PEYTO

Exploration & Development Corp.

2

Interim Report
for the three and six months ended June 30, 2022

HIGHLIGHTS

	Three Months Ended June 30		%	Six Months Ended June 30		%
	2022	2021	Change	**2022**	2021	Change
Operations						
Production						
Natural gas (Mcf/d)	**541,030**	458,696	*18%*	**538,360**	457,153	*18%*
NGLs (bbl/d)	**13,411**	12,289	*9%*	**12,845**	12,214	*5%*
Thousand cubic feet equivalent (Mcfe/d @ 1:6)	**621,499**	532,430	*17%*	**615,431**	530,435	*16%*
Barrels of oil equivalent (boe/d @ 6:1)	**103,583**	88,738	*17%*	**102,572**	88,406	*16%*
Production per million common shares (boe/d)	**610**	537	*14%*	**605**	535	*13%*
Product prices						
Natural gas ($/Mcf)	**4.08**	2.06	*98%*	**4.08**	2.55	*60%*
NGLs ($/bbl)	**87.80**	48.77	*80%*	**84.88**	47.22	*80%*
Operating expenses ($/Mcfe)	**0.39**	0.35	*11%*	**0.40**	0.35	*14%*
Transportation ($/Mcfe)	**0.27**	0.22	*23%*	**0.27**	0.20	*35%*
Field netback(1) ($/Mcfe)	**3.87**	2.09	*85%*	**3.91**	2.48	*58%*
General & administrative expenses ($/Mcfe)	**0.02**	0.05	*-60%*	**0.02**	0.05	*-60%*
Interest expense ($/Mcfe)	**0.20**	0.33	*-39%*	**0.21**	0.35	*-40%*
Financial ($000, except per share)						
Revenue and realized hedging losses (2)	**307,830**	140,457	*119%*	**594,725**	315,784	*88%*
Funds from operations(1)	**205,901**	82,191	*151%*	**409,394**	198,901	*106%*
Funds from operations per share - basic(1)	**1.21**	0.50	*142%*	**2.42**	1.20	*102%*
Funds from operations per share - diluted(1)	**1.18**	0.49	*141%*	**2.35**	1.18	*99%*
Total dividends	**25,485**	1,658	*1437%*	**50,843**	3,309	*1437%*
Total dividends per share	**0.15**	0.01	*1400%*	**0.30**	0.02	*1400%*
Earnings	**94,545**	12,760	*641%*	**192,361**	51,260	*275%*
Earnings per share – basic	**0.56**	0.08	*600%*	**1.14**	0.31	*268%*
Earnings per share – diluted	**0.54**	0.08	*575%*	**1.10**	0.30	*267%*
Capital expenditures	**108,089**	57,086	*89%*	**251,420**	165,937	*52%*
Corporate acquisition	**-**	-		**22,220**	-	
Total payout ratio(1)	**65%**	71%	*-9%*	**74%**	85%	*-13%*
Weighted average common shares outstanding - basic	**169,896,849**	165,343,937	*3%*	**169,479,830**	165,207,341	*3%*
Weighted average common shares outstanding - diluted	**175,040,905**	168,635,872	*4%*	**174,248,420**	168,110,438	*4%*
Net debt(1)				**991,374**	1,147,563	*-14%*
Shareholders' equity				**1,749,725**	1,634,299	*7%*
Total assets				**3,899,993**	3,662,499	*6%*

(1) This is a Non-GAAP financial measure or ratio. See "non-GAAP and Other Financial Measures" in this news release and in the Q2 2022 MD&A

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

Report from Management

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the second quarter of the 2022 fiscal year. A 67% Operating Margin[1,2] and a 31% Profit Margin[3] in the quarter delivered a 12% Return on Capital[4] and a 17% Return on Equity[4], on a trailing twelve-month basis. Highlights for the quarter included:

- **Funds from operations[5] per share up 142%.** Generated record $206 million in Funds from Operations ("FFO") in Q2 2022 ($1.21/share), up from $82 million in Q2 2021 ($0.50/share) due to higher commodity price realizations combined with higher production, despite a $104 million realized hedging loss in the quarter. FFO in the quarter exceeded capital expenditures by $98 million. This represented a free cashflow ratio[6] of over 48% of FFO while dividends of $25.5 million in the quarter represented a dividend payout ratio[7] of 12%, and including capital investments, a total payout ratio[7] of 65%.

- **Production per share up 14%.** Second quarter 2022 production of 103,583 boe/d, comprised of 541 MMcf/d of natural gas, 7,958 bbl/d of Condensate and Pentanes, and 5,453 bbl/d of Butane and Propane, was up 17% from 88,738 boe/d in Q2 2021. Total liquid yields of 24.8 bbl/MMcf, or 13% of total production, was down from 26.8 bbl/MMcf in Q2 2021 due to an increased focus on leaner gas production.

- **Total cash costs of $1.83/Mcfe (or $0.88/Mcfe ($5.26/boe) excluding royalties).** Industry leading low total cash costs included $0.95/Mcfe royalties, $0.39/Mcfe operating costs, $0.27/Mcfe transportation, $0.02/Mcfe G&A and $0.20/Mcfe interest, which combined with a realized revenue of $5.48/Mcfe to result in a $3.65/Mcfe ($21.88/boe) cash netback, up 113% from $1.71/Mcfe ($10.23/boe) in Q2 2021. Operating costs per unit for Q2 2022 were up 11% from $0.35/Mcfe in Q2 2021 due to significantly increased fuel, power and chemical costs derived from higher oil and natural gas prices. Interest charges were down from $0.33/Mcfe in Q2 2021 due to reduced debt levels.

- **Net debt down 14%.** Net debt was reduced $156 million from Q2 2021 to $991 million in Q2 2022 which reduced interest charges 39% from $0.33/Mcfe in Q2 2021 to $0.20/Mcfe in Q2 2022.

