periods was 5.5% and 5.7% (2022– 5.1% and 4.7%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2022	**144,725**
New provisions	2,776
Accretion of decommissioning provision	3,893
Change in discount rate and estimates	(28,273)
Abandonment costs	(1,026)
Balance, September 30, 2023	**122,095**
Current	**1,940**
Non-current	**120,155**

The Company has estimated the net present value of its total decommissioning provision to be $122.1 million as at September 30, 2023 (December 31, 2022 – $144.7 million) based on a total escalated future undiscounted liability of $405 million (December 31, 2022 – $398.8 million). At September 30, 2023 management estimates that these payments are expected to be made over the next 48 years (December 31,2022 – 48 years) with the majority of payments being made in years 2024 to 2071. The Bank of Canada's long-term bond rate of 3.81 per cent (December 31, 2022 – 2.00 per cent) and an inflation rate of 2.0 per cent (December 31, 2022 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

7. Leases

The ROU asset and lease obligation relates to the Company's head office lease in Calgary.

Right of use Asset

Balance as at December 31, 2022	**4,034**
Depreciation	(773)
Balance at September 30, 2023	**3,261**

The ROU asset is included in Property plant & equipment, refer to Note 4.

Lease Obligation

Lease obligation at December 31, 2022	**5,340**
Lease interest expense	126
Principal repayment of lease	(1,071)
Lease obligation at September 30, 2023	**4,395**

Current portion of lease obligation at September 30, 2023	**1,300**
Non-current portion of lease obligation at September 30, 2023	**3,095**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million and $0.6 million for the three and nine months ended September 30, 2023 (2022-$0.2 million and $0.6 million). The variable lease payments are recognized through general and administration expense.

During the three and nine months ended September 30, 2023, $6.5 million and $20.8 million (2023- $9.1 million and $25.1 million) was capitalized in relation to short-term leases.

The following sets forth future commitments associated with its lease obligation:

	As at September 30, 2023
Less than 1 year	357
1-3 years	4,286
Total lease payment	4,643
Amount representing interest	(248)
Present value of lease payments	4,395
Current portion of lease obligation	1,300
Non-current portion of lease obligation	**3,095**

8. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2022	**173,470,242**	**1,697,803**
Common shares issued on exercise of stock options	2,491,838	15,152
Issued on settlement of DSU's	42,994	250
Contributed surplus on exercise of stock options	-	4,187
Share Issue Costs (net of tax)	-	(421)
Balance, September 30, 2023	**176,005,074**	**1,716,971**

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

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	**2023**	2022
Weighted average common shares basic	175,573,752	171,230,853	175,085,253	169,642,562
Dilutive impact of share-based compensation	1,159,194	3,910,057	1,504,141	4,562,179
Weighted average common shares diluted	176,732,946	175,140,910	176,589,394	174,204,741

Dividends
During the three and nine month periods ended September 30, 2023, Peyto declared and paid dividends of $0.11 per common share per month totaling $59.8 million and $175.2 million respectively, including the dividend equivalent payment (2022 - $0.05 per common share per month, totaling $25.6 million and $76.5 million respectively).

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

Accumulated hedging gains and losses
Gains and losses from financial derivative instruments are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement. Further information on these contracts is set out in Note 13.

9. Performance-based compensation

Reserve based component
The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a realized price at December 31 of the current year and a discount rate of 8%. For three and nine months ended September 30, 2023 Peyto recorded $ nil for performance based compensation, (2022 - $2.5 million and $5 million).

10. 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. This plan limits the number of options and DSU's that may be granted to 10% of the issued and outstanding common shares.

Stock option plans

The following tables summarize the stock options outstanding at September 30, 2023:

		Weighted average exercise price $
Balance, December 31, 2022	**9,940,868**	**9.86**
Stock options granted	3,984,300	12.45
Exercised	(2,495,030)	6.09
Forfeited	(1,423,163)	10.35
Expired	(397,077)	14.22
Balance, September 30, 2023	**9,609,898**	**11.66**

The Company estimates the fair value of options under the stock option plan using the Black-Scholes pricing model. During the nine months period ended September 30, 2023, the weighted-average fair value per option was $3.66. The following tables summarize the assumptions used in the Black-Scholes model:

The following tables summarizes the assumptions used in the Black-Scholes model:

	September 30, 2023	September 30, 2022
Fair value of options granted (weighted average)	$3.26	$3.82
Expected volatility	49.59%	54.96%
Average option life	2 years	2 years
Risk-free interest rate	4.32%	2.33%
Forfeiture rate	5.65%	3.69%

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 September 30, 2023, 250,651 stock options were exercisable.

