

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 May 11, 2022 and should be read in conjunction with the unaudited condensed consolidated financial statements (the "financial statements") as at and for the three months ended March 31, 2022, and the MD&A and audited consolidated financial statements as at and for the year ended December 31, 2021, as well as Peyto's Annual Information Form, each of which is available at www.sedar.com 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") and International Accounting Standards ("IAS"). 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", 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, 2021, the Company's total Proved plus Probable reserves were 5.4 trillion cubic feet equivalent (904 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 88 per cent to natural gas and 12 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 twenty-four years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2022		2021		2020			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Natural gas and NGL sales, net of royalties and realized hedging gains (losses) ⁽¹⁾	253,991	208,055	146,792	127,727	161,258	116,018	86,986	71,178
Funds from operations ⁽²⁾	203,492	166,165	104,608	82,191	116,709	76,013	49,173	33,012
Per share – basic ⁽²⁾	1.20	0.99	0.63	0.50	0.71	0.46	0.30	0.20
Per share – diluted ⁽²⁾	1.17	0.96	0.62	0.50	0.71	0.46	0.30	0.20
Earnings (loss)	97,816	71,718	29,271	12,760	38,500	65,951	(11,285)	(22,538)
Per share – basic	0.58	0.43	0.18	0.08	0.23	0.40	(0.07)	(0.14)
Per share – diluted	0.56	0.42	0.17	0.08	0.23	0.40	(0.07)	(0.14)
Dividends	25,358	16,779	1,671	1,658	1,651	1,649	1,649	1,649
Per share	0.15	0.10	0.01	0.01	0.01	0.01	0.01	0.01
Capital expenditures	143,331	108,951	90,170	57,086	108,851	68,250	61,568	37,299
Corporate Acquisition	22,220	-	-	-	-	-	-	-
Total payout ratio (%) ⁽²⁾	83	76	88	71	95	92	129	118

(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

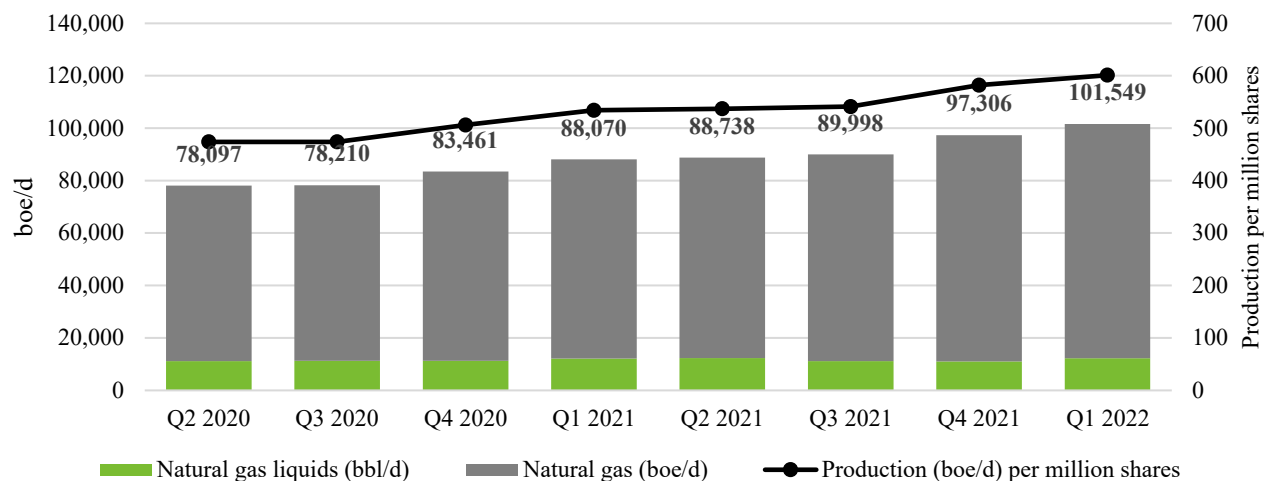
RESULTS OF OPERATIONS

Production

	Three Months ended March 31	
	2022	2021
Natural gas (MMcf/d)	535.7	455.6
Natural gas liquids ("NGLs" or "Liquids") (bbl/d)	12,273	12,138
Total (boe/d)	101,549	88,070
Total (MMcfe/d)	609.3	528.4

Natural gas production increased 18 per cent from 455.6 MMcf/d in the first quarter of 2021 to 535.7 MMcf/d in the first quarter of 2022. NGL production increased one per cent from 12,138 bbl/d in the first quarter of 2021 to 12,273 bbl/d in the first quarter of 2022. Total first quarter production increased 15 per cent from 88,070 boe/d to 101,549 boe/d. Production increases are primarily attributable to Peyto's increased capital program over the past year.

Average Daily Production



Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2022	2021
Condensate and Pentanes Plus (bbl/d)	7,253	7,018
Other Natural gas liquids (bbl/d)	5,020	5,120
Natural gas liquids (bbl/d)	12,273	12,138
Liquid to gas ratio (bbls/MMcf)	22.9	26.6

The liquid to gas ratio decreased 14 per cent from 26.6 bbl/MMcf in the first quarter of 2021 to 22.9 bbl/MMcf in the first quarter of 2022. The liquids to gas ratio will fluctuate in the future depending on the mix of rich and lean gas wells drilled as Peyto attempts to maximize overall returns. As natural gas prices improved, Peyto included more dry gas wells into the drilling program.

Benchmark Commodity Prices

	Three Months ended March 31	
	2022	2021
AECO 7A monthly (\$/GJ)	4.35	2.77
AECO 5A daily (\$/GJ)	4.49	2.99
NYMEX (US\$/MMBtu)	4.60	3.38
Emerson2 (US\$/MMBtu)	4.57	2.91
Malin (US\$/MMBtu)	5.66	3.03
Ventura daily (US\$/MMBtu)	4.47	11.86
Canadian WTI (\$/bbl)	119.40	73.22
Conway C3 (US\$/bbl)	54.03	38.40
Exchange rate (CDN/USD)	1.266	1.266

Commodity Prices⁽¹⁾

	Three Months ended March 31	
	2022	2021
(\$CAD)		
Condensate and Pentanes Plus (\$/bbl)	125.81	68.57
Other Natural gas liquids (\$/bbl)	52.68	30.89
NGL price – before hedging (\$/bbl)	95.90	52.84
Hedging (\$/bbl)	(14.24)	(7.21)
Realized NGL price – after hedging (\$/bbl)	81.66	45.63
Natural gas (\$/Mcf)	6.03	4.52
Diversification activities (\$/Mcf)	(1.17)	(1.04)
Hedging (\$/Mcf)	(0.78)	(0.42)
Realized natural gas price – after hedging and diversification (\$/Mcf)	4.08	3.06
Total Hedging (\$/Mcfe)	(0.97)	(0.53)
Total Hedging (\$/boe)	(5.84)	(3.16)

(1) Condensate, pentanes plus and other liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

