

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 locations¹ 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.

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

(\$000 except per share amounts)	2023				2022			2021
	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.

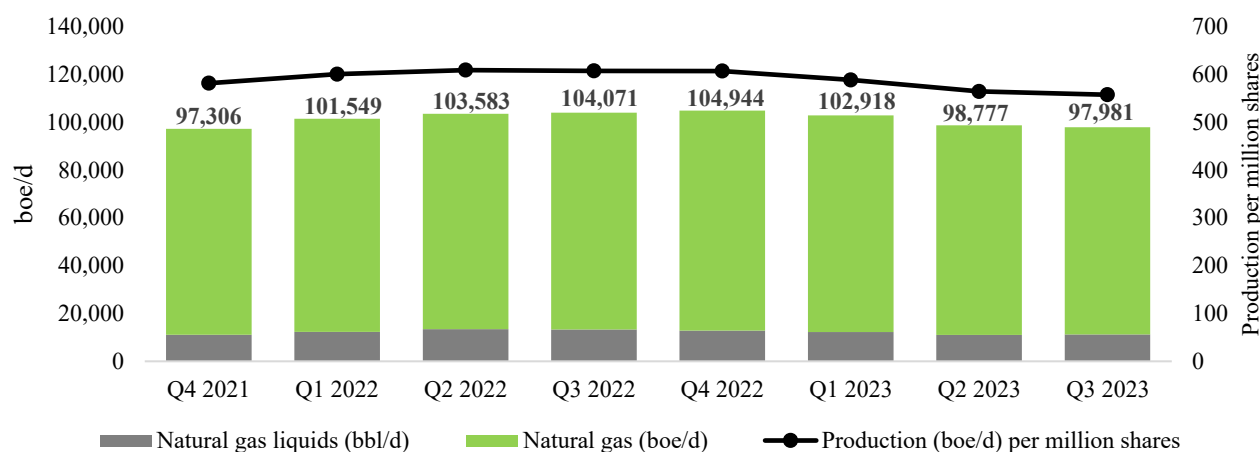
RESULTS OF OPERATIONS

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.

Average Daily Production



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.

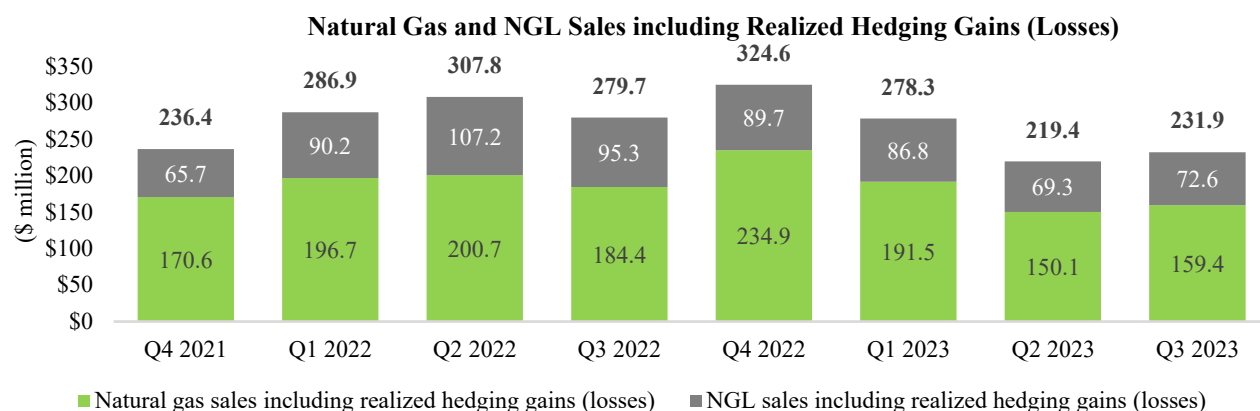
Revenue from Natural Gas and NGL Sales and Realized Hedging Gains (Losses)

(\$000)	Three Months Ended September 30			Nine Months Ended September 30		
	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

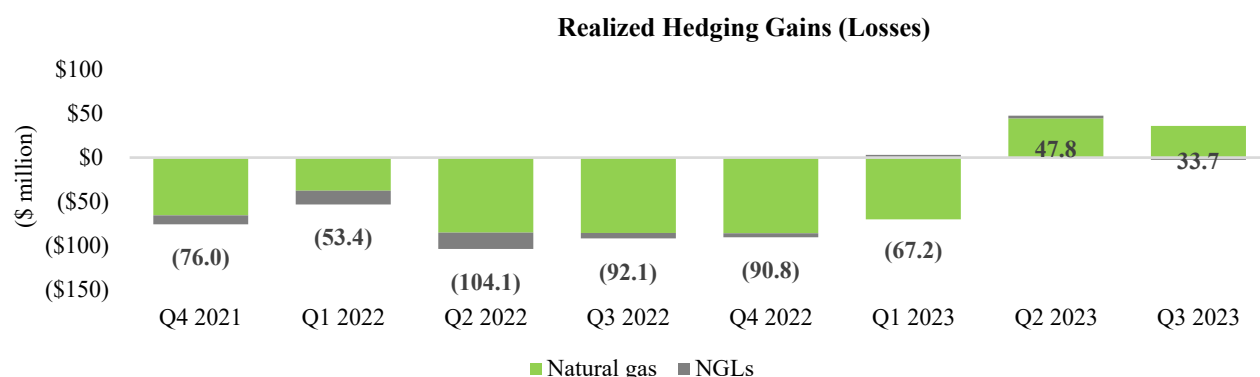
In the third quarter of 2023, natural gas and NGL sales including realized hedging gains (losses) decreased 17 per cent to \$231.9 million from \$279.7 million in the third quarter of 2022. For the nine months ended September 30, 2023, natural gas and NGL sales including realized hedging gains (losses) 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.