Deferred Share Units ("DSU's")

The following tables summarize the DSU's outstanding at September 30, 2023:

Balance, December 31, 2022	**217,236**
DSU's granted	48,043
DSU's settled	(42,994)
Balance September 30, 2023	**222,285**

11. Revenue and receivables

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	**2023**	2022
Natural Gas Sales	123,191	270,219	490,580	790,760
Natural Gas Liquid sales	75,050	101,567	224,812	333,246
Natural gas and natural gas liquid sales	**198,241**	371,786	**715,392**	1,124,006

	September 30, 2023	December 31, 2022
Accounts receivable from customers	78,490	184,207
Accounts receivable from realized risk management contracts	7,961	92
Accounts receivable from joint venture partners and other	2,429	3,737
	88,880	188,036

Account receivable from customers are 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. Accounts receivable from realized risk management contracts settle on the 25th of each month. Joint venture receivables are typically collected one to three months after production.

12. Finance expense

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	**2023**	2022
Accretion of decommissioning provision	1,644	1,632	3,893	4,473
Financing costs	3,178	-	3,178	-
Interest	12,229	12,054	36,099	35,011
Finance Expense	**17,051**	13,686	**43,170**	39,484

13. Financial instruments

Financial instrument classification and measurement
Financial instruments of the Company carried on the condensed consolidated balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at September 30, 2023 except for derivative financial instruments.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2022.

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

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

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

Fair values of financial assets and liabilities
The Company's financial instruments include cash, accounts receivable, subscription receipt funds in escrow, deposit for acquisition, accounts payable, subscription receipts obligation, accrued liabilities, dividend payable, long term debt and derivative financial instruments. At September 30, 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.

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

Following is a summary of all risk management contracts in place as at September 30, 2023:

Commodity contracts

Natural Gas Period Hedged- Monthly Index	**Type**	**Daily Volume (GJ)**	**Average Price (AECO CAD/GJ)**
Q4 2023	Fixed Price	154,348	$3.82
Q1 2024	Fixed Price	137,500	$4.18
Q2 2024	Fixed Price	140,000	$2.90
Q3 2024	Fixed Price	140,000	$2.90
Q4 2024	Fixed Price	176,467	$3.71
Q1 2025	Fixed Price	195,000	$4.00
Q2 2025	Fixed Price	260,000	$3.34
Q3 2025	Fixed Price	260,000	$3.34
Q4 2025	Fixed Price	233,478	$3.85
Q1 2026	Fixed Price	220,000	$4.16
Q2 2026	Fixed Price	115,000	$3.33
Q3 2026	Fixed Price	115,000	$3.33
Q4 2026	Fixed Price	38,750	$3.33

Natural Gas Period Hedged- Daily Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
Q4 2023	Fixed Price	20,217	$2.42
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)
Q4 2023	Fixed Price	226,141	$3.86
Q1 2024	Fixed Price	275,000	$4.11
Q2 2024	Fixed Price	115,000	$3.85
Q3 2024	Fixed Price	115,000	$3.85
Q4 2024	Fixed Price	148,152	$3.97
Q1 2025	Fixed Price	165,000	$4.01
Q2 2025	Fixed Price	100,000	$3.86
Q3,2025	Fixed Price	100,000	$3.86
Q4,2025	Fixed Price	43,641	$4.00
Q1,2026	Fixed Price	15,000	$4.51

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
Q4 2023	Fixed Price	3,300	$105.57
Q1 2024	Fixed Price	2,400	$102.71
Q2 2024	Fixed Price	1,600	$100.76
Q3 2024	Fixed Price	1,200	$102.91
Q2 2024	Fixed Price	900	$103.15

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI USD/bbl)
Q4 2023	Fixed Price	400	$70.80
Q1 2024	Fixed Price	200	$70.15