- **Capital investment of $108 million in organic activity**. A total of 23 gross (18.6 net working interest) wells were drilled in the second quarter, 22 gross (17.6 net) wells were completed, and 26 gross (21.3 net) wells were brought on production. Over the last 12 months new production additions, inclusive of acquisitions and new facilities, accounted for approximately 40,200 boe/d at the end of the quarter, which, when combined with a trailing twelve-month capital investment of $473 million, equates to an annualized capital efficiency of $11,600/boe/d. Peyto anticipates full year 2022 capital efficiency to be approximately $10,500/boe/d, up from $9,000/boe/d in 2021.

- **Earnings of $0.56/share, Dividends of $0.15/share.** Earnings of $95 million were generated in the quarter while dividends of $25 million were paid to shareholders.

Second Quarter 2022 in Review

Peyto kept all five drilling rigs active in the Edson area throughout the second quarter despite near record June rainfalls which significantly hampered completion and pipeline activity, delaying production additions. Despite the delays, development plans for the Greater Brazeau and Greater Sundance areas continued to move forward with delineation of the Cardium play in Chambers, and Wilrich and Notikewin plays in Sundance. The successful commissioning of the Chambers gas plant and testing of its throughput capabilities has further increased the number and profitability of drilling prospects in this new area. Spot natural gas and crude oil prices climbed throughout the quarter to decade highs reflecting global supply shortages. Peyto's realized prices and increased production volumes combined for more than a doubling of revenues and over 150% increase in FFO from Q2 2021, despite a substantial hedging loss for the quarter. The Company eagerly looks forward to even further increases in FFO as existing hedges roll off in the near term. Despite continued supply chain challenges and cost inflation, Peyto's operations team was able to maintain pre-royalty cash costs in line with previous quarters resulting in a 113% increase in cash netback contributing to the 641% increase in earnings from Q2 2021.

---

1 *This press release contains certain non-GAAP and other financial measures to analyze financial performance, financial position, and cash flow including, but not limited to "operating margin", "profit margin", "return on capital", "return on equity", "netback", "funds from operations", and "net debt". These non-GAAP and other financial measures do not have any standardized meaning prescribed under IFRS and therefore may not be comparable to similar measures presented by other entities. The non-GAAP and other financial measures should not be considered to be more meaningful than GAAP measures which are determined in accordance with IFRS, such as earnings, cash flow from operating activities, and cash flow used in investing activities, as indicators of Peyto's performance. See "Non-GAAP and Other Financial Measures" included at the end of this press release and in Peyto's most recently filed MD&A for an explanation of these financial measures and reconciliation to the most directly comparable financial measure under IFRS.*

2 *Operating Margin is a non-GAAP financial ratio defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.*

3 *Profit Margin is a non-GAAP financial ratio defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.*

4 *Return on capital and return on equity are non-GAAP financial ratios. See "non-GAAP and Other Financial Measures" in this news release and in the Q2 2022 MD&A.*

5 *Funds from operations is a non-GAAP financial measure. See "non-GAAP and Other Financial Measures" in this news release and in the Q2 2022 MD&A.*

6 *Free cashflow ratio is a non-GAAP financial measure. See "non-GAAP and Other Financial Measures" in this news release.*

7 *Dividend and Total Payout ratio are non-GAAP financial measures. See "non-GAAP and Other Financial Measures" in this news release.*

Exploration & Development

Second quarter 2022 activity was focused only on the accessible portions of the Sundance and Brazeau areas due to limited spring break-up access. Target formations were also less widespread with only Cardium and Spirit River formations (Notikewin, Falher and Wilrich) targeted, as summarized in the following table:

Zone	Sundance	Nosehill	Wildhay	Ansell	Whitehorse	Kisku/ Kakwa	Brazeau	Total Wells Drilled
Belly River								
Cardium							6	6
Notikewin	3		3					6
Falher								
Wilrich	5	2					4	11
Bluesky								
Total	8	2	3				10	23

Drilling costs per meter rose this past quarter as both wet surface conditions and deeper formations in the Brazeau area increased costs from Q1 2022. Inflation in services and materials were responsible for the balance of the cost increase from 2021. Peyto's strategic alignment with specific service providers ensured services were available in a timely manner and helped to offset the extremely tight materials and labor market. The Company continued to pursue Extended Reach Horizontal ("ERH") wells in the quarter as evidenced by the increase in average measured depth. As well, increased stage count and frac size, in order to enhance productivity, contributed to higher year over year completion costs.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 Q1	2022 Q2
Gross Hz Spuds	99	123	140	126	135	70	61	64	95	29	**23**
Measured Depth (m)	4,179	4,251	4,309	4,197	4,229	4,020	3,848	4,247	4,453	4,291	**4,571**
Drilling ($MM/well)	$2.72	$2.66	$2.16	$1.82	$1.90	$1.71	$1.62	$1.68	$1.89	$2.13	**$2.56**
$ per meter	$651	$626	$501	$433	$450	$425	$420	$396	$424	$496	**$560**
Completion ($MM/well)	$1.63	$1.70	$1.21	$0.86	$1.00	$1.13	$1.01*	$0.94	$1.00	$1.22	**$1.16**
Hz Length (m)	1,409	1,460	1,531	1,460	1,241	1,348	1,484	1,682	1,612	1,529	**1,602**
$ per Hz Length (m)	$1,153	$1,166	$792	$587	$803	$835	$679	$560	$620	$801	**$727**
$ '000 per Stage	$188	$168	$115	$79	$81	$51	$38	$36	$37	$44	**$40**

**excluding Peyto's Wildhay Montney well.*

Capital Expenditures

During the second quarter of 2022, Peyto invested $45 million on drilling (41%), $25 million on completions (23%), $10 million on wellsite equipment and tie-ins (9%), and $21 million on facilities and major pipeline projects (19%). Final construction of the new Chambers gas plant accounted for $6 million, while major pipeline projects in the Chambers and Cecilia areas accounted for $8 million of the total $21 million. An additional $6 million was spent acquiring 24 sections of new crown land, along with $1 million for new seismic, for a total capital investment of $108 million.

Peyto pre-purchased critical equipment and supplies during the quarter to maintain continuous operations and stay ahead of inflation in materials and equipment, as well as current supply chain challenges. The Company has secured 15 km of new pipe, 10 wellsite separators and 40 Scada/electronic control packages for new wellsites and tie ins which added $2 million to capital inventory.