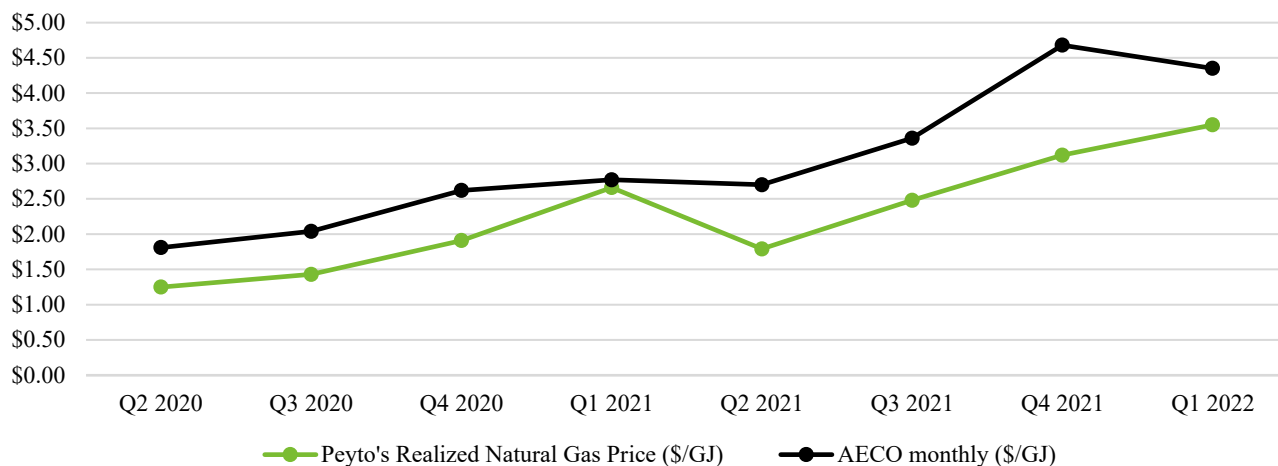
Peyto's natural gas price, before hedging and diversification activities, averaged \$6.02/Mcf during the first quarter of 2022 an increase of 33 per cent from \$4.52/Mcf in the first quarter of 2021. Natural gas liquids prices, before hedging, averaged \$95.90/bbl, an increase of 81 per cent from \$52.84/bbl a year earlier. Increases in Peyto's natural gas and NGL prices are driven by the sharp increase in benchmark commodity prices from the first quarter of 2021.

Peyto actively marketed all components of its production stream in the first quarter 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 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-

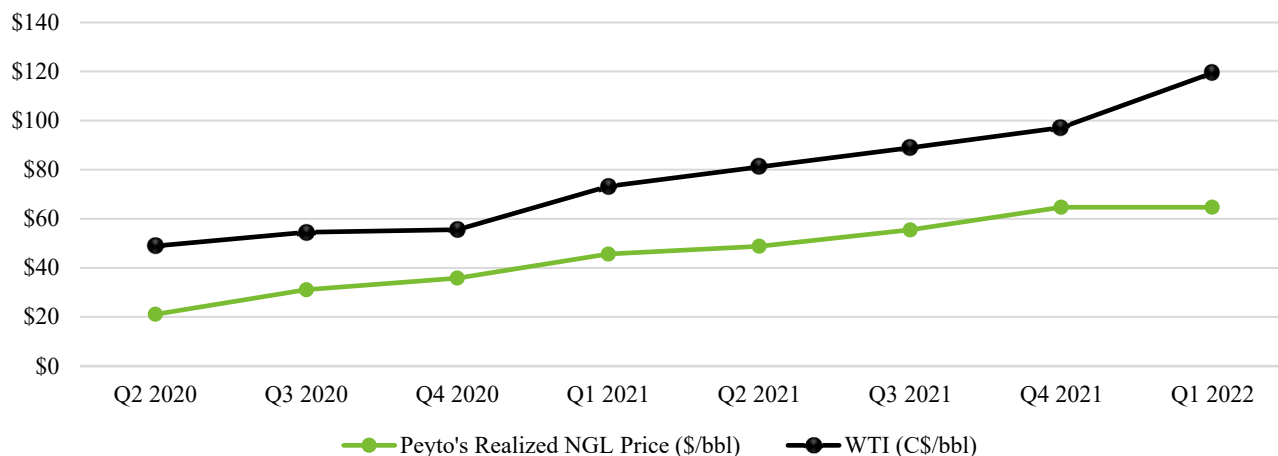
term synthetic) to those markets. This gas market diversification cost represents the total marketing and synthetic transportation cost, not just the difference between those markets and an AECO equivalent price.

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.

Natural Gas Price



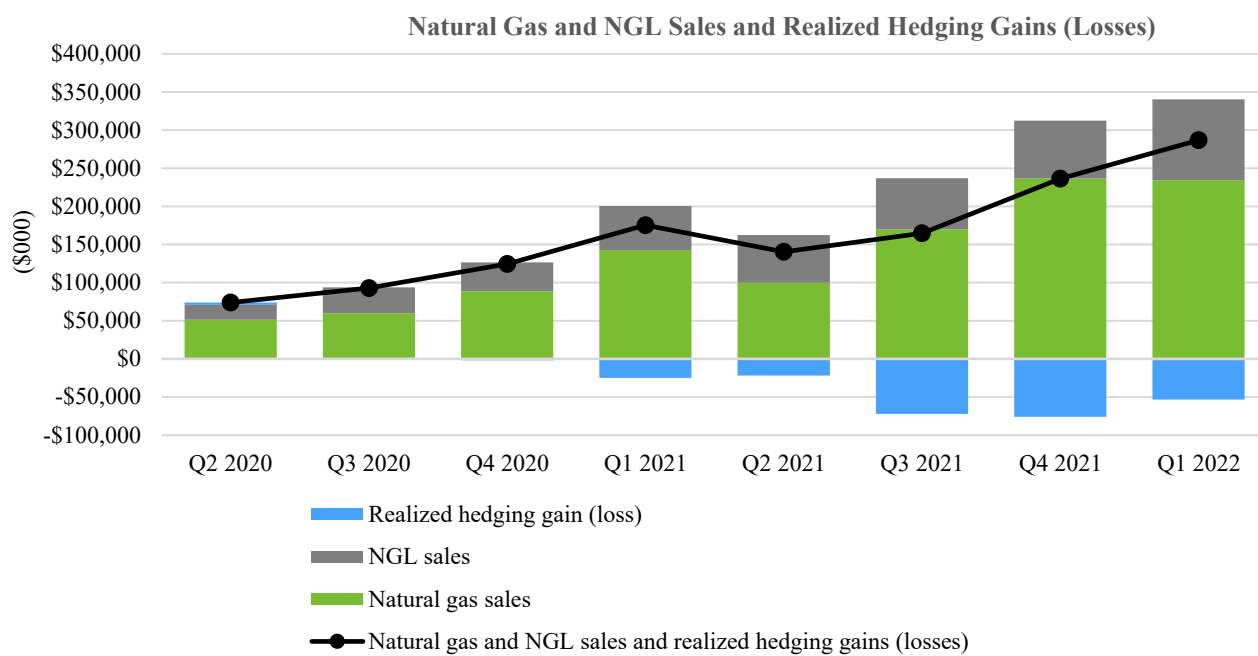
NGL Price



Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

(\$000)	Three Months ended March 31	
	2022	2021
Natural gas ⁽¹⁾	234,346	142,663
NGLs	105,924	57,720
Hedging – gas	(37,646)	(17,184)
Hedging – NGLs	(15,730)	(7,872)
	286,894	175,327

