Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") of Peyto Exploration & Development Corp. ("Peyto" or the "Company") is Management's analysis of the financial performance and significant trends and external factors that may affect future performance. This MD&A was prepared using information that is current as of March 7, 2024 and should be read in conjunction with the audited consolidated financial statements (the "financial statements") as at and for the years ended December 31, 2023 and 2022, as well as Peyto's Annual Information Form, each of which is available at at www.sedarplus.ca and on Peyto's website at www.Peyto.com.

The financial statements have been prepared in accordance with the International Accounting Standards Board's ("IASB") most current International Financial Reporting Standards ("IFRS" or "GAAP"). All references are to Canadian dollars unless otherwise indicated.

Throughout this MD&A and in other materials disclosed by the Company, Peyto adheres to GAAP, however the Company also employs certain non-GAAP and other financial measures to analyze financial performance, financial position, and cash flow including, but not limited to "funds from operations", "free funds flow", "total capital expenditures" and "net debt". These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as earnings (loss), cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance. See "Non-GAAP and Other Financial Measures" included at the end of this MD&A for an explanation of these financial measures and reconciliation to the most directly comparable financial measure under IFRS.

Readers are cautioned that this MD&A contains certain forward-looking information and should be read in conjunction with Peyto's "Forward-Looking Statements" section included at the end of this MD&A.

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas, oil and natural gas liquids in Alberta's deep basin. At December 31, 2023, the Company's total Proved plus Probable reserves were 7.8 trillion cubic feet equivalent (1.3 billion barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 87 per cent to natural gas and 13 per cent to natural gas liquids.

The Peyto model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects.
- Build an asset base which is made up of high-quality natural gas reserves.
- Over time, balance dividends paid to shareholders with earnings and cash flow, and balance funding for the capital program with cash flow, equity and available credit lines.

Operating results over the last 25 years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

REPSOL ACQUISITION

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

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

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

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

ANNUAL FINANCIAL INFORMATION

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

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

(1) Excludes revenue from sale of natural gas and NGLs from third parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information
(3) Refer to Note 5 "Current and long-term debt" in the financial statements.

QUARTERLY FINANCIAL INFORMATION

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

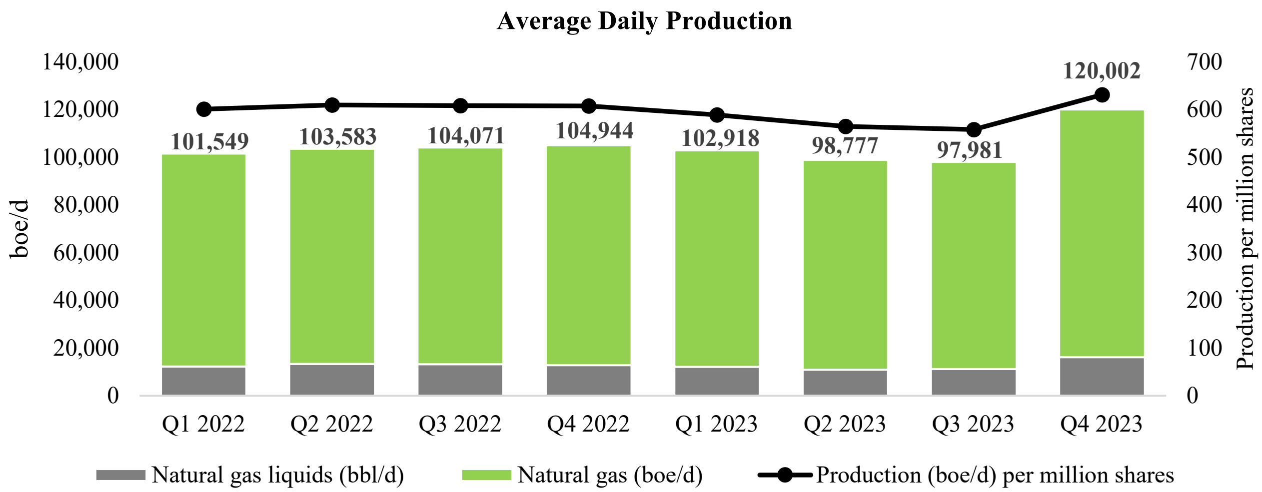
(1) Excludes revenue from sale of natural gas volumes from third parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.
(3) Total dividends declared in the third quarter of 2023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

RESULTS OF OPERATIONS

Production

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

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



Natural Gas Liquids Production by Component

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

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

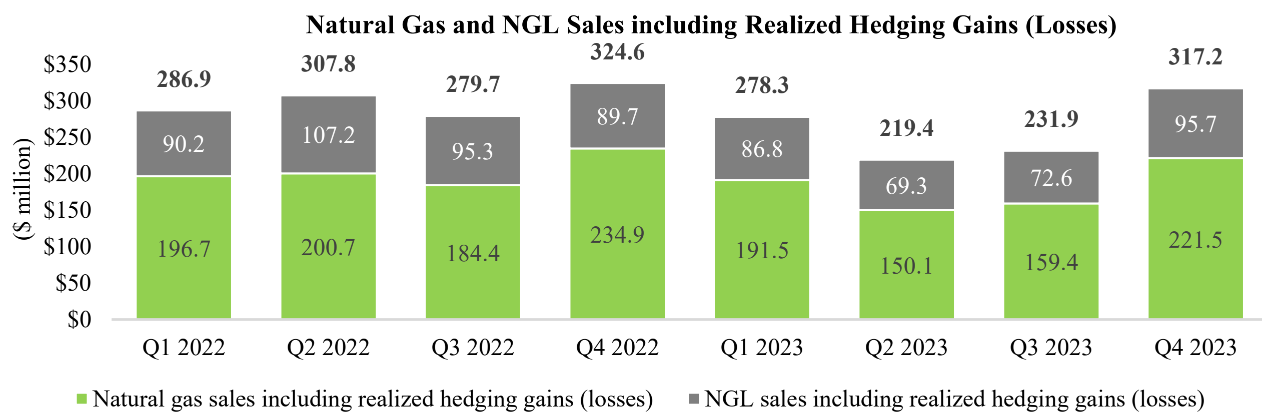
Revenue from Natural Gas and NGL Sales and Realized Hedging Gains (Losses)

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

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

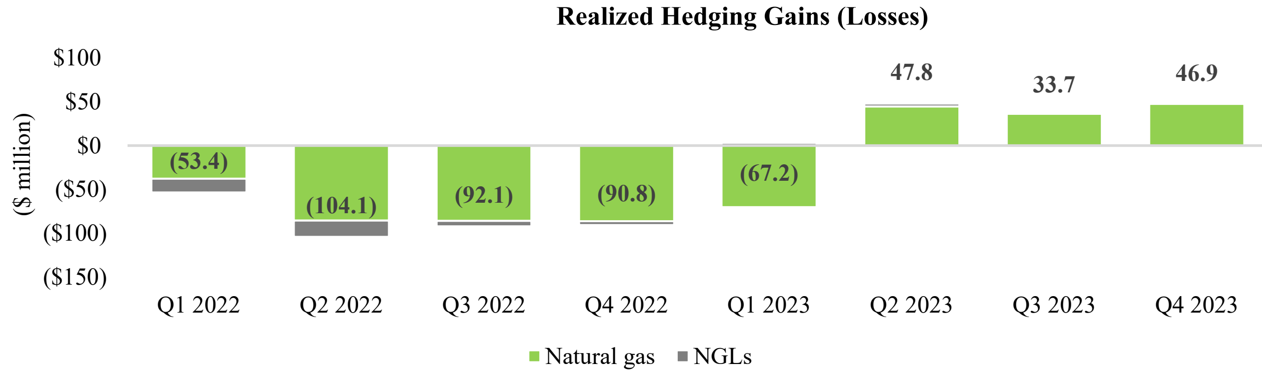
In the fourth quarter of 2023, natural gas and NGL sales net of realized hedging gains (losses) decreased two per cent to $317.2 million from $324.6 million in the fourth quarter of 2022. For the year ended December 31, 2023, natural gas and NGL sales net of realized hedging gains (losses) decreased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