First half 2022 capital investments included a significant acquisition, of $22.2 million, and capital inventory transfer of equipment for the Chambers plant, of $20.6 million, that was not originally in Peyto's capital budget. Similar such expenditures are not anticipated in the second half of the year. Capital expenditures for the balance of 2022 are anticipated to be predominantly well related investments in drilling, completions, wellsite equipment and tie-ins.

Commodity Prices

Peyto actively marketed all components of its production stream in the quarter including natural gas, condensate, pentane, butane and propane. Natural gas was sold in Q2 2022 at various hubs including AECO, Malin, Ventura, Emerson 2 and Henry Hub using both physical fixed price and basis transactions to access those locations (diversification activities). Natural gas prices were left to float on daily or monthly pricing or locked in using fixed price swaps at those hubs and Peyto's realized price is benchmarked against those local prices, then adjusted for transportation (either physical or synthetic) to those markets. Peyto expects that the cost of market diversification activities will continue to fall as more expensive basis deals are replaced with current lower cost basis deals.

During Q2 2022, Peyto sold 30% of its natural gas at Henry Hub, 26% at AECO, 34% at Emerson, 7% at Malin, and the remaining 3% at Ventura. Approximately 44% of AECO sales were at Daily prices while 56% were at Monthly prices. Net of diversification activities of CND$0.65/Mcf (US$0.47/MMBTU), Peyto realized a natural gas price of $5.82/Mcf before commodity risk management reduced this price by $1.74/Mcf, to $4.08/Mcf.

The Company's liquids are 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 and Peyto markets each product separately. Pentanes Plus are sold on a monthly index differential linked to WTI, with some volumes forward sold on fixed differentials to WTI. Butane is sold as a percent of WTI or a fixed differential to Mount Belvieu, Texas markets. Propane is sold on a fixed differential to Conway, Kansas markets. While some products like Butane and Propane require annual term contracts to ensure delivery paths and markets are certain, others can be sold on the daily spot market.

Condensate and Pentane Plus volumes were sold in Q2 2022 for an average price of $134.57/bbl, which is up 75% from $76.92/bbl in Q2 2021, and as compared to Canadian WTI oil price that averaged $138.44/bbl. The $3.87/bbl differential from light oil price was down from $4.18/bbl in Q2 2021. Butane and propane volumes were sold in combination at an average price of $57.03/bbl, or 41% of light oil price, up 121% from the $25.76/bbl in Q2 2021, due to continued demand increases and lower NGL supplies. Liquid hedging losses, reduced the combined realized liquids price of $103.04/bbl by $15.24/bbl.

In general, Peyto's commodity risk management program is designed to smooth out the short-term fluctuations in the price of natural gas and natural gas liquids through future sales. This smoothing gives greater predictability of cashflows for the purposes of capital planning and dividend payments. The future sales are meant to be methodical and consistent to avoid speculation. In general, this approach will show hedging losses when short term prices climb and hedging gains when short term prices fall.

Peyto's realized price by product and relative to benchmark prices is shown in the following table.

Benchmark Commodity Prices at Various Markets

	Three Months ended June 30	
	2021	**2022**
AECO 7A monthly ($/GJ)	2.70	**5.95**
AECO 5A daily ($/GJ)	2.93	**6.86**
NYMEX (US$/MMBTU)	2.88	**7.39**
Emerson2 (US$/MMBTU)	2.70	**6.59**
Malin (US$/MMbtu)	2.75	**6.74**
Ventura daily (US$/MMbtu)	2.73	**7.04**
Canadian WTI ($/bbl)	81.10	**138.44**
Conway C3 (US$/bbl)	35.01	**51.14**
CND/USD Exchange rate	1.228	**1.277**

Peyto Realized Commodity Price by Market (net of diversification)

	Three Months ended June 30	
	2021	**2022**
AECO monthly (CND$/GJ)	2.70	**5.95**
AECO daily (CND$/GJ)	2.88	**6.97**
NYMEX (US$/MMBTU)	1.47	**3.44**
Emerson2 (US$/MMBTU)	2.15	**3.39**
Malin (US$/MMBTU)	2.11	**6.15**
Ventura (US$/MMBTU)	1.59	**5.75**
Peyto Realized Commodity Prices		

Natural gas (CND$/mcf)	3.24	**6.47**
Gas marketing diversification activities (CND$/mcf)	(0.85)	**(0.65)**
Gas hedging (CND$/mcf)	(0.33)	**(1.74)**
Oil, condensate and C5+ ($/bbl)	76.92	**134.57**
Butane and propane ($/bbl)	25.76	**57.03**
Liquid hedging ($/bbl)	(7.18)	**(15.24)**

Peyto realized natural gas prices are at NIT, prior to fuel. Peyto gas has an average heating value of approx. 1.15GJ/Mcf.
Liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation, transportation, and market differentials.
Details of Peyto's ongoing marketing and diversification efforts are available on Peyto's website at:
http://www.peyto.com/Files/Operations/Marketing/hedges.pdf

Financial Results

The Company's realized price for natural gas in Q2 2022 was $6.47/Mcf, prior to $0.65/Mcf of market diversification activities and a $1.74/Mcf hedging loss, while its realized liquids price was $103.04/bbl, before a $15.24/bbl hedging loss, which yielded a combined revenue stream of $5.48/Mcfe (including $0.02/Mcfe of net third party sales). This net sales price was 88% higher than the $2.92/Mcfe realized in Q2 2021. Cash costs of $1.83/Mcfe were higher than the $1.21/Mcfe in Q2 2021 due to increased royalties and transportation costs but offset by lower interest costs. Net of royalties, Peyto's controllable cash costs have remained relatively consistent, averaging $0.88/Mcfe for the past 3.5 years. These same costs are expected to fall going forward as interest cost fall with reduced debt levels. When the total cash costs of $1.83/Mcfe were deducted from realized revenues of $5.48/Mcfe, it resulted in a cash netback of $3.65/Mcfe or a 67% operating margin. Historical cash costs and operating margins are shown in the following table:

	2019				2020				2021				2022	
($/Mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	**Q2**
Revenue	**3.20**	**2.60**	**2.50**	**2.76**	**2.30**	**1.73**	**2.15**	**2.71**	**3.70**	**2.92**	**3.33**	**4.42**	**5.25**	**5.48(1)**
Royalties	0.14	0.01	0.03	0.12	0.12	0.06	0.14	0.18	0.29	0.26	0.36	0.53	0.60	**0.95**
Op Costs	0.35	0.34	0.31	0.34	0.39	0.36	0.32	0.31	0.36	0.35	0.35	0.32	0.41	**0.39**
Transportation	0.19	0.19	0.19	0.19	0.19	0.17	0.16	0.15	0.17	0.22	0.23	0.23	0.28	**0.27**
G&A	0.06	0.05	0.05	0.02	0.04	0.04	0.04	0.04	0.04	0.05	0.02	0.02	0.03	**0.02**
Interest	0.28	0.30	0.31	0.31	0.29	0.33	0.35	0.38	0.38	0.33	0.26	0.22	0.21	**0.20**
Cash cost pre-royalty	0.88	0.88	0.86	0.86	0.91	0.90	0.87	0.88	0.95	0.95	0.86	0.79	0.93	0.88
Total Cash Costs	**1.02**	**0.89**	**0.89**	**0.98**	**1.03**	**0.96**	**1.01**	**1.06**	**1.24**	**1.21**	**1.22**	**1.32**	**1.53**	**1.83**
Netback	**2.18**	**1.71**	**1.61**	**1.78**	**1.27**	**0.77**	**1.14**	**1.65**	**2.46**	**1.71**	**2.11**	**3.10**	**3.72**	**3.65**
Operating Margin	68%	66%	64%	65%	55%	45%	53%	61%	67%	59%	63%	70%	71%	**67%**

(1) includes $0.02/Mcfe of net third party sales in Q2 2022.

Depletion, depreciation, and amortization charges of $1.31/Mcfe, along with a provision for deferred tax and stock-based compensation payments resulted in earnings of $1.67/Mcfe, or a 31% profit margin. Dividends to shareholders totaled $0.45/Mcfe.

Activity Update

Surface conditions in Peyto's core areas are improving since the heavy rains in June, allowing Peyto to begin catching up on completion and tie in activity through July and August. To date in Q3 2022, Peyto has completed 9 gross (7.8 net) wells and tied in 12 gross (9.2 net) wells. Despite clearing some of the backlog, 11 gross (9.6 net) wells remain to be completed and tied in. In addition, Peyto has yet to complete pipeline expansions on several identified gathering system bottlenecks to fully realize new production volumes. The average working interest of wells brought on in the second quarter was 75%, lower than the typical 95%, which reduced the net impact of the five drilling rigs, however the average working interest is expected to increase to the more typical 95-100% throughout the remainder of the year. These lower working interest locations were more proximal to the plant site which helped achieve the initial critical mass to justify construction.

Peyto's Greater Brazeau area continues to grow with the integration of both the new Chambers gas plant and the Aurora gas plant acquired earlier this year. The Company now expects this entire area to exceed 35,000 boe/d production by year end with significant additional growth potential. The total processing capacity of the three Peyto owned and operated gas plants is approximately 250 MMcf/d which allows for gross production growth to 45,000 boe/d in the future without the need for additional expansion. Peyto plans to keep 2 drilling rigs active in this area for the foreseeable future in support of these growth plans.

Over the past year, Peyto has assembled an additional 21 sections of Spirit River rights in the Minehead area of Alberta to expand previous land holdings in nearby Whitehorse. The total land position in this area now sits at 72 sections of 100% working interest land. The success of the ERH program in the Sundance and Brazeau areas, along with recent long-lateral tests in Whitehorse, gives Peyto the confidence to apply this design to develop the Minehead lands. The Company's internal estimates suggest over 120 future Wilrich locations on the undeveloped land with additional shallow targets in the Viking, Notikewin, and Falher formations analogous to Peyto's core areas in Sundance and Brazeau. Pending continued success in the delineation program in Minehead later this year, and into 2023, Peyto anticipates construction of a new sweet gas processing plant capable of handling 50 MMcf/d in the second half of 2023. The plant will be situated immediately adjacent to the NGTL mainline system where an existing meter station of the same capacity already exists. Like the recent Chambers plant commissioned earlier this year, Peyto will utilize surplus compressors and refrigeration equipment already owned by the company and ready to deploy. This will save on new equipment purchases and mitigate delivery delays. Under current pricing scenarios the ERH well design should allow development of this new play with similar high returns and short payout times as in Peyto's other core areas.

Management Team Addition

Peyto is pleased to announce the addition of Tavis Carlson, as Vice President of Finance, to the Company's management team. Mr. Carlson was previously the CFO, VP Finance and Corporate Secretary with Altura Energy Inc., and will join current Controller Crissy Rafoss and CFO Kathy Turgeon to further strengthen Peyto's finance team.

Outlook

The outlook for natural gas prices for the balance of 2022 and beyond remains extremely bullish. NYMEX natural gas prices that rallied throughout Q2 to over $9 USD/MMBTU and fell back in July have again recovered in early August. The futures curve has strengthened similarly. This commodity strength is ensuring Peyto can deliver on its strategy for the year which originally envisioned deploying approximately 50% of funds flow into capital projects while generating approximately 50% as free cashflow. A large portion of Peyto earnings generated this year is still planned to be retained to retire debt and strengthen the Company's balance sheet, while a smaller portion is to be returned to shareholders in dividends. Then, with the balance sheet much stronger, Peyto can look to shift that allocation going forward to less debt repayment and greater dividends.

The resource opportunities Peyto has in inventory continue to grow. Recent success at land sales has added additional drilling locations and Peyto anticipates, with a significant amount of land expiring in the Deep Basin over the next few years, there will be even more opportunities to pursue organically. The Company looks to expand its drilling inventory in time to allow for material future growth in reserves and production into expanded basin egress.