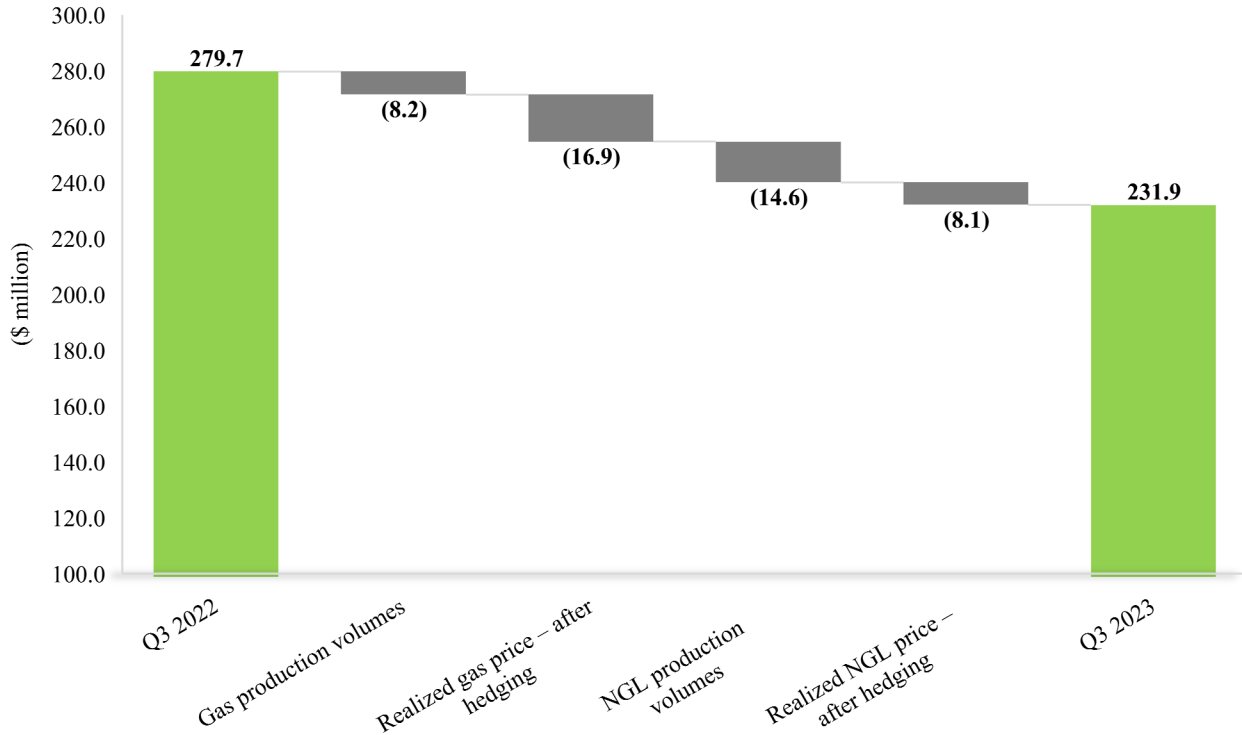
Realized hedging gains (losses) over the past eight quarters are summarized below.