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



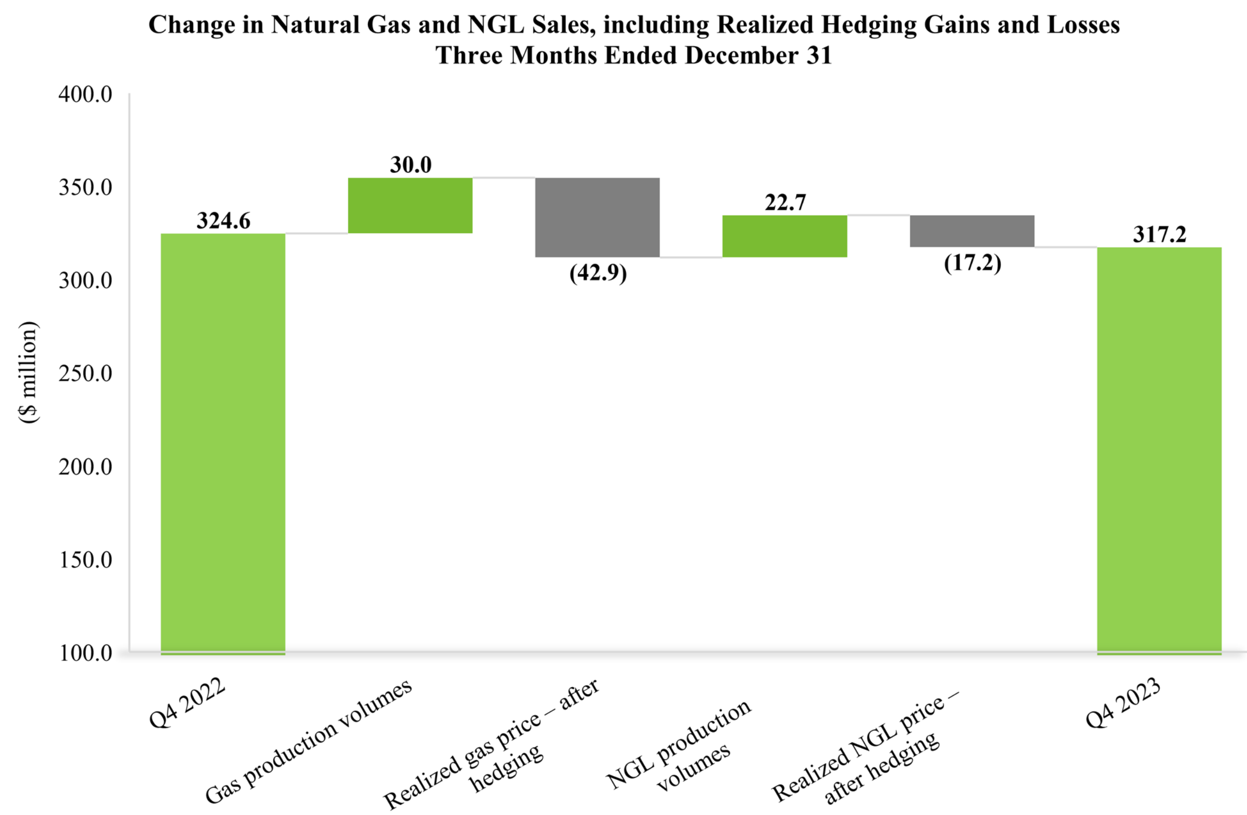
Peyto enters into risk management contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In periods of increasing commodity prices, Peyto expects to realize hedging losses and in periods of falling commodity prices, Peyto expects to realize hedging gains. Peyto's hedging program since inception in 2003 has generated cumulative realized gains of $196 million.

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

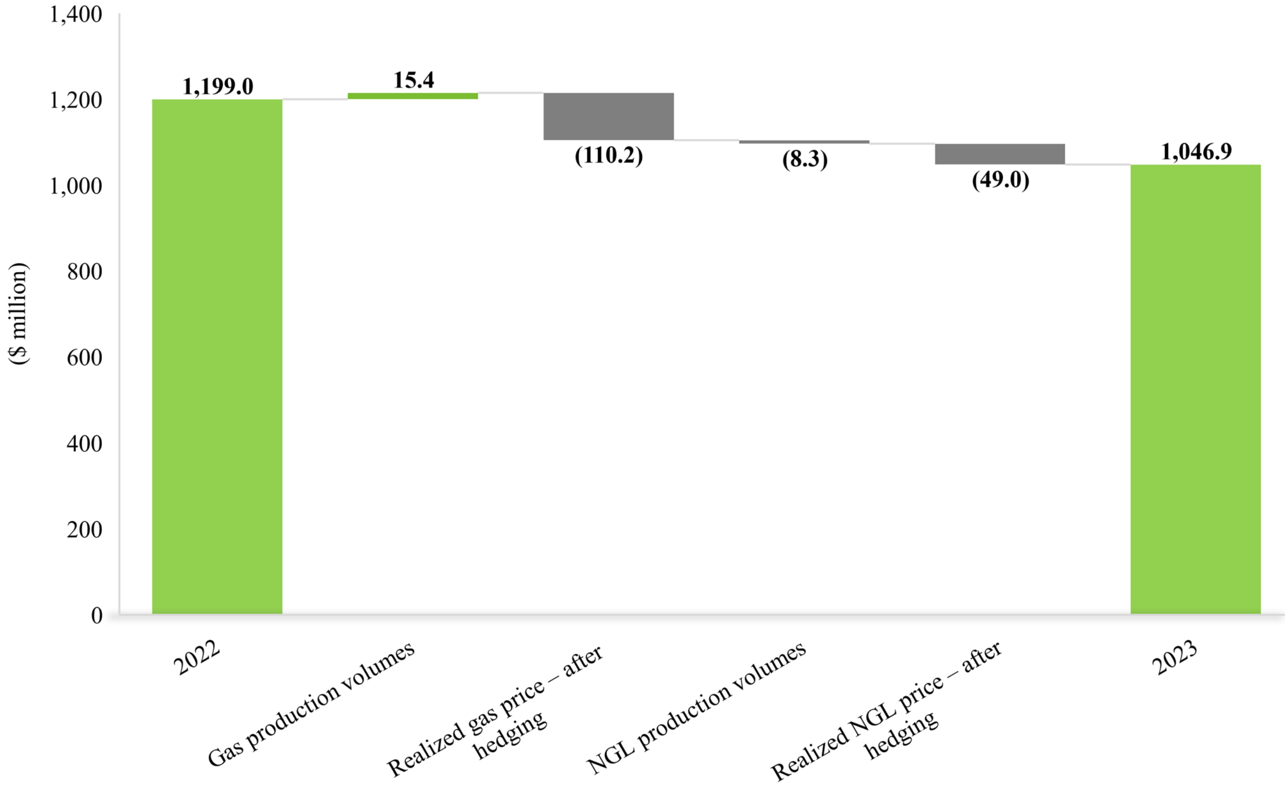


The change in revenue from natural gas and NGL sales including realized hedging losses in the three months and year ended December 31, 2023 from the same periods of 2022, are detailed in the following table and charts:

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



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



Benchmark Commodity Prices

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

Commodity Prices

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

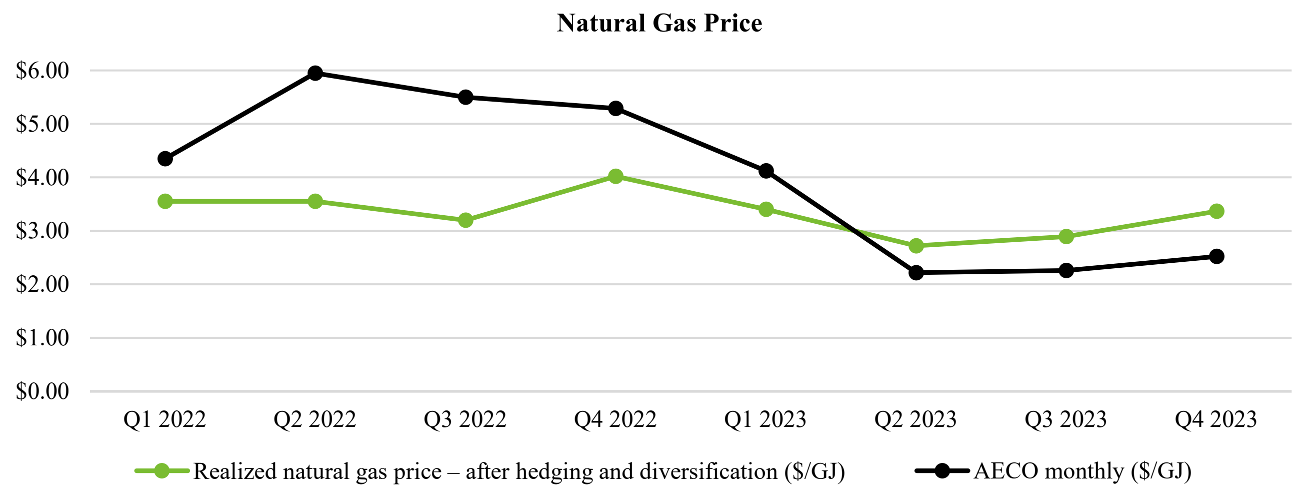
(1) Condensate, pentanes plus and other liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation
(2) Excludes revenue from sale of natural gas volumes from third parties but includes fixed price physical contracts

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

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

Peyto actively markets all components of its production stream including natural gas, condensate, pentane, butane and propane. Peyto's market diversification activity resulted in natural gas being sold at various hubs including AECO, Ventura, Emerson 2, Malin, Dawn and Henry Hub using both physical fixed price and temporary basis transactions to access those locations. Natural gas prices were left to float on daily pricing or locked in using fixed price swaps at those hubs and Peyto's realized price was benchmarked against those local prices, then adjusted for marketing arrangements (either physical or short-term synthetic) to those markets. This gas market diversification cost represents the total marketing and synthetic transportation cost, not just the difference between those markets and an AECO equivalent price.

The Company's liquids were also actively marketed with condensate being sold on a monthly index differential linked to West Texas Intermediate ("WTI") oil prices. Peyto's NGLs (a blend of pentanes plus, butane and propane) are fractionated by a third party in Fort Saskatchewan, Alberta however Peyto markets each product separately. Pentanes Plus were sold on a monthly index differential linked to WTI, with some volumes forward sold on fixed differentials to WTI. Butane was sold as a percent of WTI or a fixed differential to the Mount Belvieu, Texas market. Propane was sold on a fixed differential to the Conway, Kansas market. While some products were sold pursuant to annual term contracts to ensure delivery paths remain open, others were marketed on the daily spot market.



Sales and Purchases of Natural Gas and NGLs from Third Parties

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

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

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

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

Other Income

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

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

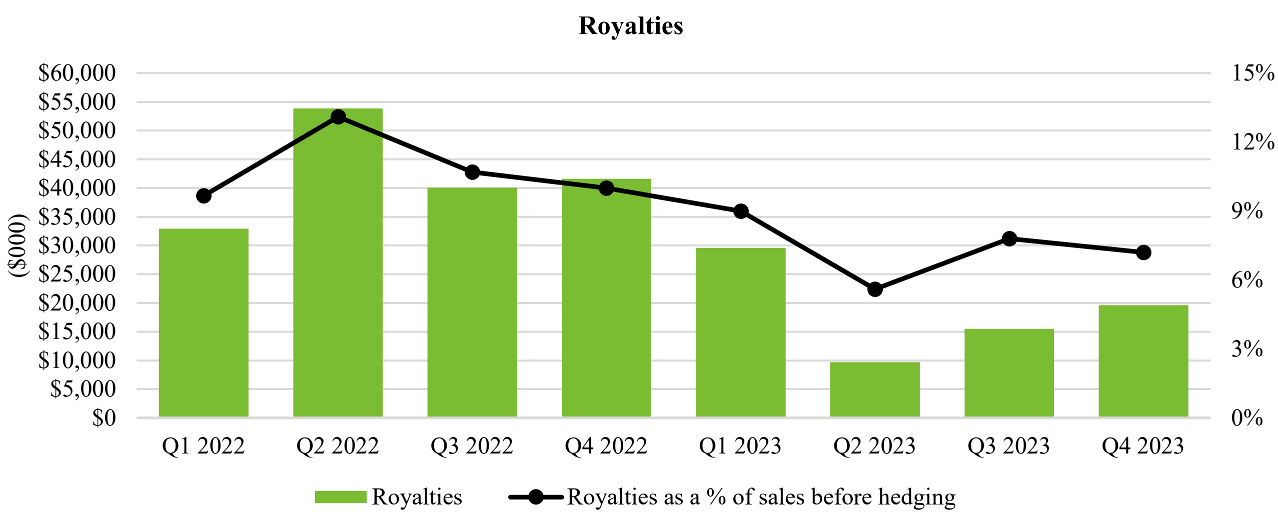
Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. All Peyto's new wells qualify for the Crown's Drilling and Completion Cost Allowance program, which has a five per cent initial royalty rate.