Jean-Paul Lachance
President and Chief Operating Officer
August 10, 2022

Darren Gee
Chief Executive Officer

Cautionary Statements

Forward-Looking Statements

This news release contains certain forward-looking statements or information ("forward-looking statements") as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: macro-economic conditions, including public health concerns (including the impact of the COVID-19 pandemic) and other geopolitical risks, the condition of the global economy and, specifically, the condition of the crude oil and natural gas industry, and the ongoing significant volatility in world markets; other industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the availability of qualified operating or management personnel; fluctuations in other commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: the forecast costs of future abandonment and reclamation liability; expectations regarding future drilling inventory; the future outlook for commodity prices; expectations regarding the Company's margin of profit; the Company's drilling and completion program for 2022, including the timing of the drilling program; the Company's plan for pipeline expansions in the third quarter for full realization of recent drilling success; the Company's expectation that the average working interest of wells brought on production will increase to 95-100% throughout the remainder of the year; the Company's expectation the Greater Brazeau area will exceed 35,000 boe/d production by year end with significant growth potential growth to 45,000 boe/d in the future without the need for additional expansion; Peyto plans to keep 2 drilling rigs active in the Greater Brazeau area for the foreseeable future in support of these growth plans; Peyto's plan to construct a new sweet gas processing plant in the Minehead area capable of handling 50 MMcf/d in the second half of 2023; the Company's expectation that ERH well design should allow development of the new Minehead play with similar high returns and short payout times as in Peyto's other core areas; the expectation for deploying approximately 50% of funds flow into capital projects while generating approximately 50% as free cashflow; the Company's intention to reduce indebtedness and increase dividends; anticipated improvement of costs and profitability; and the Company's overall strategy and focus.

The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Peyto's actual financial results, performance or achievement in future periods to differ materially from those expressed in, or implied by, these forward looking statements, including but not limited to, risks associated with: continued changes and volatility in general global economic conditions including, without limitations, the economic conditions in North America and public health concerns (including the impact of the COVID-19 pandemic); continued fluctuations and volatility in commodity prices, foreign exchange or interest rates; continued stock market volatility; imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; increased competition; the lack of availability of qualified operating or management personnel; environmental risks; changes in laws and regulations including, without limitation, the adoption of new environmental and tax laws and regulations and changes in how they are interpreted and enforced; the results of exploration and development drilling and related activities; and the ability to access sufficient capital from internal and external sources. In addition, to the extent that any forward-looking statements presented herein constitutes future-oriented financial information or financial outlook, as defined by applicable securities legislation, such information has been approved by management of Peyto and has been presented to provide management's expectations used for budgeting and planning purposes and for providing clarity with respect to Peyto's strategic direction based on the assumptions presented herein and readers are cautioned that this information may not be appropriate for any other purpose. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2021 under the heading "Risk Factors" and in Peyto's annual management's discussion and analysis under the heading "Risk Management".

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

Barrels of Oil Equivalent

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

Drilling Locations

This news release discloses drilling locations or targets with respect to the Company's assets, all of which are unbooked locations. Unbooked locations are internal estimates based on the Company's prospective acreage and an assumption as to the number of wells that can be drilled per section based on industry practice and internal review. Unbooked locations do not have attributed reserves or resources. Unbooked locations have been identified by management as an estimation of our multi-year drilling activities based on evaluation of applicable geologic, seismic, engineering, production, and reserves information. There is no certainty that the Company will drill any unbooked drilling locations and if drilled there is no certainty that such locations will result in additional oil and gas reserves, resources, or production. The drilling locations on which the Company actually drill wells will ultimately depend upon the availability of capital, receipt of regulatory approvals, seasonal restrictions, oil and natural gas prices, costs, actual drilling results, additional reservoir information that is obtained and other factors. While certain of the unbooked drilling locations may have been derisked by drilling existing wells in relatively close proximity *to such unbooked drilling locations, management has less certainty whether wells will be drilled in such locations and if drilled there is more uncertainty that such wells will result in additional oil and gas reserves, resources or production.*

Non-GAAP and Other Financial Measures

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

Non-GAAP Financial Measures

Funds from Operations

"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital 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.

	Three Months ended June 30		*Six Months ended June 30*	
($000)	***2022***	*2021*	***2022***	*2021*
Cash flows from operating activities	***220,580***	*85,914*	***406,371***	*205,666*
Change in non-cash working capital	***(17,179)***	*(3,723)*	***523***	*(6,765)*
Performance based compensation	***2,500***	*-*	***2,500***	*-*
Funds from operations	***205,901***	*82,191*	***409,394***	*198,901*

Free Funds Flow

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

	Three Months ended June 30		*Six Months ended June 30*	
($000)	***2022***	*2021*	***2022***	*2021*
Cash flows from operating activities	***220,580***	*85,914*	***406,371***	*205,666*
Change in non-cash working capital	***(17,179)***	*(3,723)*	***523***	*(6,765)*
Performance based compensation	***2,500***	*-*	***2,500***	*-*
Funds from operations	***205,901***	*82,191*	***409,394***	*198,901*
Additions to property, plant and equipment	***(108,089)***	*(57,086)*	***(251,420)***	*(165,937)*
Free funds flow	***97,812***	*25,105*	***157,974***	*32,964*

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 June 30, 2022***	*As at December 31, 2021*	*As at June 30, 2021*
Long-term debt	***976,544***	*1,065,712*	*1,140,000*
Current assets	***(221,456)***	*(144,370)*	*(89,687)*
Current liabilities	***479,777***	*239,620*	*209,740*
Financial derivative instruments	***(242,247)***	*(61,091)*	*(111,326)*
Current portion of lease obligation	***(1,244)***	*(1,123)*	*(1,164)*
Net debt	***991,374***	*1,098,748*	*1,147,563*

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.