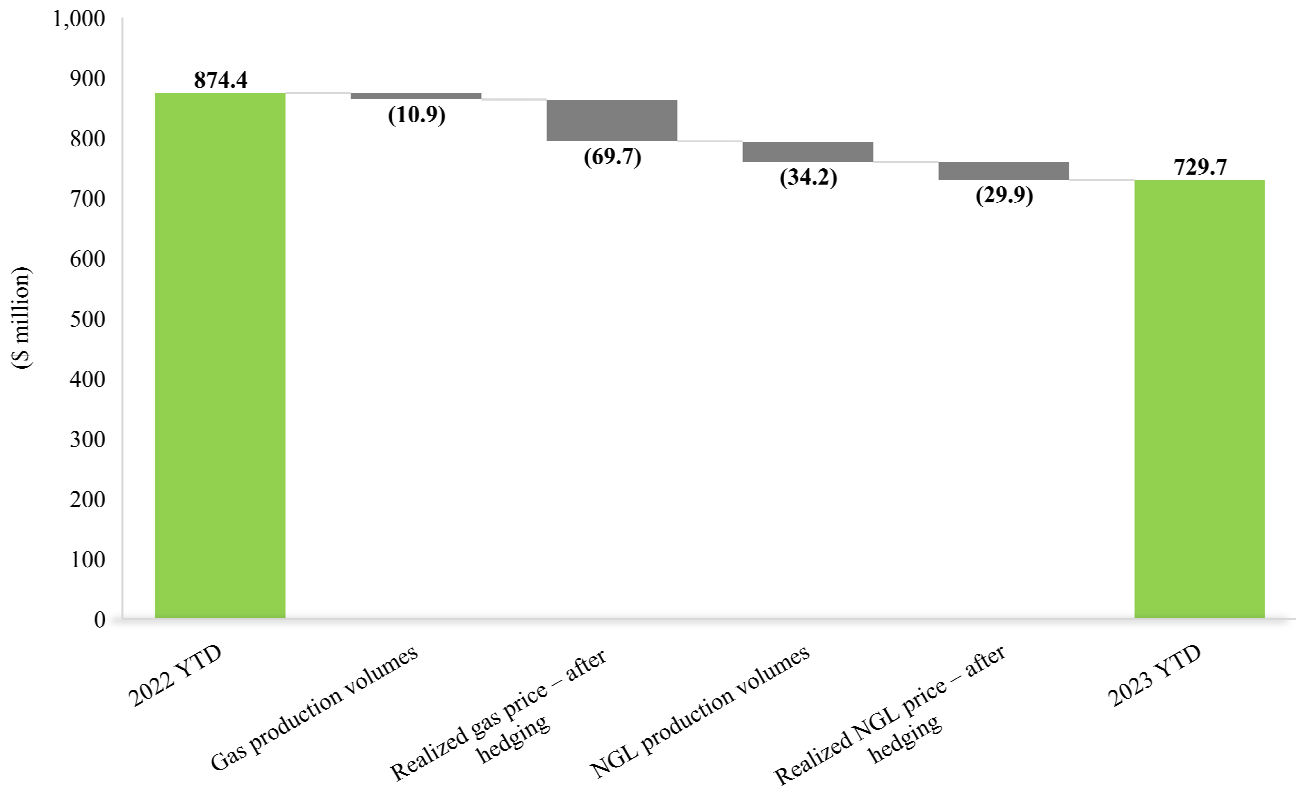
The change in revenue from natural gas and NGL sales including realized hedging losses in the three and nine months ended September 30, 2023 from the same periods of 2022, is detailed in the following table and charts:

	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 (Mbbbl)	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) (\$/Mcf)	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

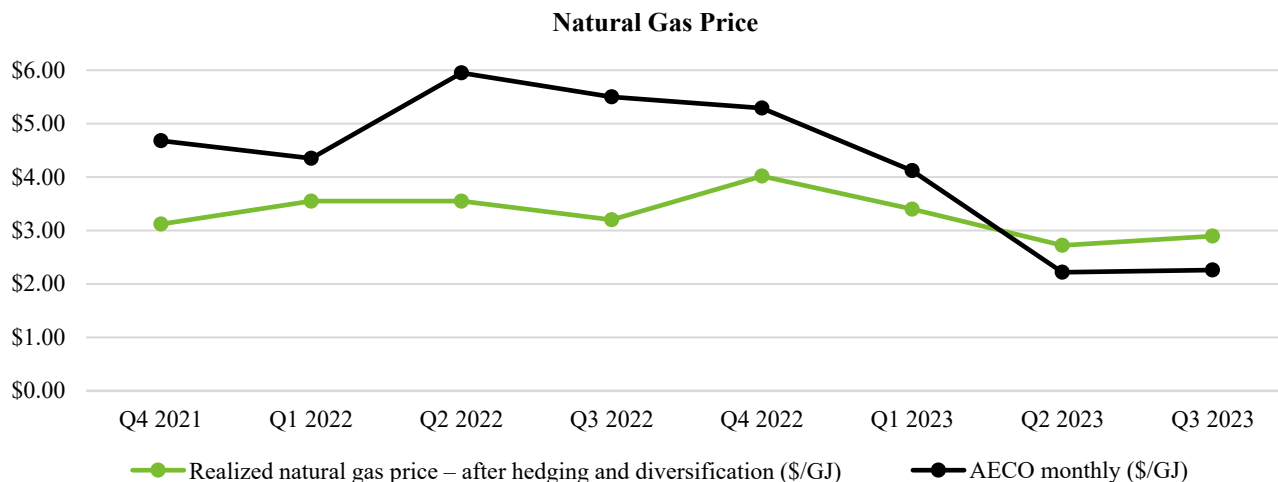
(2) Excludes revenue from sale of natural gas volumes from third parties but includes fixed price physical contracts

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

(\$000)	Three Months Ended September 30			Nine Months Ended September 30		
	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.