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

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

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



Operating Costs & Transportation

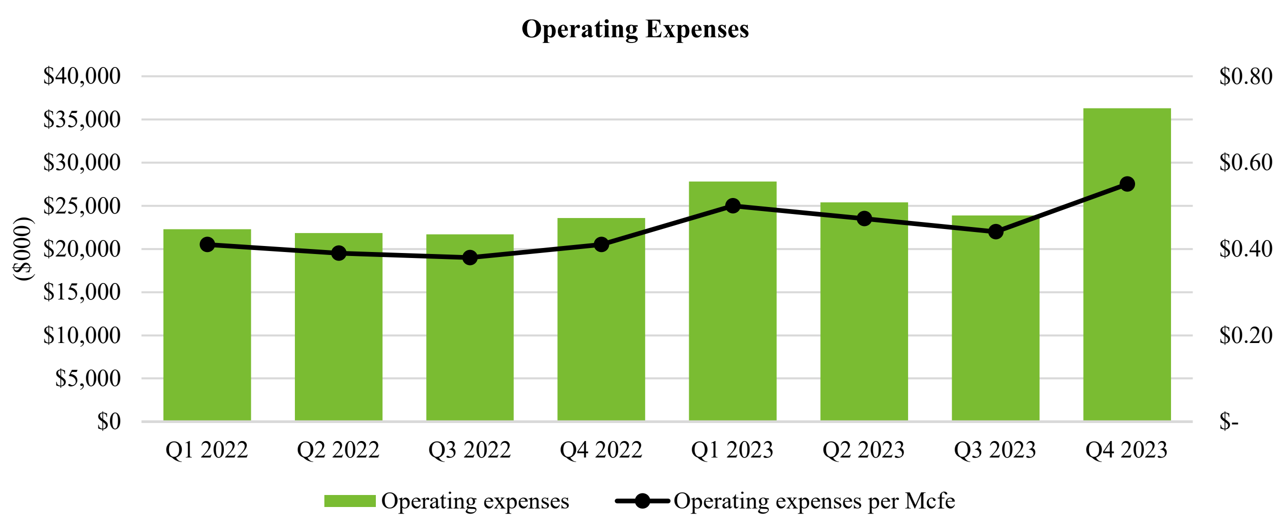
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

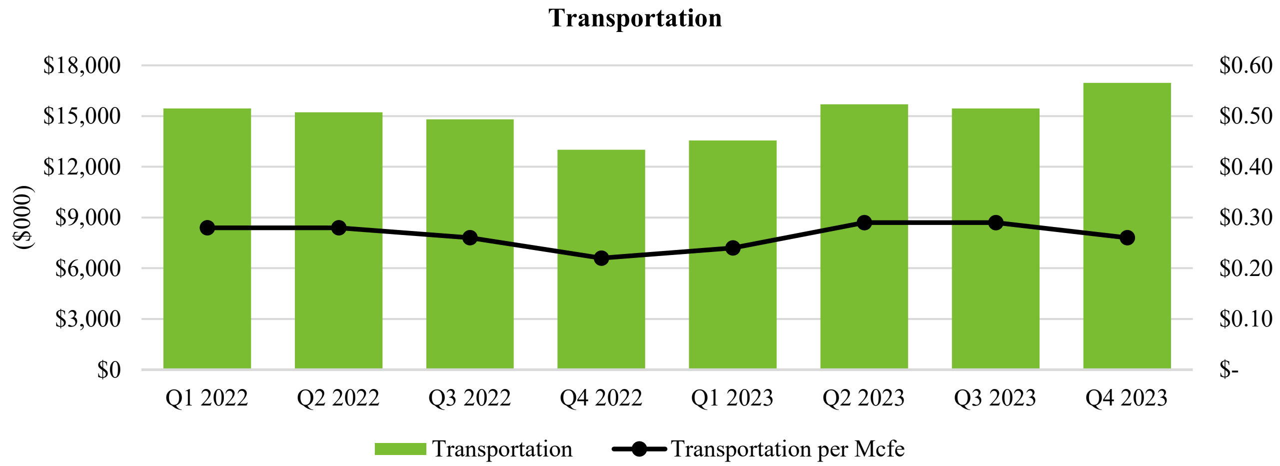
	Three Months Ended December 31			Year Ended December 31		
	2023	2022	% Change	**2023**	2022	% Change
Payments to Government ($000)	**9,859**	5,308	*86%*	**27,598**	21,059	*31%*
Other expenses ($000)	**26,440**	18,290	*45%*	**85,793**	68,356	*26%*
Operating costs ($000)	**36,299**	23,598	*54%*	**113,391**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

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

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

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





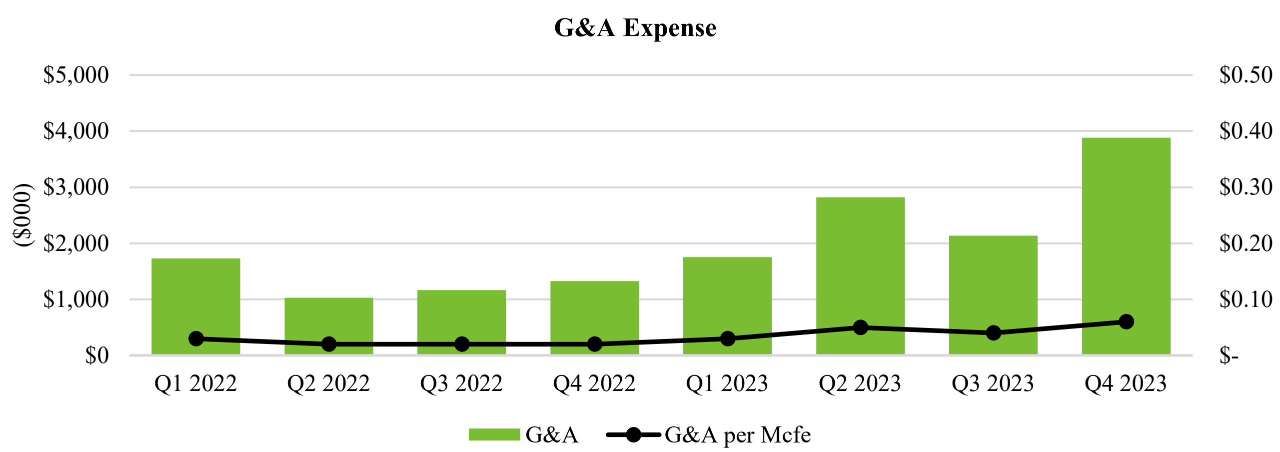
General and Administrative ("G&A") Expenses

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

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

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

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



Performance and Stock Based Compensation

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

Performance Based Compensation

The reserve value-based component is 4 per cent of the incremental increase in per share value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8 per cent. Peyto recorded $3.3 million for performance-based compensation expense in the three months and year ended December 31, 2023 (2022 - $0.6 million and $5.6 million).

Stock Based Compensation

The Company has a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. Stock options are to be granted periodically with a three-year vesting period. At the vesting, recipients have thirty days to exercise options after which any unexercised options expire.

Peyto has a deferred share unit plan, whereby DSUs may be issued to members of the Board of Directors. Each DSU is a notional unit equal in value to one Common Share, which entitles the holder to receive a common share upon redemption. DSUs vest immediately but can only be converted to a share upon the holder ceasing to be a Director of the Company. The expense associated with the DSU plan is determined based on the 5-day VWAP of Common Shares at the grant date. The expense is recognized in the income statement in the quarter in which the units are granted, with a corresponding charge to contributed surplus in the balance sheet.