	Three Months ended June 30		Six Months ended June 30	
($/Mcfe)	***2022***	*2021*	***2022***	*2021*
Gross Sale Price	***7.30***	*3.37*	***6.76***	*3.80*
Realized hedging gain (loss)	***(1.84)***	*(0.45)*	***(1.41)***	*(0.49)*
Net Sale Price	***5.46***	*2.92*	***5.35***	*3.31*
Net third party sales	***0.02***	-	***0.01***	-
Less: Royalties	***0.95***	*0.26*	***0.78***	*0.28*
Operating costs	***0.39***	*0.35*	***0.40***	*0.35*
Transportation	***0.27***	*0.22*	***0.27***	*0.20*
Field netback	***3.87***	*2.09*	***3.91***	*2.48*
General and administrative	***0.02***	*0.05*	***0.02***	*0.05*
Interest on long-term debt	***0.20***	*0.33*	***0.21***	*0.35*
Cash netback ($/Mcfe)	***3.65***	*1.71*	***3.68***	*2.08*
Cash netback ($/boe)	***21.88***	*10.23*	***22.09***	*12.48*

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 Capital

Peyto calculates ROC, expressed as a percentage, as EBIT divided by Total Assets less Current Liabilities per the Financial Statements. Peyto uses ROC 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 June 30		Six Months ended June 30	
	2022	*2021*	***2022***	*2021*
Total dividends declared ($000)	***25,485***	*1,658*	***50,843***	*3,309*
Additions to property, plant and equipment ($000)	***108,089***	*57,086*	***251,420***	*165,937*
Total payout ($000)	***133,574***	*58,744*	***302,263***	*169,246*
Funds from operations ($000)	***205,902***	*82,191*	***409,394***	*198,901*
Total payout ratio (%)	***65%***	*71%*	***74%***	*85%*

Operating Margin

Operating Margin is a non-GAAP financial ratio defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.

Profit Margin

Profit Margin is a non-GAAP financial ratio defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.

Free Cash flow Ratio

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

Payout ratio

Payout ratio is a non-GAAP measure which is calculated as dividends declared divided by funds from operations. This ratio represents the percentage of dividends that is funded by cashflow. Management uses this measure, among others, to assess the sustainability of Peyto's dividend.

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 August 10, 2022 and should be read in conjunction with the unaudited condensed consolidated financial statements (the "financial statements") as at and for the three and six months ended June 30, 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 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 twenty-three years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

	2022		2021				2020	
($000 except per share amounts)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Natural gas and NGL sales, net of royalties and realized hedging gains (losses) (1)	**253,992**	253,991	208,055	146,792	127,727	161,258	116,018	86,986
Funds from operations(2)	**205,901**	203,492	166,165	104,608	82,191	116,709	76,013	49,173
Per share – basic (2)	**1.21**	1.20	0.99	0.63	0.50	0.71	0.46	0.30
Per share – diluted (2)	**1.18**	1.17	0.96	0.62	0.50	0.71	0.46	0.30
Earnings (loss)	**94,545**	97,816	71,718	29,271	12,760	38,500	65,951	(11,285)
Per share – basic	**0.56**	0.58	0.43	0.18	0.08	0.23	0.40	(0.07)
Per share – diluted	**0.54**	0.56	0.42	0.17	0.08	0.23	0.40	(0.07)
Total dividends	**25,485**	25,358	16,779	1,671	1,658	1,651	1,649	1,649
Per share	**0.15**	0.15	0.10	0.01	0.01	0.01	0.01	0.01
Capital expenditures	**108,089**	143,331	108,951	90,170	57,086	108,851	68,250	61,568
Corporate Acquisition	**-**	22,220	-	-	-	-	-	-
Total payout ratio (%)(2)	**65%**	83%	76%	88%	71%	95%	92%	129%

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

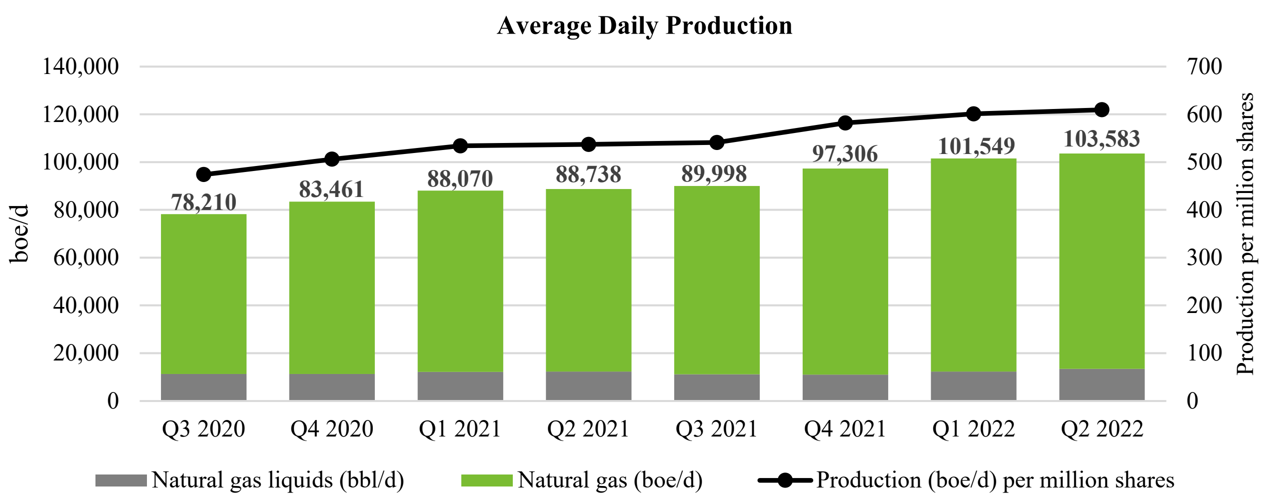
(2) This is a non-GAAP financial measure or ratio. Refer to the section entitled "Non-GAAP and Other Financial Measures" contained within this MD&A for further information

RESULTS OF OPERATIONS

Production

	Three Months Ended June 30			**Six Months Ended June 30**		
	2022	2021	% Change	**2022**	2021	% Change
Natural gas (MMcf/d)	**541**	459	*18%*	**538**	457	*18%*
NGLs (or "Liquids") (bbl/d)	**13,411**	12,289	*9%*	**12,845**	12,214	*5%*
Total (boe/d)	**103,583**	88,738	*17%*	**102,572**	88,406	*16%*
Total (MMcfe/d)	**621**	532	*17%*	**615**	530	*16%*

Peyto's total production in the second quarter of 2022 increased 17 per cent to 103,583 boe/d, compared to 88,738 boe/d in the second quarter of 2021. In the first half of 2022, total production increased to 102,572 boe/d, compared to 88,406 boe/d first half of 2021. The production increase in the three and six months ended June 30, 2022, is primarily attributable to Peyto's increased capital expenditure program over the past year. Additionally, Peyto closed a corporate acquisition on February 28, 2022, that added 655 boe/d and 566 boe/d to total production for the three and six months ended June 30, 2022, respectively.