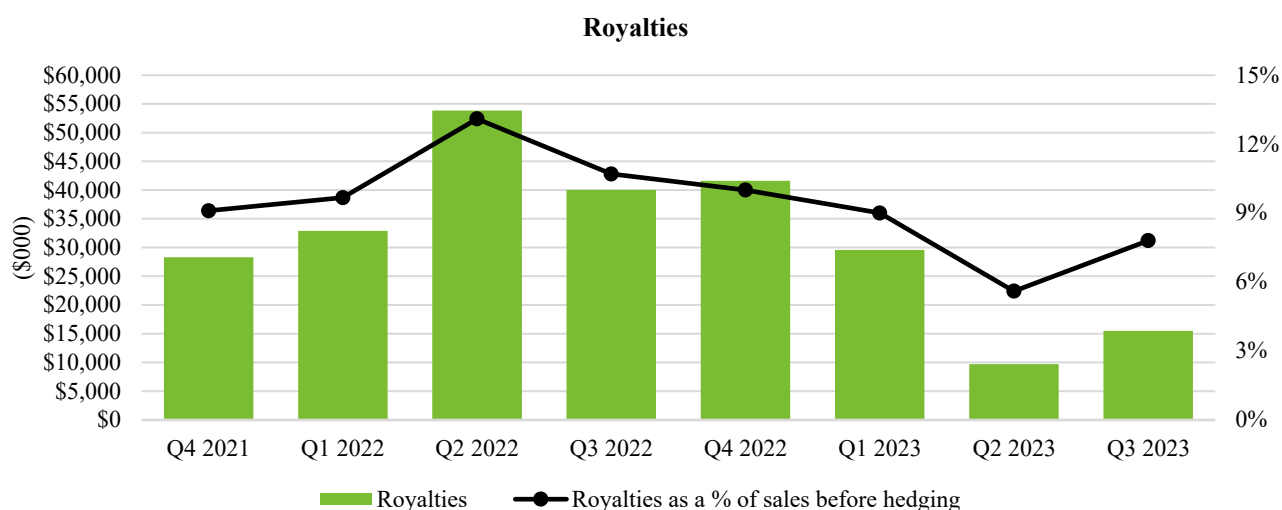
Royalties

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%
\$/Mcf	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/Mcf or 7.8 per cent of Peyto's natural gas and NGL sales, compared to \$0.70/Mcf or 10.8 per cent in the same period of 2022. In the nine months ended September 30, 2023, royalties decreased to \$0.33/Mcf or 7.7 per cent of Peyto's natural gas and NGL sales, compared to \$0.75/Mcf 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.