Stock based compensation costs is calculated on 9.9 million non-vested stock options (5.1 per cent of the total number of common shares outstanding) and 0.2 million vested DSU's (0.1 per cent of the total number of common shares outstanding). The stock option plan limits the number of common shares that may be granted to 10 per cent of the outstanding common shares.

Peyto records a non-cash provision for compensation expense over the life of the stock options calculated using a Black-Scholes valuation model. Stock based compensation costs for the three months and year ended December 31, 2023 were $4.5 million and $15.2 million, respectively (2022 - $3.9 million and $11.7 million).

Stock Option Plan

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

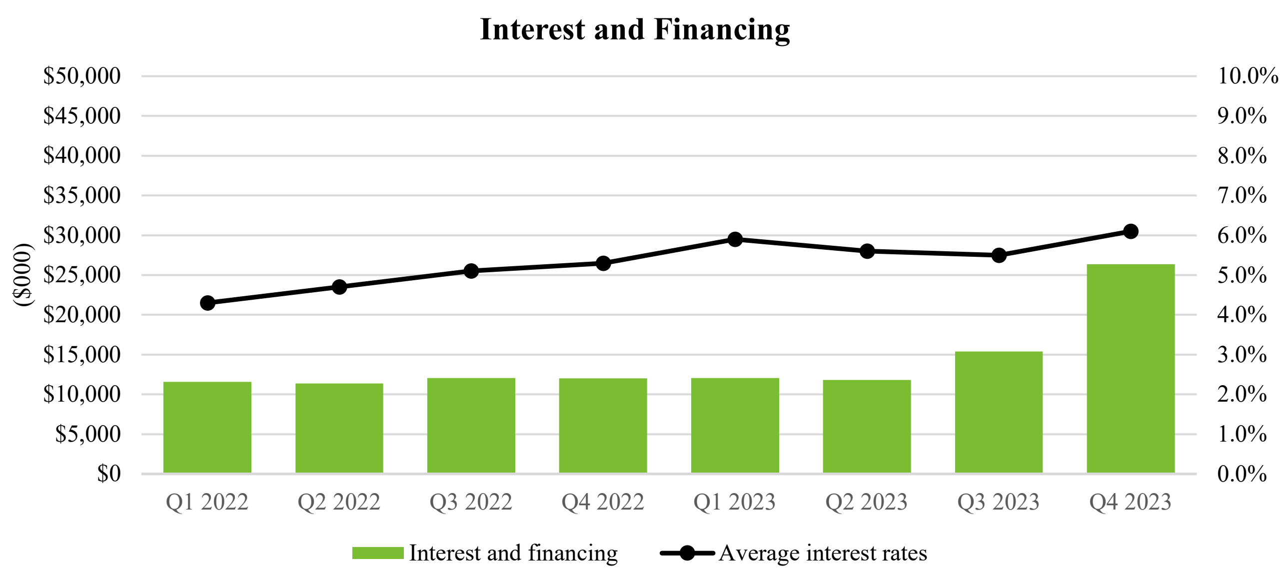
Deferred Share Units

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

Finance Expense

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

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

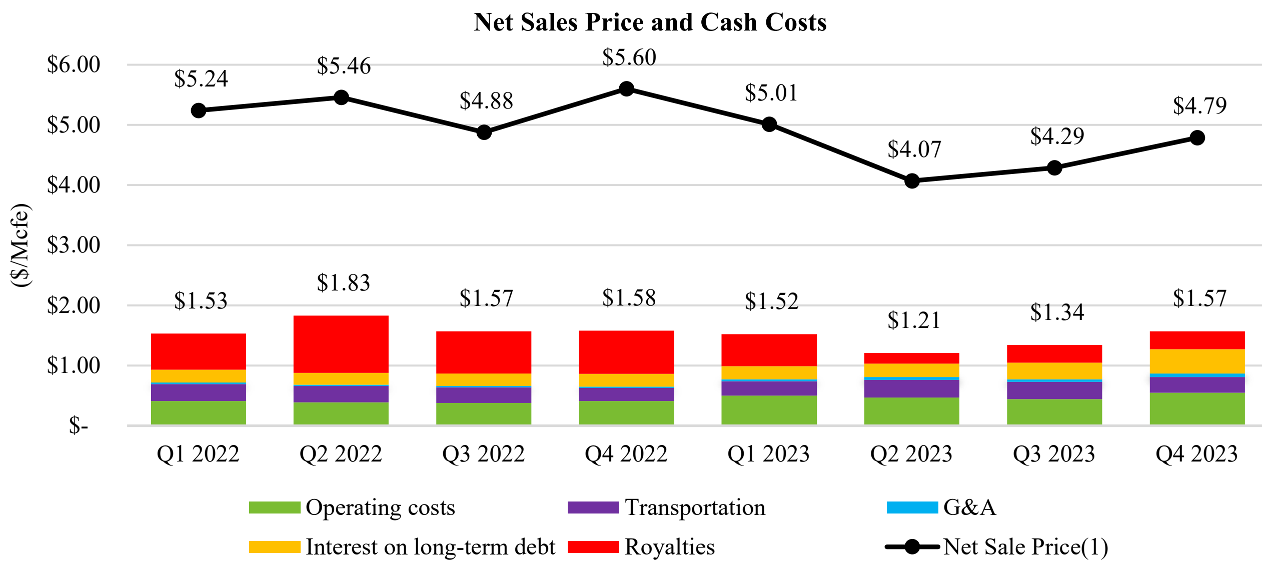


Netbacks

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

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

Netbacks are a non-GAAP measure that represent the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.



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

Depletion and Depreciation

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

Income Taxes

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

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

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

MARKETING AND RISK MANAGEMENT

Financial Derivative Instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil, natural gas prices, and the foreign exchange rate. To minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate.

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

Commodity Price Risk Management

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Exchange Forward Contracts

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

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

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

Interest Rate Contracts

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

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

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

Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings and cash flow. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. Peyto mitigates exchange rate risks using foreign exchange forward contracts and by hedging certain products with Canadian dollar contracts. Additionally, the $40 million USD in senior secured notes provides structural foreign exchange risk mitigation.

Interest Rate Risk Management

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Peyto uses interest rate swaps on a portion of its floating rate debt to mitigate its interest rate exposure. At December 31, 2023, the increase or decrease in earnings for each 100 bps (1 per cent) change in weighted average borrowing rate paid on the outstanding revolving demand loan amounts to approximately $2.3 million per quarter. Average debt outstanding for the quarter was $1.39 billion (including $463 million fixed rate debt).