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

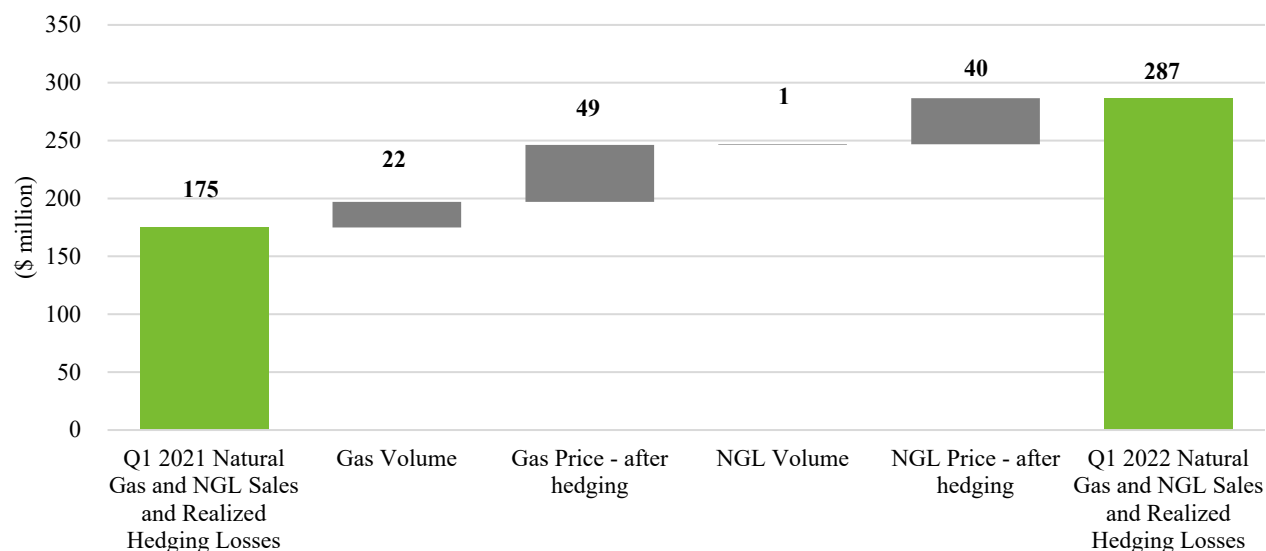


In the first quarter of 2022, natural gas and NGL sales net of realized hedging losses increased 64 per cent to \$286.9 million from \$175.3 million for the same period in 2021. The increase in natural gas and NGL sales and realized hedging losses for the quarter was a result of increased gas production volumes and commodity prices, as detailed in the following table and graph:

Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

	Three Months ended March 31		
	2022	2021	\$ million
Q1 2021			175
change due to:			
Natural gas			
Volume (MMcf)	48,209	41,003	22
Price (\$/Mcf)	\$4.08	\$3.06	49
NGL			
Volume (Mbbbl)	1,105	1,092	1
Price (\$/bbl)	\$81.66	\$45.63	40
Q1 2022			287

Q1 Change in Revenue and Realized Hedging Losses



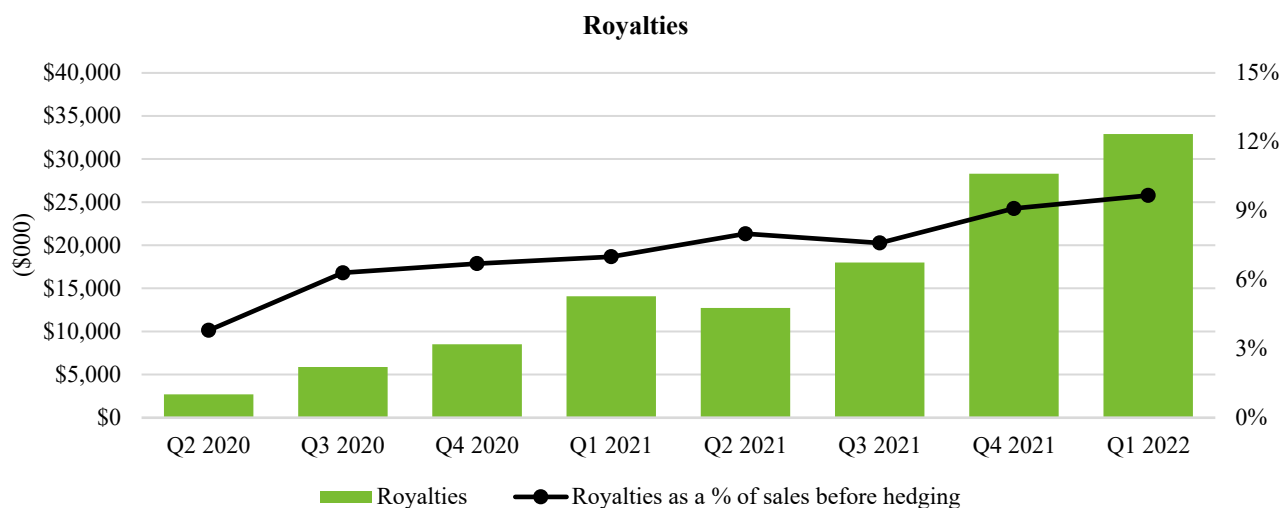
Royalties

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 natural gas wells qualify for the Crown's Drilling and Completion Cost Allowance program, which has a 5 per cent initial royalty rate.

	Three Months ended March 31	
	2022	2021
Royalties (\$000)	32,903	14,069
per cent of sales excluding hedging	9.7	7.0
\$/Mcf	0.60	0.29
\$/boe	3.60	1.78

For the first quarter of 2022, royalties averaged \$0.60/Mcfe or 9.7 per cent of Peyto's natural gas and NGL sales excluding hedging losses, an increase from 7.0 per cent in the first quarter of 2021. The increase was primarily due to higher AECO and WTI prices. Based on forward AECO prices, Peyto's royalty rate for 2022 is expected to be approximately 15 per cent of revenue excluding hedging gains (losses).

In its 23-year history, Peyto has invested over \$6.9 billion in capital projects, found and developed 4.5 TCFe of natural gas reserves and paid over \$1.0 billion in royalties.



Operating Costs & Transportation

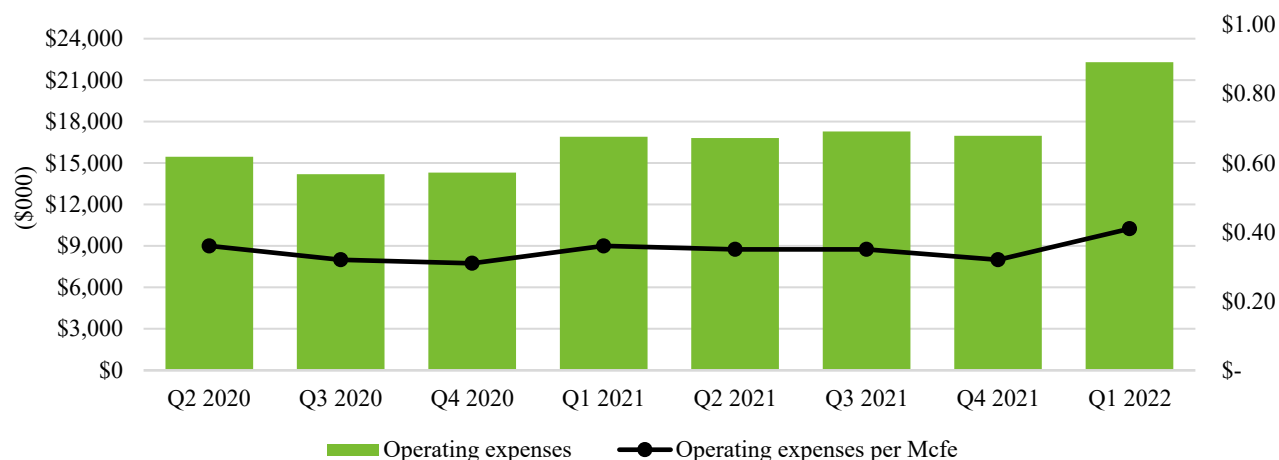
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended March 31	
	2022	2021
Payments to Government	5,009	4,811
Other expenses	17,286	12,090
Operating costs (\$000)	22,295	16,901
\$/Mcfe	0.41	0.36
\$/boe	2.44	2.13
Transportation (\$000)	15,270	8,110
\$/Mcfe	0.28	0.17
\$/boe	1.67	1.02