Natural Gas Liquids Production by Component

	Three Months Ended June 30			Six Months Ended June 30		
	2022	2021	% Change	**2022**	2021	% Change
Condensate and Pentanes Plus (bbl/d)	**7,958**	7,253	*10%*	**7,608**	7,136	*7%*
Other Natural gas liquids (bbl/d)	**5,453**	5,036	*8%*	**5,237**	5,078	*3%*
Natural gas liquids (bbl/d)	**13,411**	12,289	*9%*	**12,845**	12,214	*5%*
Liquid to gas ratio (bbls/MMcf)	**24.8**	26.8	*-7%*	**23.9**	26.7	*-10%*

The liquid to gas ratio decreased 7 per cent from 26.8 bbl/MMcf in the second quarter of 2021 to 24.8 bbl/MMcf in the second 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.

Benchmark Commodity Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2022	2021	% Change	**2022**	2021	% Change
AECO 7A monthly ($/GJ)	**5.95**	2.70	*120%*	**5.15**	2.74	*88%*
AECO 5A daily ($/GJ)	**6.86**	2.93	*134%*	**5.68**	2.96	*92%*
NYMEX (US$/MMBtu)	**7.39**	2.88	*157%*	**6.00**	3.16	*90%*
Emerson2 (US$/MMBtu)	**6.59**	2.70	*144%*	**5.58**	2.82	*98%*
Malin (US$/MMBtu)	**6.74**	2.75	*145%*	**6.20**	2.89	*115%*
Ventura daily (US$/MMBtu)	**7.04**	2.73	*158%*	**5.75**	7.63	*-25%*
Canadian WTI ($/bbl)	**138.44**	81.10	*71%*	**128.92**	77.16	*67%*
Conway C3 (US$/bbl)	**51.14**	35.01	*46%*	**52.59**	36.70	*43%*
Exchange rate (CDN/USD)	**1.277**	1.228	*4%*	**1.271**	1.247	*2%*

Commodity Prices

	Three Months Ended June 30			Six Months Ended June 30		
	2022	2021	% Change	**2022**	2021	% Change
Condensate and Pentanes Plus(1) ($/bbl)	**134.57**	76.92	*75%*	**130.42**	72.83	*79%*
Other Natural gas liquids(1) ($/bbl)	**57.03**	25.76	*121%*	**54.96**	28.53	*93%*
NGL price – before hedging ($/bbl)	**103.04**	55.95	*84%*	**99.65**	54.41	*83%*
Hedging ($/bbl)	**(15.24)**	(7.18)	*112%*	**(14.77)**	(7.19)	*105%*
Realized NGL price – after hedging ($/bbl)	**87.80**	48.77	*80%*	**84.88**	47.22	*80%*
Natural gas(2) ($/Mcf)	**6.47**	3.24	*100%*	**5.92**	3.77	*57%*
Diversification activities ($/Mcf)	**(0.65)**	(0.85)	*-24%*	**(0.58)**	(0.84)	*-31%*
Hedging ($/Mcf)	**(1.74)**	(0.33)	*427%*	**(1.26)**	(0.38)	*232%*
Realized natural gas price – after hedging and diversification ($/Mcf)	**4.08**	2.06	*98%*	**4.08**	2.55	*60%*
Total Hedging ($/Mcfe)	**(1.84)**	(0.45)	*309%*	**(1.41)**	(0.49)	*188%*
Total Hedging ($/boe)	**(11.05)**	(2.71)	*308%*	**(8.48)**	(2.93)	*189%*

(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

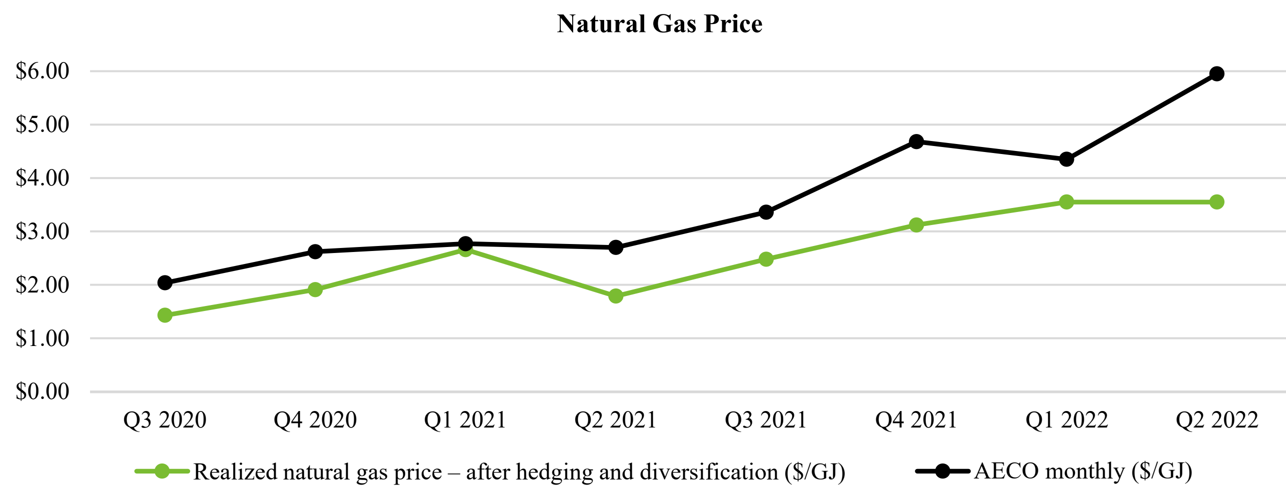
Peyto's natural gas price, before hedging and diversification activities, averaged $6.47/Mcf during the second quarter of 2022, an increase of 100 per cent from $3.24/Mcf in the second quarter of 2021. In the six months ended June 30, 2022, Peyto's natural gas price, before hedging and diversification activities, increased 57 per cent to 5.92/Mcf from $3.77/Mcf in the same period of 2021.