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)_	Put - Call (WTI CAD/bbl)
Q4 2023	Collar	500	$90.00–$116.25
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 September 30, 2023, Peyto had committed to the future sale of 216,427,500 gigajoules (GJ) of natural gas at an average price of $3.54 per GJ or $4.08 per Mcf, 119,020,000 MMBtu at an average price of $3.95 USD per MMBtu, 860,800 barrels of crude at an average price of $103.46 CAD per bbl, 55,000 barrels of crude at an average price of $70.58 USD per bbl and 183,000 barrels of crude at an average price of $70.58 USD per bbl and 183,000 barrels of crude with an average collar of $88.74–$105.43 CAD per bbl. Had these contracts closed on September 30, 2023, Peyto would have realized a gain in the amount of $117.9 million. If the gas price on September 30, 2023 were to increase by $0.10/GJ, the unrealized gain would decrease by approximately $34.2 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)
Purchased USD Contracts		
Q4 2023	$495.0 million	1.3594
Sold USD Contracts		
Q4 2023	$47.5 million	1.3521
Q1 2024	$76.5 million	1.3420
Q2 2024	$56.5 million	1.3462
Q3 2024	$48.0 million	1.3360
Q4 2024	$43.0 million	1.3314
Q1 2025	$39.0 million	1.3321
Q2 2025	$25.0 million	1.3252
Q3 2025	$18.0 million	1.3252
Q4 2025	$12.0 million	1.3252

Had these contracts closed on September 30, 2023, Peyto would have realized loss in the amount of $6.8 million.

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 September 30, 2023, Peyto would have realized a gain in the amount of $1.8 million.

Subsequent to September 30, 2023, Peyto entered into the following contracts:

Natural Gas Period Hedged – AECO Monthly Index	Type	Daily Volume (Gj)	Average Price (AECO CAD/GJ)
November 1, 2023 to March 31, 2024	Fixed Price	37,500	$2.91
April 1, 2024 to October 31, 2024	Fixed Price	30,000	$2.50
November 1, 2024 to March 31, 2025	Fixed Price	70,000	$3.68
April 1, 2025 to October 31, 2025	Fixed Price	30,000	$3.30
November 1, 2025 to March 31, 2026	Fixed Price	10,000	$4.20
April 1, 2026 to October 31, 2026	Fixed Price	25,000	$3.42

Natural Gas Period Hedged – NYMEX	Type	Daily Volume (MMBtu)	Average Price (NYMEX USD/MMBtu)
April 1, 2024 to October 31, 2024	Fixed Price	90,000	$3.29
November 1, 2024 to March 31, 2025	Fixed Price	45,000	$4.11
April 1, 2025 to October 31, 2025	Fixed Price	85,000	$3.80

Crude Oil Period Hedged – WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
October 1, 2023 to December 31, 2023	Fixed Price	300	$112.35
January 1, 2024 to March 31, 2024	Fixed Price	900	$110.68
April 1, 2024 to June 30, 2024	Fixed Price	900	$109.11
July 1, 2024 to September 30, 2024	Fixed Price	800	$106.23
October 1, 2024 to December 31, 2024	Fixed Price	300	$104.87
January 1, 2025 to March 31, 2025	Fixed Price	200	$104.60

Foreign exchange contracts

Average Rate forward (Sold USD Contracts)	**Amount (USD)**	**Rate (CAD/USD)**
Q4 2023	$8 million	1.3830
Q1 2024	$12 million	1.3830
Q2 2024	$18 million	1.3775
Q3 2024	$21 million	1.3759
Q4 2024	$15 million	1.3704
Q1 2025	$15 million	1.3650
Q2 2025	$17 million	1.3662
Q3 2025	$18 million	1.3667
Q4 2025	$12 million	1.3667

14. 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				Accounts Payable	
Three Months ended September 30		Nine Months ended September 30		As at September 30	
2023	2022	**2023**	2022	**2023**	2022
149.6	113.1	**276.8**	941.5	**8.8**	25.8

15. 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 September 30, 2023:

	2023	2024	2025	2026	2027	Thereafter
Interest payments [1]	4,309	13,258	11,874	8,294	6,099	4,124
Transportation commitments	14,845	60,033	61,508	42,435	31,836	364,699
Operating leases	557	2,227	2,227	2,227	-	-
Methanol	-	5,753	-	-	-	-
Total	19,711	81,271	75,609	52,956	37,935	368,823

[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

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
Nikki Stevens

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Canadian Imperial Bank of Commerce
ATB Financial
China Construction Bank (Canada)
Canadian Western Bank
Bank of China (Canada)
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