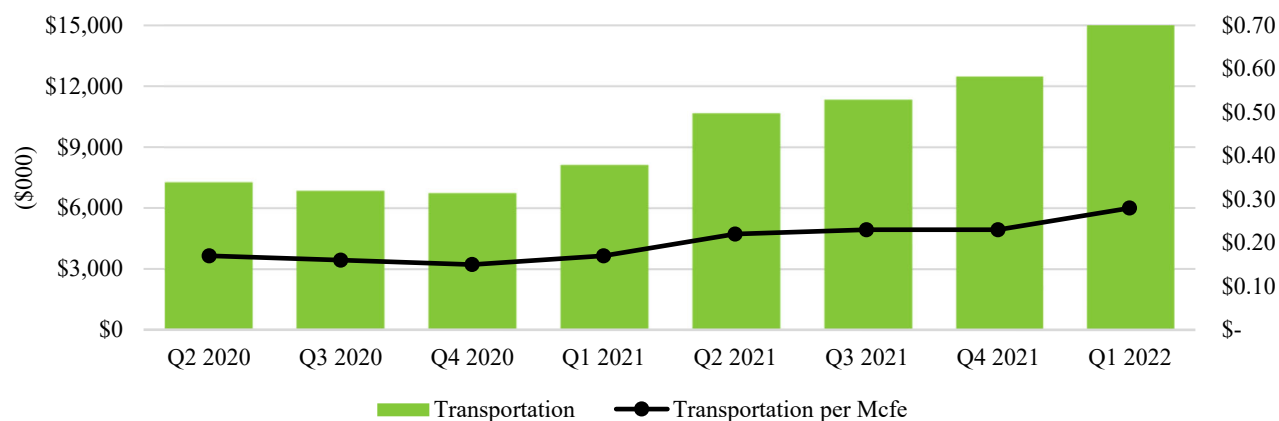
For the first quarter of 2022, operating expenses were \$22.3 million compared to \$16.9 million for the same quarter in 2021. On a unit-of-production basis, operating costs increased 14 per cent to \$0.41/Mcfe from \$0.36/Mcfe. This increase was largely due to higher chemical, trucking and other operating costs; as suppliers and service providers increased their rates to reflect the impact of the increase in commodity prices. Approximately 20 to 30 per cent of operating expenses are related to government fees, taxes and levies. Peyto focuses on being the industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.

Transportation expenses increased 65 per cent on a unit-of production basis from \$0.17/Mcfe in the first quarter 2021 to \$0.28/Mcfe in the first quarter 2022 due to the addition of Empress and Emerson service, coupled with a January 2022 fee increase on the NOVA transmission line. Physical transportation contracts to Emerson and Empress were entered into as part of Peyto's sales diversification strategy.

Operating Expenses



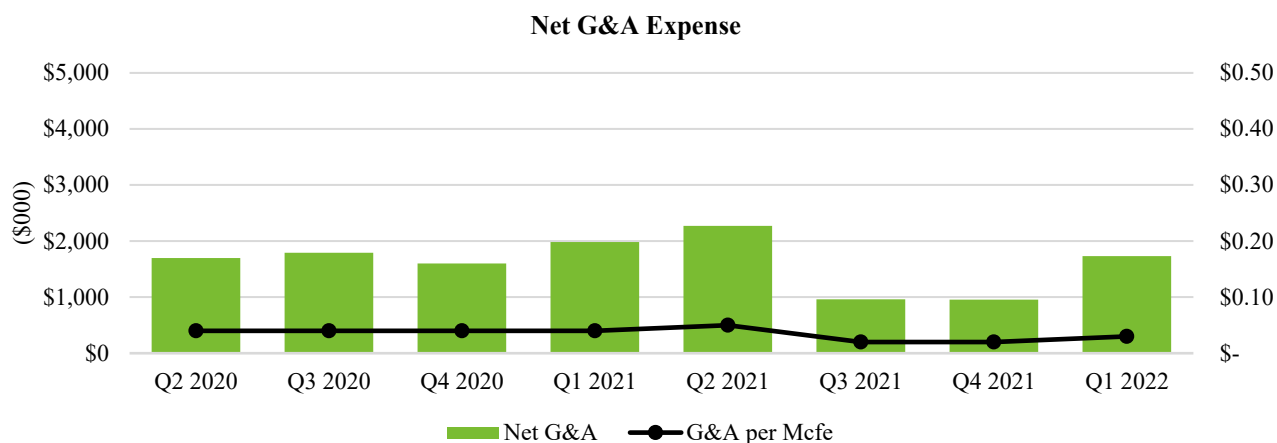
Transportation



General and Administrative Expenses

	Three Months ended March 31	
	2022	2021
G&A expenses (\$000)	5,169	4,190
Overhead recoveries (\$000)	(3,438)	(2,206)
Net G&A expenses (\$000)	1,731	1,984
\$/Mcfe	0.03	0.04
\$/boe	0.19	0.25

For the first quarter of 2022, general and administrative expenses before overhead recoveries was \$5.2 million compared to \$4.2 million for the same quarter of 2021. This increase was due primarily to transaction costs of \$0.4 million on the corporate acquisition, and increased employment and insurance costs. General and administrative expenses averaged \$0.09/Mcfe before overhead recoveries of \$0.06/Mcfe for net general and administrative expenses of \$0.03/Mcfe in the first quarter of 2022 (\$0.09/Mcfe before overhead recoveries of \$0.05/Mcfe for net general and administrative expenses of \$0.04/Mcfe in the first quarter of 2021).



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. Compensation expense of \$Nil was recorded for the first quarter of 2022.

Stock Based Compensation

In 2019, the Company adopted 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 are cancelled.

In 2020, the Company adopted 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 statement of operations in the quarter in which the units are granted, with a corresponding charge to contributed surplus in the statement of financial position.

Stock based compensation costs is calculated on 9.9 million non-vested stock options (6 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). Stock based compensation costs for the first quarter of 2022 is \$2.3 million (March 31, 2021 - \$1.1 million).