Cash Flow from Operating Activities, Funds from Operations and Earnings

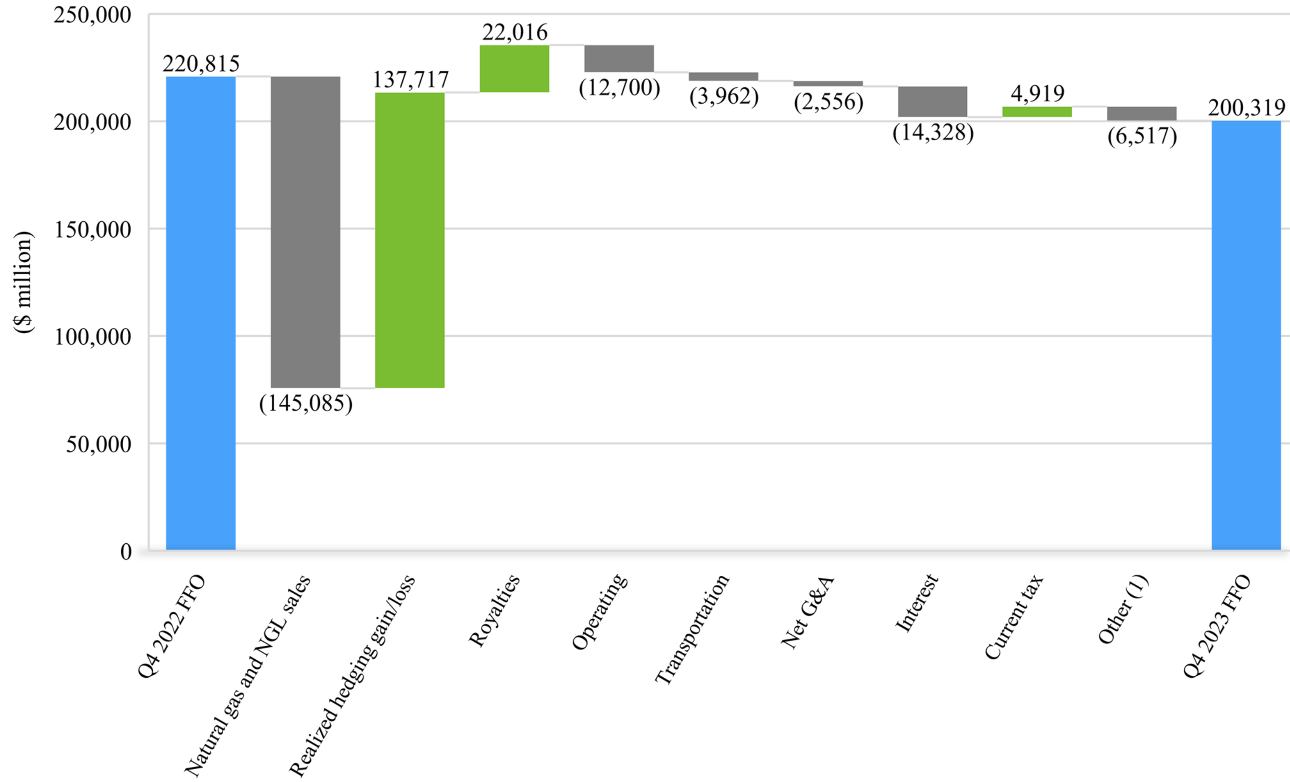
	Three Months Ended December 31			**Year Ended December 31**		
($000, except per share amounts)	**2023**	2022	% Change	**2023**	2022	% Change
Cash Flow from Operating Activities	**173,247**	199,943	*-13%*	**644,868**	811,778	*-21%*
Funds from Operations[1]	**200,319**	220,815	*-9%*	**670,471**	827,596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

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

Cash Flow from Operating Activities and Funds from Operations

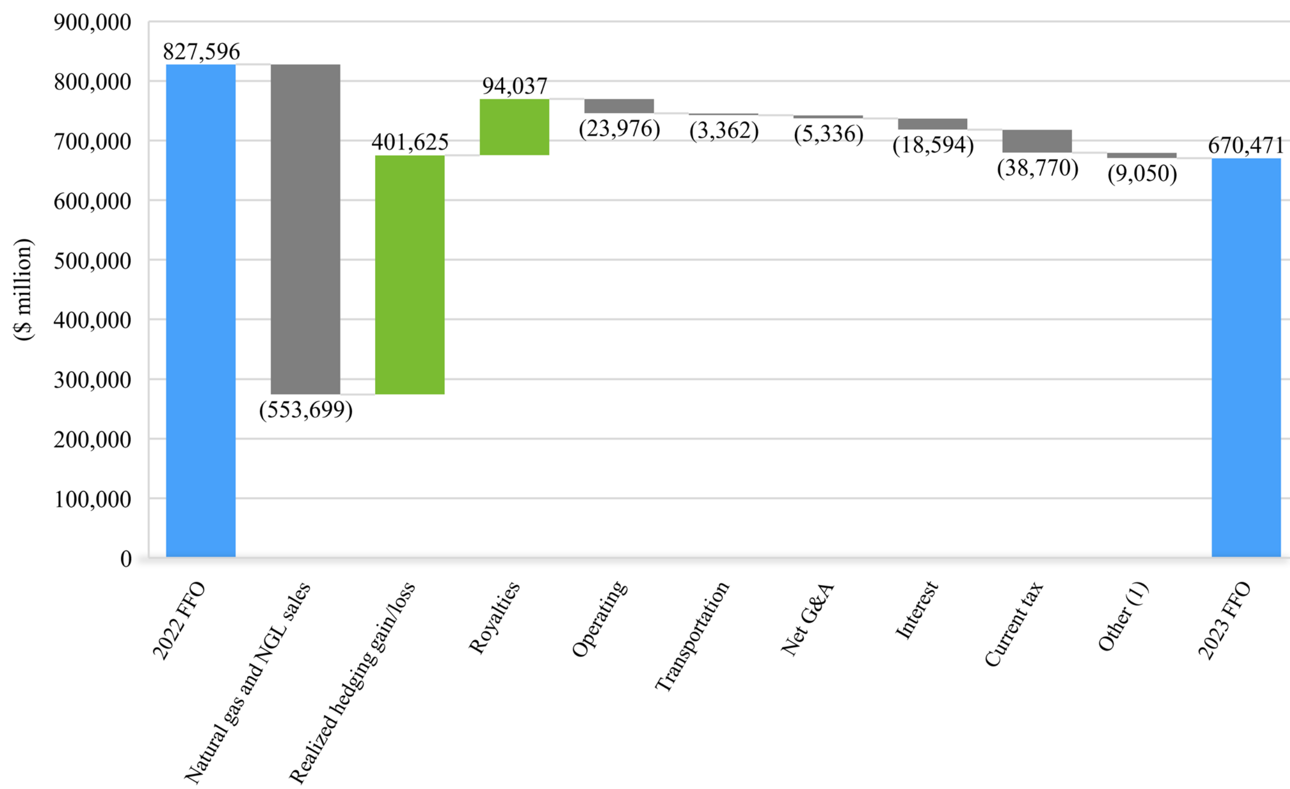
For the fourth quarter of 2023, cash flow from operating activities decreased to $173.2 million from $199.9 million in the fourth quarter of 2022. Funds from operations ("FFO") decreased nine per cent to $200.3 million in the fourth quarter of 2023, compared to $220.8 million in the fourth quarter of 2022. For the year ended December 31, 2023, cash flow from operating activities decreased to $644.9 million from $811.8 million in 2022. FFO totaled $670.4 million in 2023, compared to $827.6 million in 2022. The decreases in cash flow from operating activities and FFO were mainly due to sharp decreases in commodity prices, and increased operating costs, interest expense and current taxes, partially offset by increased production volumes, higher realized hedging gains and lower royalties. Funds from operations is a non-GAAP financial measure, refer to the section entitled "Non-GAAP and Other Financial Measures" for additional information contained within this MD&A.