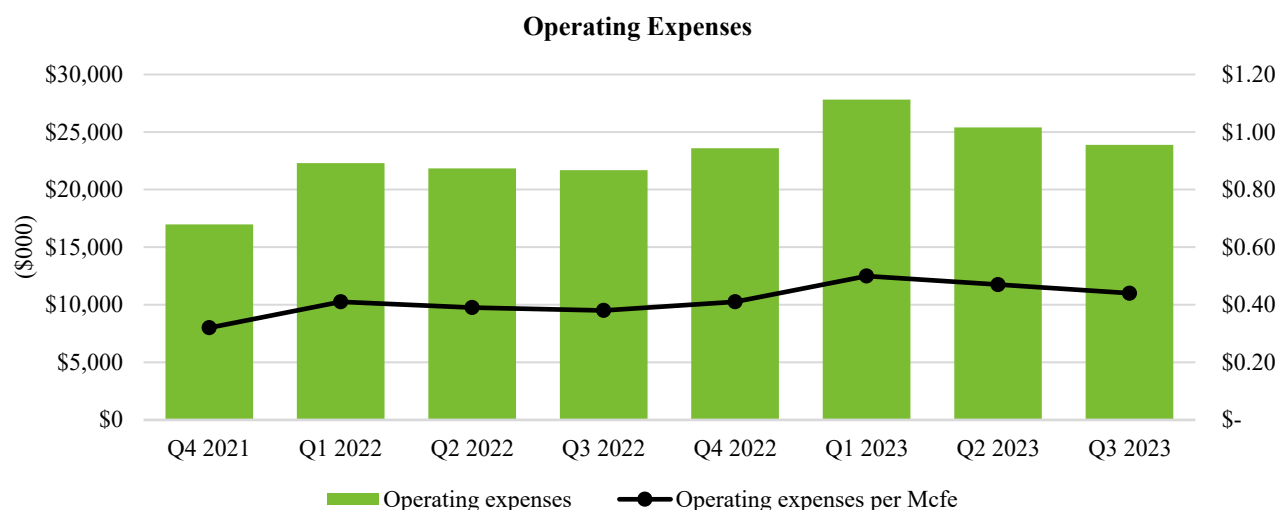
Operating Costs & Transportation

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

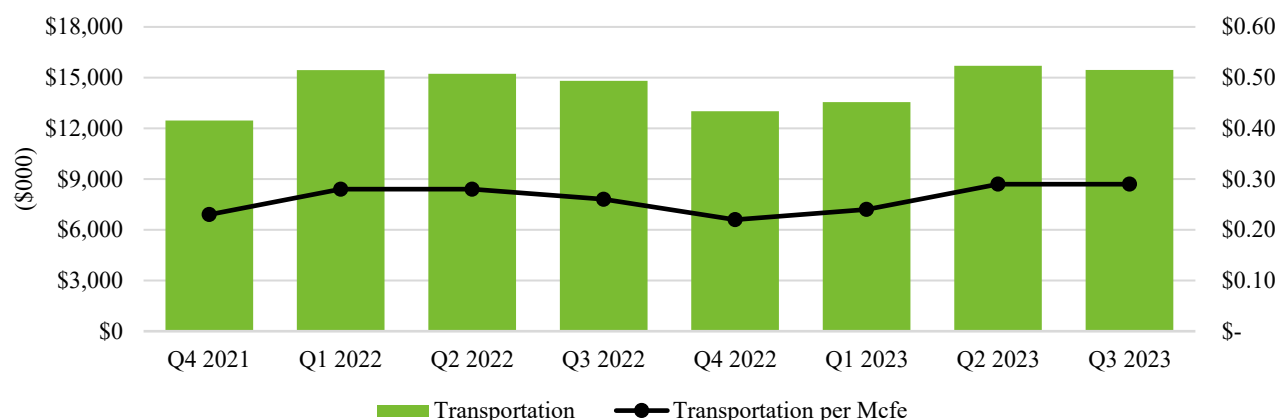
	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	2023	2022	% Change
Payments to Government (\$000)	6,012	4,989	21%	17,739	15,751	13%
Other expenses (\$000)	17,876	16,694	7%	59,353	50,066	19%
Operating costs (\$000)	23,889	21,683	10%	77,092	65,817	17%
\$/Mcf	0.44	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%
\$/Mcf	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.



Transportation



General and Administrative ("G&A") Expenses

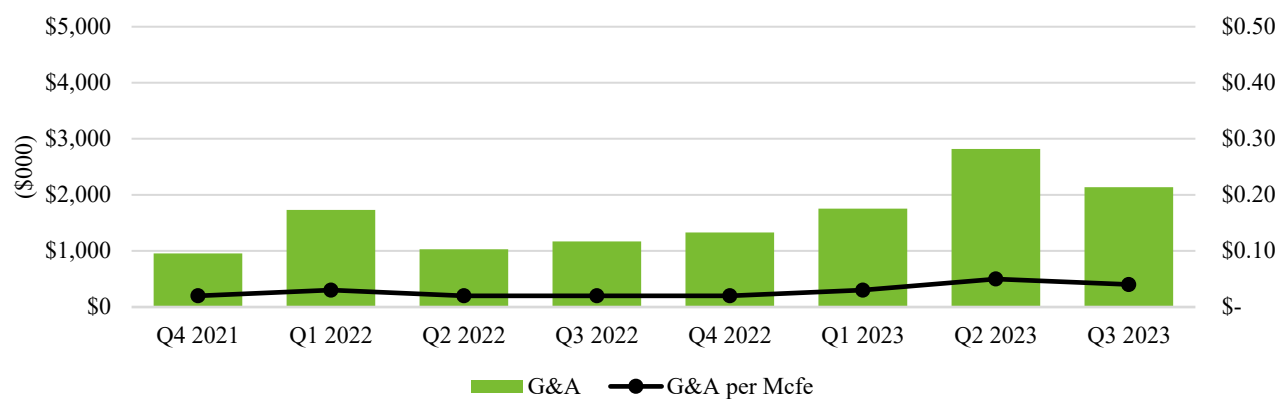
	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	2023	2022	% Change
Gross G&A expenses (\$000)	4,835	4,589	5%	14,827	14,381	3%
Overhead recoveries (\$000)	(2,700)	(3,422)	-21%	(8,121)	(10,455)	-22%
G&A expenses (\$000)	2,135	1,167	83%	6,706	3,926	71%
\$/Mcfe	0.04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

G&A Expense



Performance and Stock Based Compensation

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

Performance Based Compensation

The reserve value-based component is 4 per cent of the incremental increase in per share value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8 per cent. Peyto 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