Peyto records a non-cash provision for compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 10 of the consolidated financial statements for more details). These plans limit the number of common shares that may be granted to 10 per cent of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

Stock Option Plan

	Number of Options	Weighted average exercise price
Balance, December 31, 2021	9,173,137	5.05
Stock options granted	1,398,600	9.46
Exercised	(672,880)	3.23
Balance, March 31, 2022	9,898,857	5.80

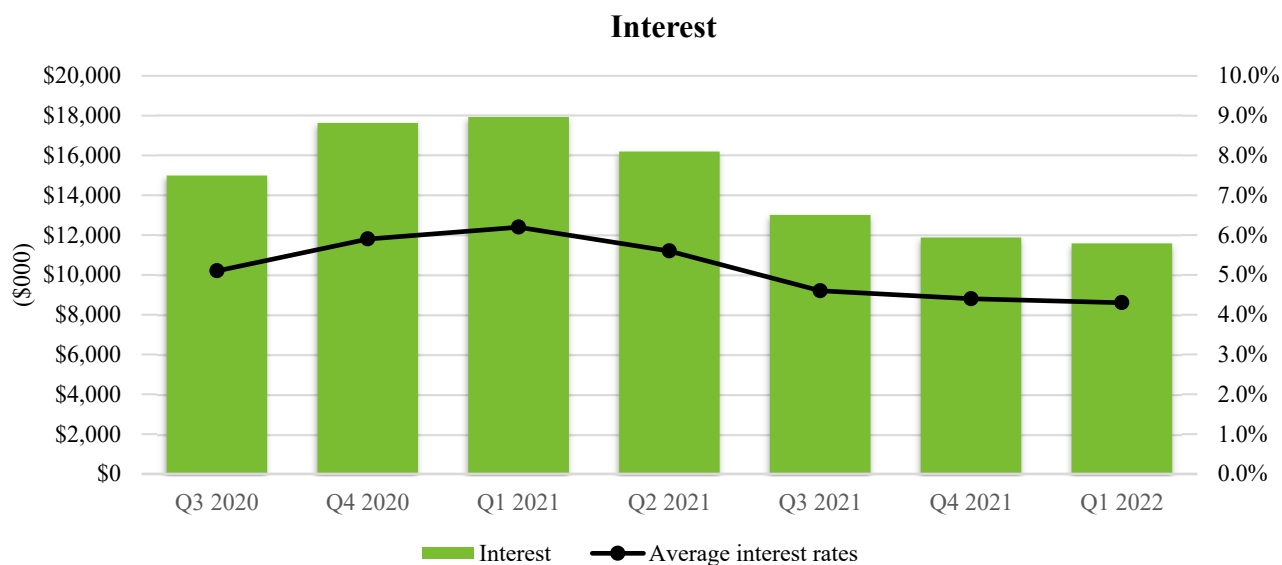
Deferred Share Units

	Number of DSUs	Weighted average exercise price
Balance, December 31, 2021	176,669	3.60
DSU granted	11,942	9.74
Balance March 31, 2022	188,611	3.99

Interest Expense

	Three Months ended March 31	
	2022	2021
Interest expense (\$000)	11,585	17,931
\$/Mcf	0.21	0.38
\$/boe	1.27	2.26
Average interest rate	4.3%	6.2%

First quarter 2022 average interest rate was 4.3 per cent compared to 6.2 per cent for the first quarter of 2021 due to a decrease in leverage resulting in lower stamping fees charged on the amounts drawn on the revolving credit facility.

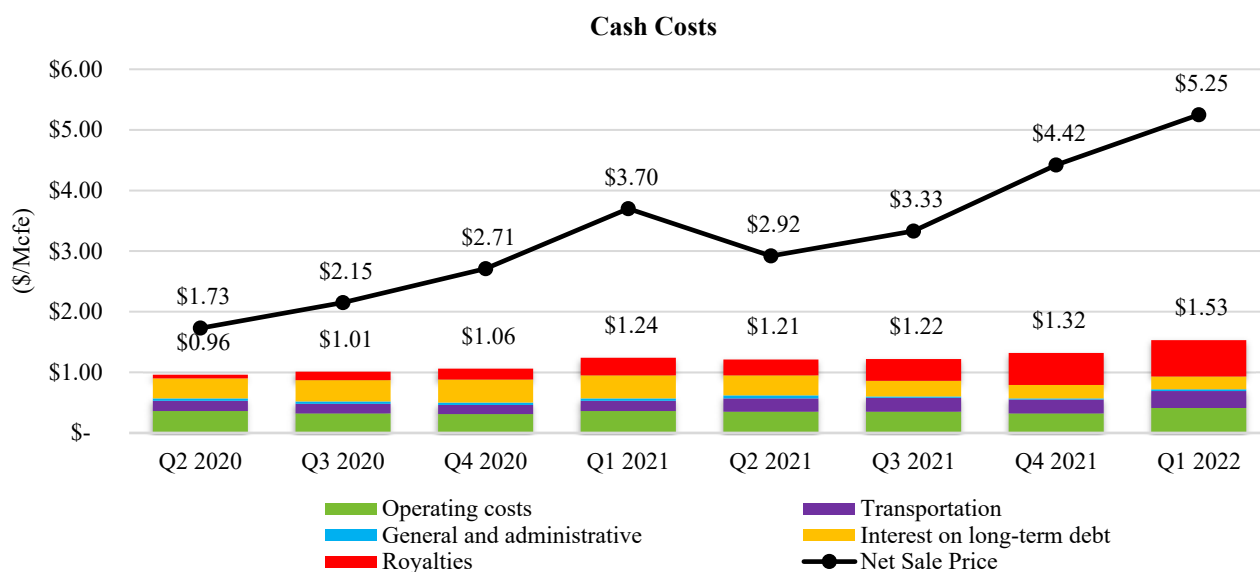


Netbacks

(\$/Mcf)	Three Months ended March 31	
	2022	2021
Gross Sale Price	6.22	4.23
Realized hedging gain (loss)	(0.97)	(0.53)
Net Sale Price	5.25	3.70
Less: Royalties	0.60	0.29
Operating costs	0.41	0.36
Transportation	0.28	0.17
Field netback ⁽¹⁾	3.96	2.88
General and administrative	0.03	0.04
Interest on long-term debt	0.21	0.38
Cash netback ⁽¹⁾ (\$/Mcf)	3.72	2.46
Cash netback ⁽¹⁾ (\$/boe)	22.31	14.81

(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.



Depletion, Depreciation and Impairment

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The first quarter 2022 provision for depletion and depreciation totaled \$73.0 million (\$1.33/Mcf) compared to \$65.4 million (\$1.37/Mcf) in the first quarter 2021.

Income Taxes

The current provision for deferred income tax expense is \$29.9 million compared to an expense of \$11.8 million in the first quarter of 2021. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type (\$ millions)	March 31, 2022	December 31, 2021	Annual deductibility
Canadian Oil and Gas Property Expense	165.7	169.7	10% declining balance
Canadian Development Expense	557.1	510.1	30% declining balance
Canadian Exploration Expense	105.6	104.4	100%
Undepreciated Capital Cost	323.5	277.0	Primarily 25% declining balance
Tax Losses Carried Forward	38.5	107.7	100%
Other	0.1	0.1	10% declining balance
Total Federal Tax Pools	1,190.5	1,169.0	
Additional Alberta Tax Pools	45.1	46.3	Primarily 100%

MARKETING

Commodity Price Risk Management

Financial Derivative Instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward 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. To minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the first quarter of 2022, a realized hedging loss of \$53.4 million was recorded as compared to a \$25.1 million loss for the equivalent period in 2021. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
April 1, 2022 to October 31, 2022	Fixed Price	115,000 GJ	\$2.18
November 1, 2022 to March 31, 2023	Fixed Price	195,000 GJ	\$3.18
April 1, 2023 to October 31, 2023	Fixed Price	180,000 GJ	\$2.55