Change in Funds from Operations
Three Months Ended December 31



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

Change in Funds from Operations
Year Ended December 31



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

Free Funds Flow

Peyto uses free funds flow, defined as funds from operations less total capital expenditures, as an indicator of the funds available for capital allocation. For the three months and year ended December 31, 2023, free funds flow decreased to $85.1 million and $257.6 million, respectively, from $105.8 million and $320.7 million for the same periods of 2022. Free funds flow is a non-GAAP financial measure, refer to the section entitled "Non-GAAP and Other Financial Measures" for additional information contained within this MD&A.

Earnings

The Company's earnings in the three months and year ended December 31, 2023 decreased to $87.8 million and $292.6 million, respectively, from $113.4 million and $390.7 million for the same periods of 2022. The decreased earnings were driven by the decreased funds from operations and increased depletion and depreciation associated with increased production volumes, partially offset by lower deferred tax expense.

Capital Expenditures

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

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

	Three Months Ended December 31			**Year Ended December 31**		
($000)	**2023**	2022	% Change	**2023**	2022	% Change
Land	**1,889**	-	-	**4,654**	7,064	*-34%*
Seismic	**10,491**	661	*1487%*	**11,424**	3,374	*239%*
Drilling	**47,027**	49,213	*-4%*	**190,984**	205,263	*-7%*
Completions	**33,772**	39,085	*-14%*	**111,090**	126,665	*-12%*
Equipping & tie-ins	**9,988**	9,815	*2%*	**30,592**	38,907	*-21%*
Facilities & pipelines	**12,051**	16,266	*-26%*	**64,175**	99,523	*-36%*
	115,218	115,040	-	**412,919**	480,796	*-14%*
Asset acquisitions	**-**	-	-	**-**	26,064	*-100%*
Total capital expenditures(1)	**115,218**	115,040	-	**412,919**	506,860	*-19%*
Corporate acquisitions	**699,358**	-	-	**699,358**	22,220	-

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

LIQUIDITY AND CAPITAL RESOURCES

Net Debt

Net debt is a non-GAAP financial measure used by the Company in monitoring and assessing its capital structure. Net debt as at December 31, 2023 and December 31, 2022 is summarized as follows:

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

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

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

The Company's 2024 capital expenditure budget has been approved at $450 to $500 million. Peyto believes funds from operations based on current strip pricing, together with available borrowings under the Revolving Facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program. Peyto has specifically designed the program to have flexibility in the back half of the year when natural gas prices are forecasted to strengthen. Until that time, the Company plans to target the low end of capital guidance and will react to changes in commodity prices as they unfold.

The total amount of capital invested in 2024 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long-term return objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Current and Long-Term Debt

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

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

Borrowings under the Credit Facilities bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar SOFAR loan rates, plus applicable margin and stamping fees. The Company had $6.7 million of Letters of Credit outstanding at December 31, 2023 ($0.3 million at December 31, 2022). The undrawn portion of the Revolving Facility totaled $243.3 million at December 31, 2023 ($359.7 million at December 31, 2022), and is subject to standby fees.

Peyto is subject to financial covenants as defined in the credit facility and note purchase agreements. The Company's financial covenants include financial measures defined within its revolving credit facility agreement that are not defined under IFRS. These financial measures are defined in the amended credit facility agreement as follows:

- Total Debt: includes long-term debt and subordinated debt plus bank overdraft and letters of credit.
- Senior Debt: includes long-term debt plus bank overdraft and letters of credit.
- EBITDA: trailing twelve-month net income before non-cash items, interest, and income taxes.

Financial covenant	Limit	**December 31, 2023**	December 31, 2022
Total Debt to EBITDA	Less than 4.0	**1.66**	0.97
Senior Debt to EBITDA	Less than 3.5	**1.66**	0.97
Interest coverage	Greater than 3.0	**14.01**	18.99

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

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

Senior Secured Notes	Date Issued	Rate	Maturity Date
$65 million (CAD)	May 1, 2015	4.26%	May 1, 2025
$100 million (CAD)	January 3, 2012	4.39%	January 3, 2026
$100 million (CAD)	January 2, 2018	3.95%	January 2, 2028
$40 million (USD)	October 29, 2021	3.98%	October 29, 2028
$160 million (CAD)	October 24, 2023	6.46%	October 24, 2030

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

Capital

Authorized: Unlimited number of voting common shares
Issued and Outstanding

Common Shares (no par value)	Number of Common Shares	Amount $000
Balance, December 31, 2022	**173,470,242**	**1,697,803**
Common shares issued on exercise of stock options	3,249,239	21,591
Common shares issued on public offering	16,916,500	201,306
Common shares issued on settlement of DSUs	42,994	250
Share Issue Costs (net of tax)	-	(6,804)
Contributed surplus on exercise of stock options	-	6,165
Balance, December 31, 2023	**193,678,975**	**1,920,311**

Total Payout Ratio

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

	Three Months Ended December 31			Year Ended December 31		
($000, except total payout ratio)	**2023**	2022	% Change	**2023**	2022	% Change
Total dividends declared[1]	**63,811**	25,908	*146%*	**239,006**	102,437	*133%*
Total capital expenditures[2]	**115,218**	115,040	-	**412,919**	506,860	*-19%*
Total payout[2]	**179,029**	140,948	*27%*	**651,925**	609,297	*7%*
Funds from operations[2]	**200,319**	220,815	*-9%*	**670,471**	827,596	*-19%*
Total payout ratio[1]	**89%**	64%	*40%*	**97%**	74%	*32%*

(1) Total dividends declared in the year ended December 31, 2023 includes the dividend equivalent payment of $1.9 million associated with the Subscription Receipts.
(2) This is a non-GAAP financial measure. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information.

Contractual Obligations

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

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

(1) Fixed interest payments on senior secured notes

Related Party Transactions

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

Expense ($000)				Accounts Payable ($000)	
Three Months ended December 31		Year ended December 31		As at December 31	
2023	2022	**2023**	2022	**2023**	2022
210.0	204.3	**486.8**	1,145.8	**(134.9)**	82.8

RISK FACTORS

Investors who purchase common shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is dependent on current Alberta, Henry Hub, Malin, Dawn, Ventura, and Emerson market prices and Canadian/US currency exchange rates. Peyto's marketing strategy is designed to smooth out short-term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

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

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

Peyto routinely monitors its financial forecasts, capital spending, balance sheet and dividend policy and has the ability to make operational and financial changes to help ensure Peyto remains compliant with all financial covenants. If necessary, Peyto can request temporary relief from financial covenants from lenders. In the event Peyto does not comply with it's financial covenants and lenders do not grant covenant relief, Peyto’s access to capital could be restricted or repayment required.

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

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost-efficient counterparties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. Peyto operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations and looks to both Alberta provincial authorities and Canada’s federal authorities for direction and regulation regarding environmental and climate change legislation.