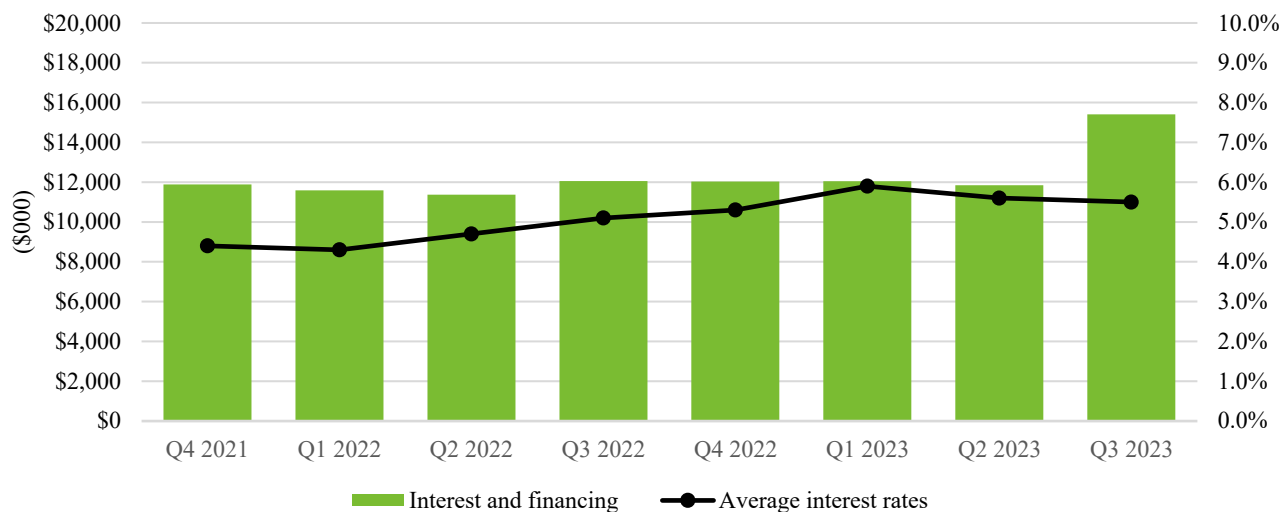
	Number of DSUs
Balance, December 31, 2022	217,236
DSU's granted	48,043
DSU's settled	(42,994)
Balance September 30, 2023	222,285

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 \$/Mcf	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.

Interest and Financing

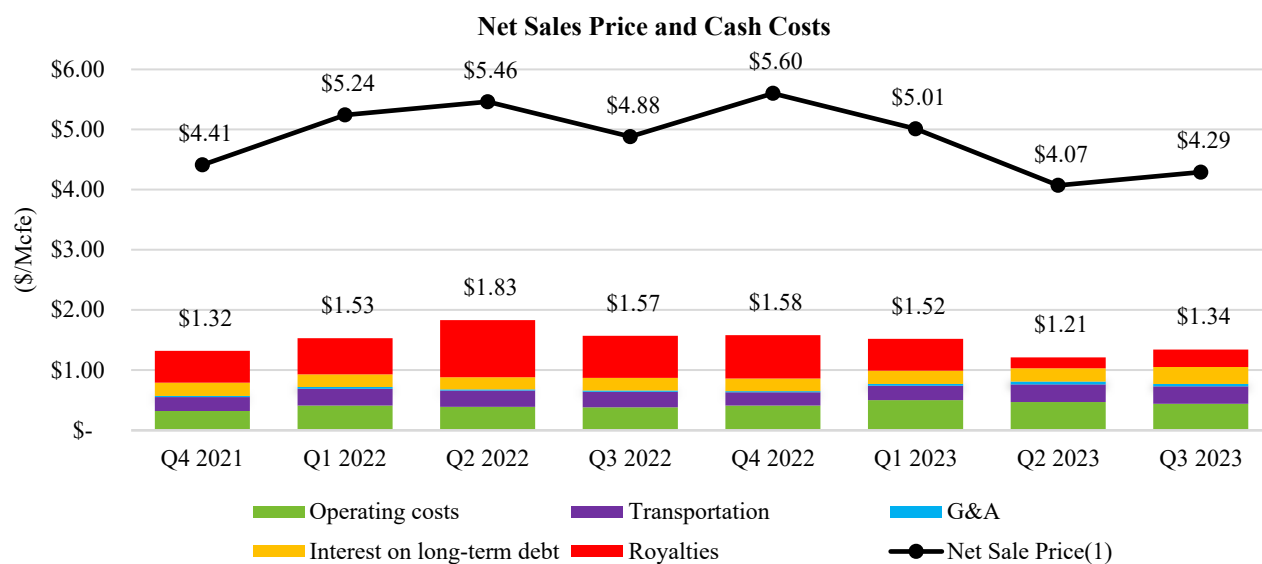


Netbacks

(\$/Mcf)	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	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⁾ (\$/Mcf)	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.