Natural Gas Period Hedged – NYMEX	Type	Daily Volume	Average Price (Nymex USD/MMBtu)
April 1, 2022 to October 31, 2022	Fixed Price	55,000 MMBtu	\$3.68
November 1, 2022 to December 31, 2022	Fixed Price	70,000 MMBtu	\$4.22
November 1, 2022 to March 31, 2023	Fixed Price	70,000 MMBtu	\$4.47
January 1, 2023 to December 31, 2023	Fixed Price	70,000 MMBtu	\$3.52
April 1, 2023 to October 31, 2023	Fixed Price	40,000 MMBtu	\$3.56
January 1, 2024 to March 31, 2024	Fixed Price	60,000 MMBtu	\$4.17

Natural Gas Period Hedged – Malin	Type	Daily Volume	Average Price (Nymex USD/MMBtu)
April 1, 2022 to October 31, 2022	Fixed Price	40,000 MMBtu	\$2.38
November 1, 2022, to March 31, 2023	Fixed Price	40,000 MMBtu	\$2.97

Crude Oil Period Hedged – WTI	Type	Daily Volume	Average Price (WTI USD/bbl)
January 1, 2022 to December 31, 2022	Fixed Price	300 bbl	\$64.05
April 1, 2022 to June 30, 2022	Fixed Price	300 bbl	\$62.98

Crude Oil			Price
Period Hedged – WTI	Type	Daily Volume	(WTI CAD/bbl)
January 1, 2022 to June 30, 2022	Fixed Price	600 bbl	\$87.30
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	\$81.96
April 1, 2022 to June 30, 2022	Fixed Price	2,900 bbl	\$109.06
July 1, 2022 to September 31, 2022	Fixed Price	400 bbl	\$106.80
July 1, 2022 to December 31, 2022	Fixed Price	1,200 bbl	\$93.10
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	\$100.70
January 1, 2023 to March 31, 2023	Fixed Price	400 bbl	\$92.53

As at March 31, 2022, Peyto had committed to the future sale of 92,575,000 gigajoules (GJ) of natural gas at an average price of \$2.65 per GJ or \$3.05 per mcf, 66,180,000 MMBtu at an average price of \$3.58 US per MMBtu, 109,800 barrels of crude at an average price of \$63.79 USD per bbl, and 868,800 barrels of crude at an average price of \$94.63 CAD per bbl. Had these contracts closed on March 31, 2022, Peyto would have realized a loss in the amount of \$348.6 million. Total hedged volumes represent approximately 3 per cent of Peyto's developed 2021 year end reserves.

Subsequent to March 31, 2022, Peyto entered into the following contracts:

Natural Gas			Average Price
Period Hedged – NYMEX	Type	Daily Volume	(Nymex USD/MMBtu)
January 1, 2024 to March 31, 2024	Fixed Price	10,000 mmbtu	\$5.03

Crude Oil			Price
Period Hedged – WTI	Type	Daily Volume	(WTI CAD/bbl)
July 1, 2022 to September 30, 2022	Fixed Price	300 bbl	\$126.56
July 1, 2022 to December 31, 2022	Fixed Price	100 bbl	\$125.00
January 1, 2023 to March 31, 2023	Fixed Price	500 bbl	\$115.60
April 1, 2023 to June 30, 2023	Fixed Price	200 bbl	\$111.50

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. This risk is mitigated indirectly as the Canadian dollar tends to rise as commodity prices rise. Currently, Peyto has not entered into any agreements to further manage its currency risks. The \$40 million USD in senior secured notes does provide some 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. Currently there are no agreements to manage the risk on the credit facility. At March 31, 2022, the increase or decrease in earnings for each 100 bps (1 per cent) change in weighted average borrowing rate paid on the outstanding revolving demand loan amounts to approximately \$1.6 million per quarter. Average debt outstanding for the quarter was \$1.054 billion (including \$415 million fixed rate debt).

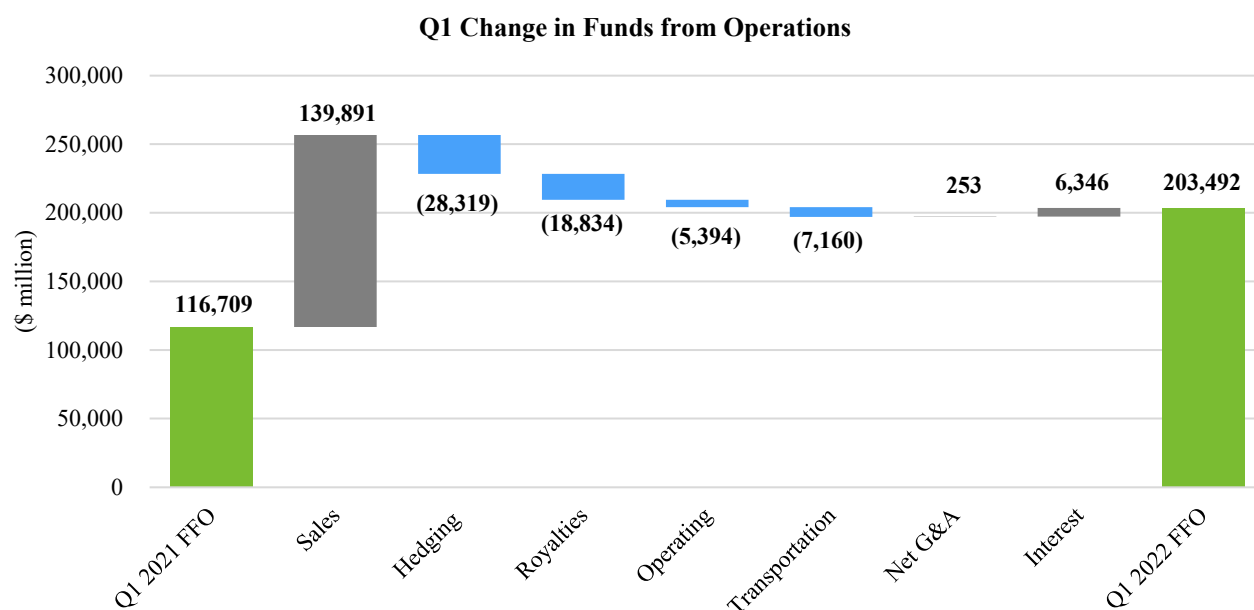
Cash Flow from Operating Activities, Funds from Operations and Earnings

(\$000)	Three Months ended March 31	
	2022	2021
Cash Flow from Operating Activities	185,790	119,752
Funds from Operations ⁽¹⁾	203,492	116,709
Funds from operations per share ⁽¹⁾ – basic	1.20	0.71
Funds from operations per share ⁽¹⁾ – diluted	1.17	0.71
Free Funds Flow ⁽¹⁾	60,161	7,858
Earnings	97,816	38,500
Earnings per share – basic	0.58	0.23
Earnings per share – diluted	0.56	0.23

(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.

Funds from Operations and Cash Flow from Operating Activities

For the first quarter of 2022, funds from operations ("FFO") totaled \$203.5 million or \$1.20 per basic share, compared to \$116.7 million or \$0.71 per basic share during the same quarter in 2021. Cash flow from operating activities increased to \$185.8 million in the first quarter of 2022 from \$119.8 million in the first quarter of 2021. The increases in funds from operation and cash flow from operating activities was due to increase in commodity prices and production volumes, partially offset by an increased realized hedging loss, higher royalties, operating, and transportation expenses. 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.