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect Peyto's financial condition, results of operations and cash flows. Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of hydrocarbons and encourage the use of renewable fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. Peyto cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Peyto's business, financial condition, results of operations and cash flow by decreasing Peyto's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of crude oil and natural gas operations on the environment, environmental damage relating to spills of crude oil products during production and transportation, and Indigenous rights, have affected certain investors' sentiments towards investing in the crude oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they are no longer funding or investing in crude oil and natural gas assets or companies, or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust ESG policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, Management and employees of Peyto. Failing to implement the policies and practices, as requested by institutional investors, may result in such investors reducing their investment in Peyto, or not investing in Peyto at all. Any reduction in the investor base interested or willing to invest in the crude oil and natural gas industry and more specifically, Peyto, may result in limiting Peyto's access to capital, increasing the cost of capital, and decreasing the price and liquidity of Peyto's securities even if Peyto's operating results, underlying asset values, or cash flows have not changed.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, Peyto must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

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

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

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

Internal Control over Financial Reporting

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

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended December 31, 2023 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

OFF-BALANCE SHEET FINANCING

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

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2023 were evaluated by independent petroleum engineers GLJ Ltd.

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

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

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

Reserve Value Performance Based Compensation
The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2024. A quarterly provision for the reserve value-based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

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

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

ADDITIONAL INFORMATION

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR+ at www.sedarplus.ca and www.Peyto.com.

NON-GAAP AND OTHER FINANCIAL MEASURES

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

Non-GAAP Financial Measures

Funds from Operations

"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital, decommissioning expenditure, provision for future performance-based compensation and transaction costs. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

	Three Months Ended December 31		Year Ended December 31	
($000)	**2023**	2022	**2023**	2022
Cash flows from operating activities	**173,247**	199,943	**644,868**	811,778
Change in non-cash working capital	**16,755**	19,226	**13,064**	5,593
Decommissioning expenditures	**2,051**	1,089	**3,077**	4,668
Performance based compensation	**3,280**	557	**3,280**	5,557
Transaction costs	**4,986**	-	**6,182**	-
Funds from operations	**200,319**	220,815	**670,471**	827,596

Free Funds Flow

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

	Three Months Ended December 31		Year Ended December 31	
($000)	**2023**	2022	**2023**	2022
Cash flows from operating activities	**173,247**	199,943	**644,868**	811,778
Change in non-cash working capital	**16,755**	19,226	**13,064**	5,593
Decommissioning expenditures	**2,051**	1,089	**3,077**	4,668
Performance based compensation	**3,280**	557	**3,280**	5,557
Transaction costs	**4,986**	-	**6,182**	-
Total capital expenditures	**(115,218)**	(115,040)	**(412,919)**	(506,860)
Free funds flow	**85,101**	105,775	**257,552**	320,736

Total Capital Expenditures

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

	Three Months Ended December 31		Year Ended December 31	
($000)	**2023**	2022	**2023**	2022
Cash flows used in investing activities	**567,762**	115,300	**1,146,866**	516,912
Change in prepaid capital	**2,552**	(594)	**1,888**	7,596
Deposit for acquisition	**63,303**	-	**-**	-
Subscription receipt funds in escrow	**201,307**	-	**-**	-
Corporate acquisitions	**(699,358)**	-	**(699,358)**	(22,220)
Change in non-cash working capital relating to investing activities	**(20,348)**	334	**(36,477)**	4,572
Total capital expenditures	**115,218**	115,040	**412,919**	506,860

Net Debt
"Net debt" is a non-GAAP financial measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments, current portion of lease obligations and current portion of decommissioning provision. It is used by management to analyze the financial position and leverage of the Company. Net debt is reconciled to long-term debt which is the most directly comparable GAAP measure.

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

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

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

Non-GAAP Financial Ratios

Funds from Operations per Share
Peyto presents funds from operations per share by dividing funds from operations by the Company's diluted or basic weighted average common shares outstanding. "Funds from operations" is a non-GAAP financial measure. Management believes that funds from operations per share provides investors an indicator of funds generated from the business that could be allocated to each shareholder's equity position.

Netback per MCFE and BOE
"Netback" is a non-GAAP measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Peyto computes "field netback per Mcfe" as commodity sales from production, plus third party sales net of purchases, if any, plus other income, less royalties, operating, and transportation expense divided by production. "Cash netback" is calculated as "field netback" less interest, less general and administration expense and plus or minus realized gain on foreign exchange, divided by production. Netbacks are before tax, per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.

	Three Months Ended December 31		Year Ended December 31	
($/Mcfe)	**2023**	2022	**2023**	2022
Gross Sale Price	**4.08**	7.17	**4.29**	6.79
Realized hedging gain (loss)	**0.71**	(1.57)	**0.27**	(1.50)
Net Sale Price	**4.79**	5.60	**4.56**	5.29
Third party sales net of purchases	**-**	0.01	**-**	0.02
Other income	**0.05**	0.13	**0.03**	0.05
Royalties	**(0.30)**	(0.72)	**(0.32)**	(0.74)
Operating costs	**(0.55)**	(0.41)	**(0.49)**	(0.39)
Transportation	**(0.26)**	(0.22)	**(0.27)**	(0.26)
Field netback	**3.73**	4.39	**3.51**	3.96
Net general and administrative	**(0.06)**	(0.02)	**(0.05)**	(0.02)
Interest and financing	**(0.40)**	(0.21)	**(0.29)**	(0.21)
Realized gain on foreign exchange	**(0.01)**	-	**-**	0.01
Cash netback ($/Mcfe)	**3.26**	4.16	**3.17**	3.74
Cash netback ($/boe)	**19.54**	24.97	**19.04**	22.43

Third party sales net of purchases per Mcfe
"Third party sales net of purchases per Mcfe" is comprised of sales of natural gas from third parties less natural gas purchased from third parties, as determined in accordance with IFRS, divided by the Company's total production.

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

	Three Months Ended December 31		Year Ended December 31	
($000, except total payout ratio)	**2023**	2022	**2023**	2022
Total dividends declared(1)	**63,811**	25,908	**239,006**	102,437
Total capital expenditures	**115,218**	115,040	**412,919**	506,860
Total payout	**179,029**	140,948	**651,925**	609,297
Funds from operations	**200,319**	220,815	**670,471**	827,596
Total payout ratio (%)	**89%**	64%	**97%**	74%

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

Supplementary Financial Measures

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

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

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

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

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

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

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

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

"Other income per Mcfe" is comprised of other income, as determined in accordance with IFRS, divided by the Company's total production.

"Production per million common shares" is comprised of the Company’s total production divided by the weighted average number of shares outstanding at the end of the period.

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

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

"Realized natural gas price" is comprised of natural gas commodity sales from production, as determined in accordance with IFRS, divided by the Company's natural gas production.

"Realized NGLs price" is comprised of NGLs commodity sales from production, as determined in accordance with IFRS, divided by the Company's NGLs production.
Realized gain on foreign exchange and other income

"Royalties as a percentage of sales" is comprised of royalties, as determined in accordance with IFRS, divided by commodity sales from production as determined in accordance with IFRS.

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

"Sale price" is comprised of total commodity sales from production including hedging gains or losses, as determined in accordance with IFRS, divided by the Company's total production.

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

CONVERSION RATIO

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

GLOSSARY

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

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

Quarterly information

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

(1) Excludes revenue from sale of natural gas volumes from third parties
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information
(3) Includes the dividend equivalent payment in the three months ended September 30, 2023