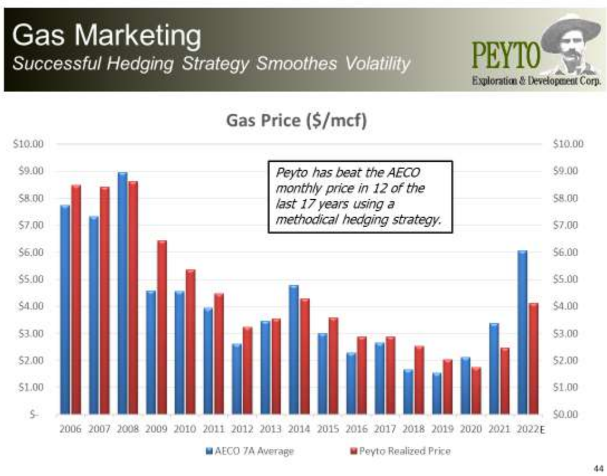
Peyto Exploration & Development Corp.
Monthly Report

February 2023 | **By Jean-Paul Lachance, President and Chief Executive Officer**

Revenue Security

Not that long ago I recall hearing a lot of criticism of Peyto's hedging policy. Recently, with the drop in natural gas prices the critics have been a little quieter. Don't get me wrong, we would prefer that our hedges were "out of the money" so we would make more revenue on our unhedged volumes. But why do we believe that active hedging is so important? It's not that we think we are smarter than the market, although Peyto has done quite well over the years relative to AECO as shown in Figure 1.

Figure 1 -Historical Results of Peyto Realized Price Relative to AECO



We do it because we don't know what future prices will be. We hedge for revenue security so we can plan our capital programs, protect our balance sheet and ensure we can return profits to shareholders in the form of a dividend (now up to $0.11/share/month starting in Jan). Peyto uses a mechanistic process to hedge small volumes systematically throughout the year, like a dollar cost averaging approach. This smooths out the volatility and avoids speculation. We target a progressive stepping-down schedule of coverage over the next three years. Our hedges over the last couple of years have been "out of the money" because prices rose rapidly (a good thing) but trends sure can reverse quickly, as we have seen.

Our current hedge position has approximately 70% of our gas volumes hedged for this winter season, 60% in the summer, and 40% for next winter. On average, we have 56% of gas production volumes fixed for 2023, which screens quite a bit higher than our peers as show in Figure 2. Our hedged volumes, combined with our diversification to hubs in the US and Canada, and our Cascade power supply deal (expected onstream late in 2023), combined with zero exposure to the (often) disconnected AECO market, allows us to forecast a price very similar to 2022. And Peyto's mechanistic approach continues, with approximately 20% of our expected gas volumes in 2024 fixed at average price of $4.90/mcf.

Refer to www.peyto.com for marketing and diversification updates.

Figure 2 – Peyto 2023 Hedging Relative to Peers

Source: Peters & Co. Limited estimates and Company Reports. Realized price estimates include hedging gains/losses and remaining unhedged volumes to other markets less diversification costs based on $US 3.15/mcf Nymex and $C3.03/mcf AECO for 2023. Peers include: AAV, ARX, BIR, CR, KEC, KEL, NVA, PIPE, PNE, PMT, POU, SDE, TOU.

It's this active hedging policy, combined with our diversification to markets outside of AECO and our low cash costs (that further reduce with lower prices) that gives Peyto the revenue security for 2023 and beyond. This provides us with the confidence that we can sustain our capital program and share our profits with shareholders in the form of dividends while continuing to reduce debt.

Operational Highlights

We started up four rigs in late December/early January where they left off before Christmas. These rigs are drilling on multi-well pads for cost efficiencies and to minimize our surface footprint. Most of the completions are scheduled for February when the rigs move off to the next location. We expect production will be more or less flat through the winter with just four rigs running and the balance of our capital program will remain nimble as we keep a close eye on natural gas prices.

As in the past, this report includes an estimate of monthly capital spending as well as our field estimate of production for the most recent month (see Capital Investment and Production tables below).

Capital Investment ($C millions)[1]

	Q1 21	Q2 21	Q3 21	Q4 21	2021	Q1 22	Q2 22	Q3 22	Oct 22	Nov 22	Dec 22	Q4 22	2022
D,C,E&T[2]	57	47	76	90	271	95	80	98	36	41	21	98	371
Facilities	16	8	12	14	50	47	21	16	6	5	5	16	100
Other[3]	37	1	2	5	44	1	8					1	10
Acquisitions[4]						22		26					48
Total	109	57	90	109	365	166	108	140	43	46	26	115	529

Production (mboe/d)[1]

	2021	Q1 22	Q2 22	Q3 22	Oct 22	Nov 22	Dec 22	Q4 22	2022	Jan 23
Sundance	70	78	76	75	75	75	75	75	76	73
Brazeau	17	19	23	24	25	26	26	26	23	27
Other	4	5	5	5	4	4	5	4	5	5
Total	91	101	104	105	105	105	106	105	104	105
Liquids %	13%	11%	13%	13%	13%	12%	12%	12%	12%	12%

1. *This estimate is based on real field data, not a forecast, and actual numbers will vary from the estimate due to accruals and adjustments. Such variance may be material. Tables may not add due to rounding.*
2. *Well related costs including Drilling, Completions, Equip and Tie-in.*
3. *Other costs include Land, Seismic, and Miscellaneous.*
4. *Acquisitions include asset and corporate deals.*

FORWARD LOOKING STATEMENTS

Certain information set forth in this monthly report, including management's expectation of future natural gas prices and the reasons therefore and management's estimate of monthly capital spending, field estimate of production, production decline rates and forecast netbacks, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Peyto's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive there from. The forward-looking statements contained in this monthly report are made as of the date of this monthly report. Except as required by applicable securities law, we assume no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing risks and assumptions affecting such forward-looking statements, whether as a result of new information, future events or otherwise.

All references are to Canadian dollars unless otherwise indicated. Natural gas liquids and oil 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.

Certain measures in this monthly report do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These measures may not be comparable to similar measures presented by other issuers. Non-IFRS measures are commonly used in the oil and gas industry and by Peyto to provide potential investors with additional information regarding Peyto's liquidity and its ability to generate funds to conduct its business. Non-IFRS measures used herein include netback and funds from operations.

Netbacks are a non-IFRS measure that represents 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.

Funds from operations is a non-IFRS measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance -based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate Peyto'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 IFRS measure is cash flows from operating activities.