Free Funds Flow

Peyto uses free funds flow, defined as funds from operations less additions to property, plant and equipment, as an indicator of the funds available for capital allocation. For the first quarter of 2022, free funds flow increased to \$60.1 million from \$7.9 million in the first quarter of 2021. 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 first quarter 2022 earnings increased to \$97.8 million compared to \$38.5 million in the first quarter of 2021. The increased earnings is driven by the increased funds from operations, partially offset by increased depletion and depreciation associated with increased production volumes, and higher deferred tax expense.

Capital Expenditures

Peyto's additions to property plant and equipment in its Consolidated Statement of Cash Flows ("Total Capital Expenditures") totaled \$143.3 million for the first quarter of 2022. Exploration and development related activity represented \$85.3 million (60 per cent), while expenditures on facilities, gathering systems and equipment totaled \$56.8 million (40 per cent). First quarter 2022 facilities and pipelines expenditures primarily related to the construction of Peyto's new gas plant in the Chambers area, commissioned in April 2022, and associated gas gathering infrastructure to complement new wells flowing to the new plant.

The following table summarizes capital expenditures for the first quarter of 2022 and 2021:

(\$000)	Three Months ended March 31	
	2022	2021
Land	55	-
Seismic	1,228	1,094
Drilling	52,069	33,536
Completions	33,242	18,220
Equipping & Tie-ins	9,975	4,811
Facilities & Pipelines	46,814	15,605
Asset Acquisitions & Dispositions	(52)	35,585
Total Capital Expenditures	143,331	108,851
Corporate Acquisition	22,220	-

Corporate Acquisition

On February 28, 2022, Peyto acquired all the issued and outstanding shares of a private company in the Brazeau River area of Alberta for cash consideration of \$22.2 million. The acquisition provides for an increase in land, production and infrastructure including a 100% owned and operated 45 MMcf/d sweet natural gas plant. Total transaction costs incurred by Peyto of \$0.4 million associated with this acquisition were expensed. The acquisition resulted in an increase in property, plant and equipment of approximately \$5.9 million, deferred tax asset of \$17.3 million, working capital of \$0.1 million, and a decommissioning provision of \$1.1 million. Refer to note 3 in Peyto's consolidated financial statements for additional information on the acquisition.

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 March 31, 2022, December 31, 2021 and March 31, 2021 is summarized as follows:

(\$000)	As at	As at	As at
	March 31, 2022	December 31, 2021	March 31, 2021
Long-term debt	1,039,984	1,065,712	1,150,000
Current assets	(172,058)	(144,370)	(91,679)
Current liabilities	492,187	239,620	129,667
Financial derivative instruments	(294,794)	(61,091)	(17,438)
Current portion of lease obligation	(1,233)	(1,123)	(1,136)
Net debt ⁽¹⁾	1,064,086	1,098,748	1,169,414

(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 \$1.06 billion as at March 31, 2022 decreased by \$34.7 million from December 31, 2021.

The Company's 2022 capital expenditure budget is \$350 to \$400 million. Based on current commodity prices, Peyto's cash flow from operating activities is expected to fully fund the capital program, and dividend payment, with the balance being allocated to debt repayment.

The total amount of capital invested in 2022 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.

Long-Term Debt

(\$000)	March 31, 2022	December 31, 2021
Bank credit facility	625,000	650,000
Long term senior secured notes	414,984	415,712
Balance, end of the period	1,039,984	1,065,712

On November 5, 2021, the Company finalized an agreement with its syndicate of lenders and term debt note holders to amend and extend its \$950 million senior secured covenant-based credit facility and note purchase agreements. This new facility has a maturity date of October 13, 2023. The bank facility is made up of a \$40 million working capital sub-tranche and a \$910 million production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 175 basis points and 365 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 35 to 73 basis points.

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	March 31, 2022	December 31, 2021
Total Debt to EBITDA	Less than 4.0	1.73	2.04
Senior Debt to EBITDA	Less than 3.5	1.73	2.04
Interest coverage	Greater than 3.0	11.47	8.89

Peyto is in compliance with all financial covenants at March 31, 2022.

On October 29, 2021, the Company closed an issuance of USD \$40 million of senior secured notes. 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 agreements. The notes have a coupon rate of 3.98% and mature on October 29, 2028. Interest will be paid semi-annually in arrears. Proceeds from the notes have been used to repay the CDN \$50 million, 4.88% notes that was due September 6, 2022.

Outstanding secured senior notes are as follows:

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

Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

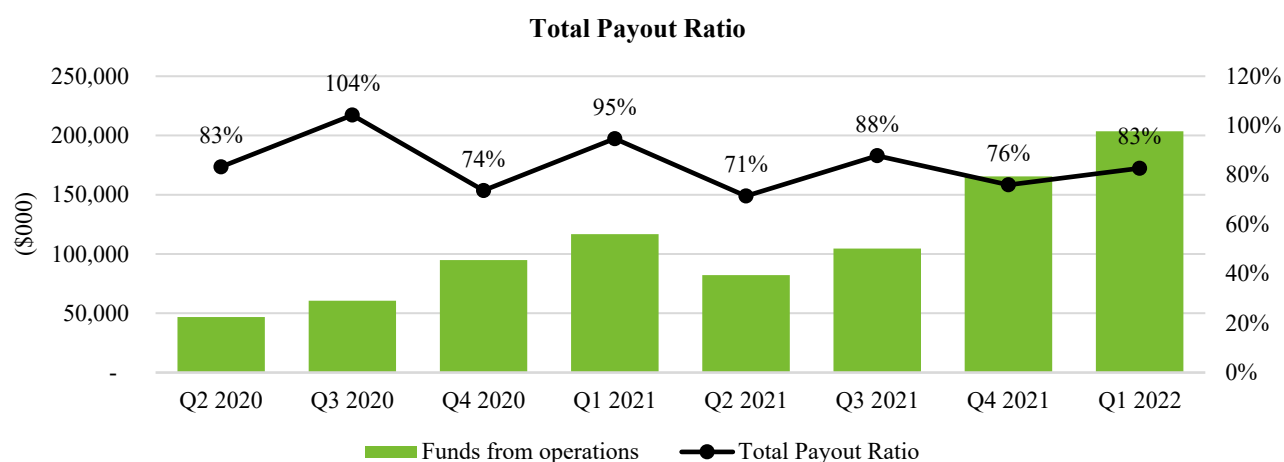
Common Shares (no par value)	Number of Common Shares	Amount \$
Balance, December 31, 2021	168,151,219	1,664,508
Private Placement	247,785	2,578
Common shares issued	851,901	4,869
Balance, March 31, 2022	169,250,905	1,671,955

Total Payout Ratio

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

	Three Months ended March 31	
	2022	2021
Total dividends declared (\$000)	25,358	1,651
Additions to property, plant and equipment (\$000)	143,331	108,851
Total payout ⁽¹⁾ (\$000)	168,689	110,502
Funds from operations ⁽¹⁾ (\$000)	203,492	116,709
Total payout ratio ⁽¹⁾ (%)	83%	95%

(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.