(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/Mcf) in the third quarter of 2023 compared to \$75.9 million (\$1.32/Mcf) in the third quarter of 2022. In the nine months ended September 30, 2023, depletion and depreciation totaled \$226.0 million (\$1.38/Mcf) compared to \$223.0 million (\$1.32/Mcf) 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			Average Price
Period Hedged – WTI	Type	Daily Volume (bbl)	(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			Average Price
Period Hedged – WTI	Type	Daily Volume (bbl)	(WTI USD/bbl)
Q4 2023	Fixed Price	400	\$70.80
Q1 2024	Fixed Price	200	\$70.15

Crude Oil			Put - Call
Period Hedged – WTI	Type	Daily Volume (bbl)	(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			Average Price
Period Hedged – AECO Monthly Index	Type	Daily Volume (Gj)	(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		Daily Volume	Average Price
Period Hedged – NYMEX	Type	(MMBtu)	(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			Average Price
Period Hedged – WTI	Type	Daily Volume (bbl)	(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

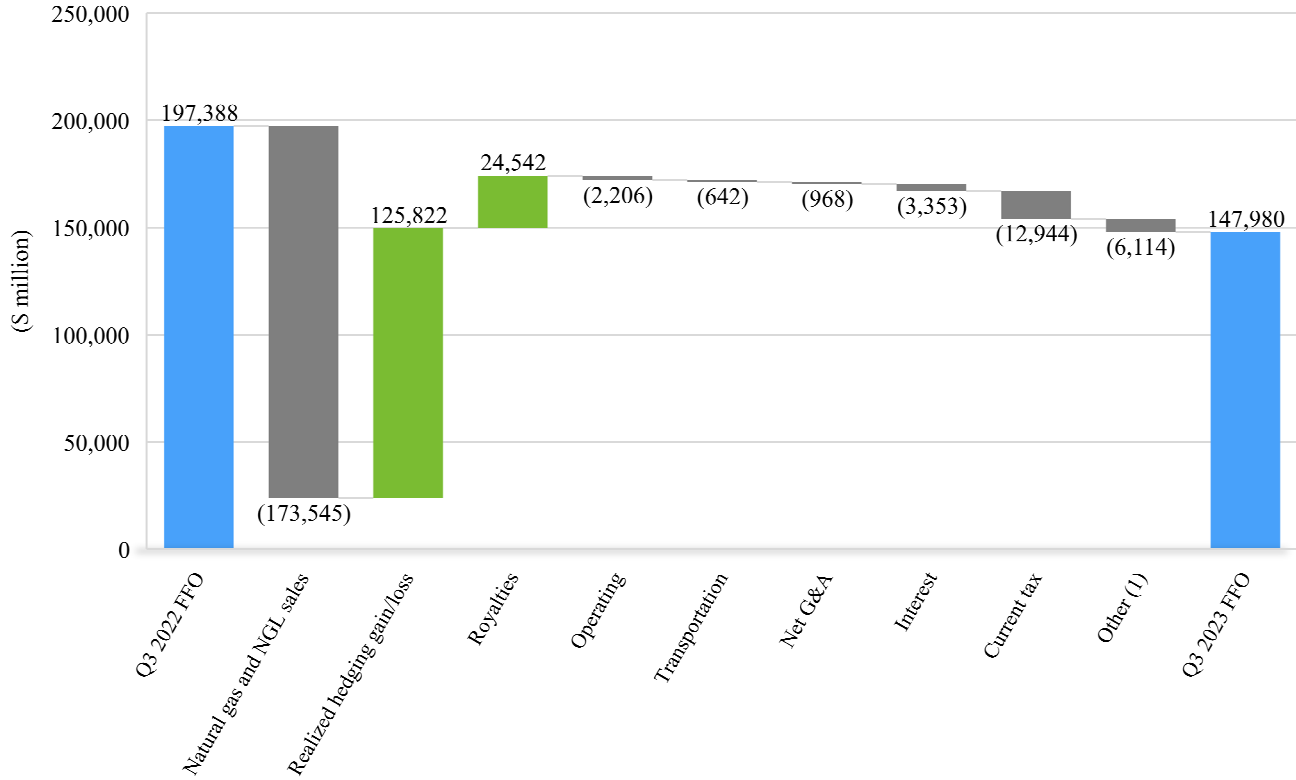
(\$000, except per share amounts)	Three Months Ended September 30			Nine Months Ended September 30		
	2023	2022	% Change	2023	2022	% Change
Cash Flow from Operating Activities	139,406	205,464	-32%	471,621	611,835	-23%
Funds from Operations ⁽¹⁾	147,980	197,388	-25%	470,152	606,781	-23%
Funds from operations 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