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 March 31, 2022:

(\$000)	2022	2023	2024	2025	2026	Thereafter
Interest payments ⁽¹⁾	12,657	16,827	13,127	11,743	8,163	9,962
Transportation commitments	49,371	68,474	43,202	42,119	29,900	347,875
Operating leases	1,650	2,200	2,200	2,200	2,200	-
Methanol	1,194	-	-	-	-	-
Total	64,872	87,501	58,529	56,062	40,263	357,837

⁽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:

(\$000)	Expense		Accounts Payable	
	Three Months ended March 31		As at March 31	
	2022	2021	2022	2021
	718.2	44.0	75.4	(4.0)

RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

Further, Peyto is subject to a variety of information technology and system risks as a part of its normal course operations, including potential breakdown, invasion, virus, cyber-attack, cyber-fraud, security breach, and destruction or interruption of Peyto's information technology systems by third parties or insiders. Unauthorized access to these systems by employees or

third parties could lead to corruption or exposure of confidential, fiduciary or proprietary information, interruption to communications or operations or disruption to business activities, or Peyto's competitive position. In addition, cyber-phishing attempts, in which a malicious party attempts to obtain sensitive information such as usernames, passwords, credit card and banking details, or approval of wire transfer requests by disguising as a trustworthy entity in an electronic communication, have become more widespread and sophisticated in recent years.

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

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

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

For a detailed discussion of the risks, uncertainties and industry conditions associated with Peyto's business, refer to the Company's Annual Information Form dated March 31, 2022, which is available under Peyto's SEDAR profile at www.sedar.com 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 March 31, 2022 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.

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, 2021 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 2022. 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.sedar.com 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 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 the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

(\$000)	Three Months ended March 31	
	2022	2021
Cash flows from operating activities	185,790	119,752
Change in non-cash working capital	17,702	(3,043)
Performance based compensation	-	-
Funds from operations	203,492	116,709

Free Funds Flow

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

operating activities. The following table details the calculation of free funds flow and the reconciliation from cash flow from operating activities to free funds flow.

(\$000)	Three Months ended March 31	
	2022	2021
Cash flows from operating activities	185,790	119,752
Change in non-cash working capital	17,702	(3,043)
Performance based compensation	-	-
Funds from operations	203,492	116,709
Additions to property, plant and equipment	(143,331)	(108,851)
Free funds flow	60,161	7,858

Net Debt

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

(\$000)	As at	As at	As at
	March 31, 2022	December 31, 2021	March 31, 2021
Long-term debt	1,039,984	1,065,712	1,150,000
Current assets	(172,058)	(144,370)	(91,679)
Current liabilities	492,187	239,620	129,667
Financial derivative instruments	(294,794)	(61,091)	(17,438)
Current portion of lease obligation	(1,233)	(1,123)	(1,136)
Net debt	1,064,086	1,098,748	1,169,414

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 less royalties, operating, and transportation expense divided by production and "cash netback" as "field netback" less interest and general and administration expense divided by production. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.

(\$/Mcf)	Three Months ended March 31	
	2022	2021
Gross Sale Price	6.22	4.23
Realized hedging gain (loss)	(0.97)	(0.53)
Net Sale Price	5.25	3.70
Less: Royalties	0.60	0.29
Operating costs	0.41	0.36
Transportation	0.28	0.17
Field netback	3.96	2.88
General and administrative	0.03	0.04
Interest on long-term debt	0.21	0.38
Cash netback (\$/Mcf)	3.72	2.46
Cash netback (\$/boe)	22.31	14.81

Return on Equity

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

Return on Average Capital Employed

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

Total Payout Ratio

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

	Three Months ended March 31	
	2022	2021
Total dividends declared (\$000)	25,358	1,651
Additions to property, plant and equipment (\$000)	143,331	108,851
Total payout (\$000)	168,689	110,502
Funds from operations (\$000)	203,492	116,709
Total payout ratio (%)	83%	95%

Supplementary Financial Measures

"Diversification activities" are the costs of the basis and the gains/losses on the physical fixed price natural gas sales contracts 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.

"Funds from operations per basic share" is comprised of funds from operations divided by basic weighted average common shares.

"Funds from operations per diluted share" is comprised of funds from operations divided by diluted weighted average common shares.

"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.

"G&A expense before share-based compensation expense per Mcfe and boe" is comprised of G&A expense as determined in accordance with IFRS, excluding share-based compensation expense, 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.

"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 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.

"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.

"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:

- Peyto's expected 2022 royalty rate to be approximately 15 per cent of revenue excluding hedging gains or losses;
- The 2022 capital expenditures program of \$350 to \$400 million;
- Peyto's ability to fully fund the capital program, and dividend payment with funds from operations, with the balance being allocated to debt repayment;
- 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 including the COVID-19 pandemic;
- 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 Annual Information Form for the year ended December 31, 2021.

Statements relating to reserves are deemed to be forward-looking statements as they involve the implied assessment, based on current estimates and assumptions, that the reserves described can be profitably produced in the future. The foregoing lists

of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Peyto does not undertake any obligation to publicly update or revise any forward-looking statements, except as required by applicable securities law.

CONVERSION RATIO

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

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

	2022		2021		
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (Mcf/d)	535,660	517,606	473,008	458,696	455,593
NGLs (bbl/d)	12,273	11,038	11,164	12,289	12,138
Total (boe/d @ 6:1)	101,549	97,306	89,998	88,738	88,070
Total (Mcf/d @ 6:1)	609,294	583,834	539,990	532,430	528,419
Liquid to gas ratio (bbl per MMcf)	22.9	21.3	23.6	26.8	26.6
Average product prices					
Natural gas (\$/mcf)	4.08	3.58	2.48	2.06	3.06
NGLs (\$/bbl)	81.66	64.71	55.47	48.77	45.63
\$/Mcf					
Net sale price (\$/Mcf)	5.25	4.42	3.33	2.92	3.70
Royalties (\$/Mcf)	0.60	0.53	0.36	0.26	0.29
Operating costs (\$/Mcf)	0.41	0.32	0.35	0.35	0.36
Transportation (\$/Mcf)	0.28	0.23	0.23	0.22	0.17
Field netback (\$/Mcf) ⁽²⁾	3.96	3.34	2.39	2.09	2.88
General & administrative expense (\$/Mcf)	0.03	0.02	0.02	0.05	0.04
Interest expense (\$/Mcf)	0.21	0.22	0.26	0.33	0.38
Cash netback (\$/Mcf) ⁽²⁾	3.72	3.10	2.11	1.71	2.46
Financial (\$000 except per share)					
Revenue and realized hedging gains (losses) ⁽¹⁾	286,894	236,360	164,777	140,457	175,327
Royalties	32,903	28,304	17,985	12,370	14,069
Funds from operations ⁽²⁾	203,492	166,165	104,608	82,191	116,709
Funds from operations per share ⁽²⁾	1.20	0.99	0.63	0.50	0.71
Funds from operations per diluted share ⁽²⁾	1.17	0.96	0.62	0.50	0.71
Total dividends	25,358	16,779	1,671	1,658	1,651
Total dividends per share ⁽²⁾	0.15	0.10	0.01	0.01	0.01
Payout ratio ⁽²⁾	12%	10%	2%	2%	1%
Earnings	97,816	71,718	29,271	12,760	38,500
Earnings per share	0.58	0.43	0.18	0.08	0.23
Earnings per diluted share	0.56	0.42	0.17	0.08	0.23
Capital expenditures	143,331	108,951	90,170	57,086	108,851
Corporate acquisition	22,220	-	-	-	-
Total payout ratio (%) ⁽²⁾	83%	76%	88%	71%	95%
Weighted average shares outstanding (basic)	169,058,178	167,546,601	166,440,704	165,343,937	165,069,227
Weighted average shares outstanding (diluted)	173,320,559	172,582,450	169,512,566	168,635,872	167,255,237

(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.