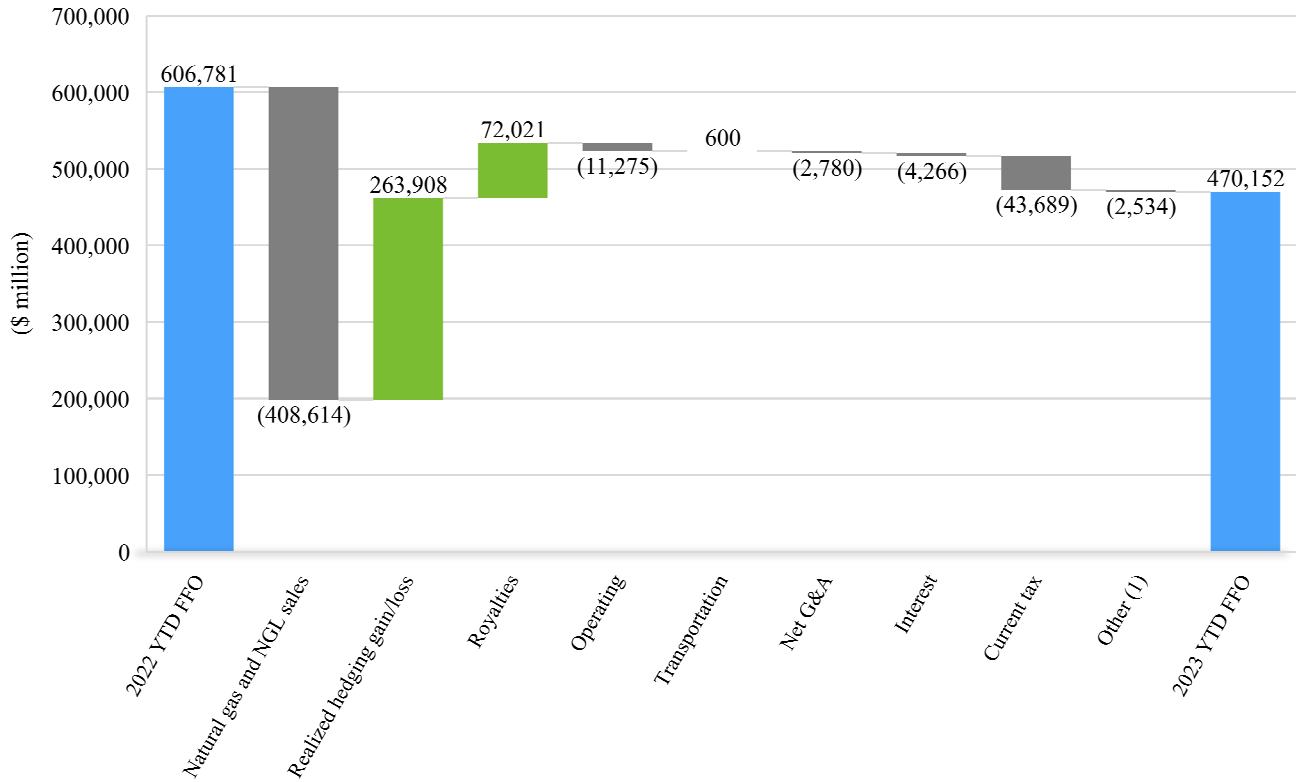
For the third quarter of 2023, cash flow from operating activities decreased to \$139.4 million from \$205.5 million in the third quarter of 2022. Funds from operations ("FFO") decreased 25 per cent to \$148.0 million in the third quarter of 2023, compared to \$197.4 million in the third quarter of 2022. 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.

**Change in Funds from Operations
Three Months Ended September 30**



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

**Change in Funds from Operations
Nine Months Ended September 30**



(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:

(\$000)	Three Months Ended September 30			Nine Months Ended September 30		
	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	As at	As at
	September 30, 2023	December 31, 2022	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.

(\$000, except total payout ratio)	Three Months Ended September 30			Nine Months Ended September 30		
	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 its financial covenants and lenders do not grant covenant relief, Peyto's access to capital could be restricted or repayment required.

The value of Peyto's common shares is based on, among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. 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 therefrom 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.

(\$000)	Three Months Ended September 30		Nine months Ended September 30	
	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.

(\$000)	Three Months Ended September 30		Nine months Ended September 30	
	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.

(\$000)	Three Months Ended September 30		Nine months Ended September 30	
	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	As at	As at
	September 30, 2023	December 31, 2022	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.

(\$/Mcf)	Three Months Ended September 30		Nine months Ended September 30	
	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 (\$/Mcf)	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.

(\$000, except total payout ratio)	Three Months Ended September 30		Nine months Ended September 30	
	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 (Mcf) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 Mcf:1 bbl may be misleading as an indication of value.

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 (Mcf/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
\$/Mcf					
Net sale price (\$/Mcf)	4.29	4.07	5.01	5.60	4.88
Net third party sales (\$/Mcf)	-	-	-	0.01	0.07
Other income (\$/Mcf)	0.02	0.02	0.08	0.13	0.04
Royalties (\$/Mcf)	(0.29)	(0.18)	(0.53)	(0.72)	(0.70)
Operating costs (\$/Mcf)	(0.44)	(0.47)	(0.50)	(0.41)	(0.38)
Transportation (\$/Mcf)	(0.29)	(0.29)	(0.24)	(0.22)	(0.26)
Field netback (\$/Mcf) ⁽²⁾	3.29	3.15	3.82	4.39	3.65
General & administrative expense (\$/Mcf)	(0.04)	(0.05)	(0.03)	(0.02)	(0.02)
Interest expense (\$/Mcf)	(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 (\$/Mcf) ⁽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