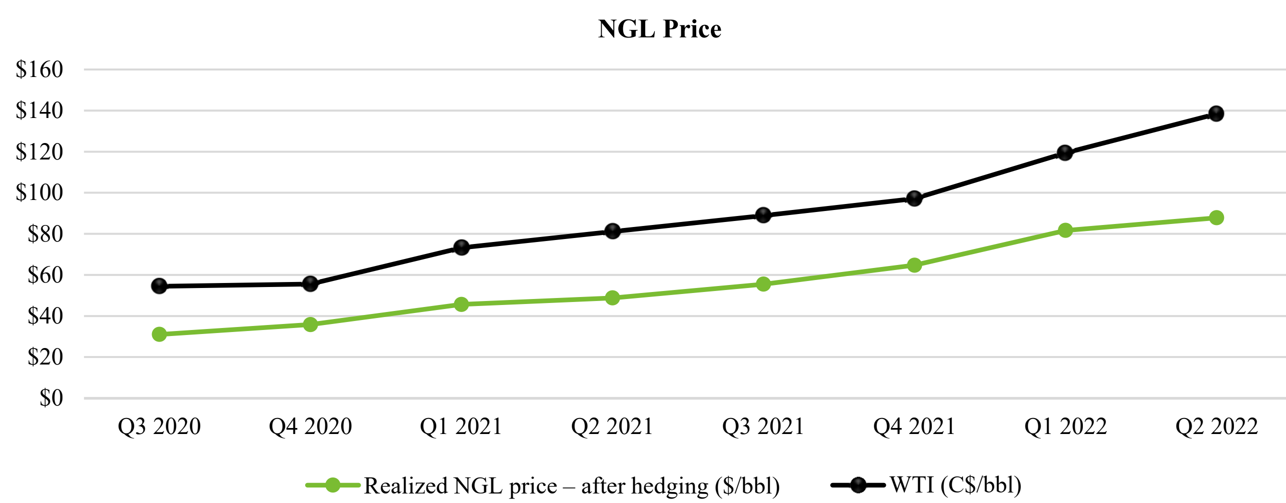
The Company’s NGL price, before hedging, averaged $103.04/bbl, in the second quarter of 2022, an increase of 84 per cent from $55.95/bbl a year earlier. In the six months ended June 30, 2022, Peyto’s NGL price, before hedging, increased 83 per cent to 99.65/bbl from $54.41/bbl in the same period of 2021.

Increases in Peyto's natural gas and NGL prices in the three and six months ended June 30, 2022, were driven by the sharp increases in benchmark commodity prices over the past year.

Peyto actively marketed all components of its production stream in the first half of 2022 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.



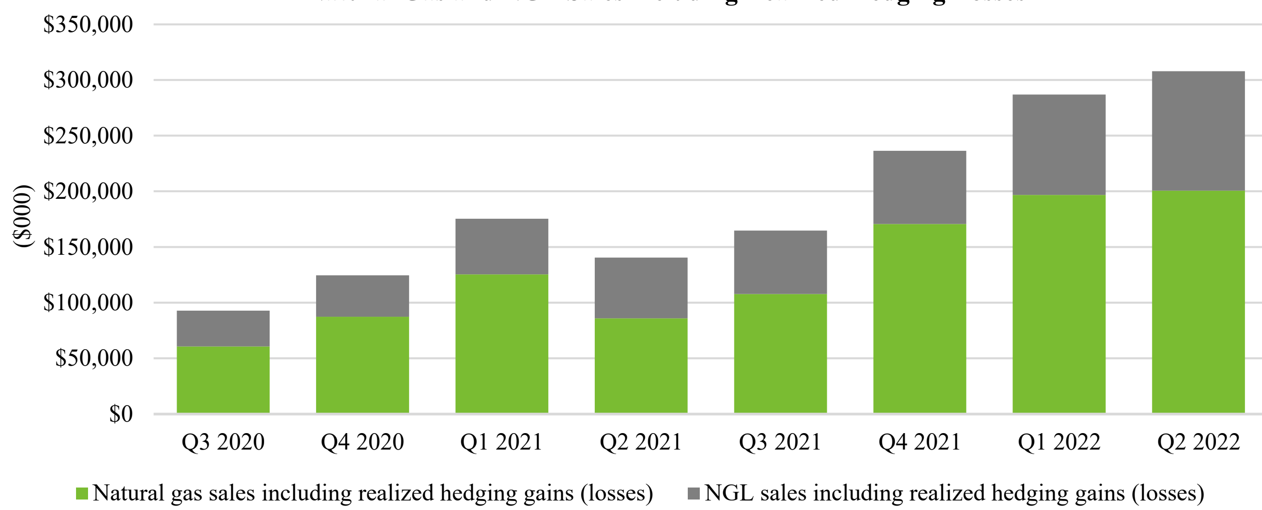


Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

($000)	Three Months Ended June 30 2022	2021	% Change	Six Months Ended June 30 2022	2021	% Change
Natural gas sales[1]	**286,195**	99,793	*187%*	**520,541**	242,456	*115%*
Realized hedging losses - gas	**(85,517)**	(13,875)	*516%*	**(123,162)**	(31,059)	*297%*
Natural gas sales including realized hedging losses	**200,678**	85,918	*134%*	**397,379**	211,397	*88%*
NGL sales	**125,756**	62,572	*101%*	**231,680**	120,292	*93%*
Realized hedging losses - NGLs	**(18,604)**	(8,033)	*132%*	**(34,334)**	(15,905)	*116%*
NGL sales including realized hedging losses	**107,152**	54,539	*96%*	**197,346**	104,387	*89%*
Natural gas and NGL sales	**411,951**	162,365	*154%*	**752,221**	362,748	*107%*
Realized hedging losses	**(104,121)**	(21,908)	*375%*	**(157,496)**	(46,964)	*235%*
Natural gas and NGL sales including realized hedging losses	**307,830**	140,457	*119%*	**594,725**	315,784	*88%*

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

Natural Gas and NGL Sales including Realized Hedging Losses

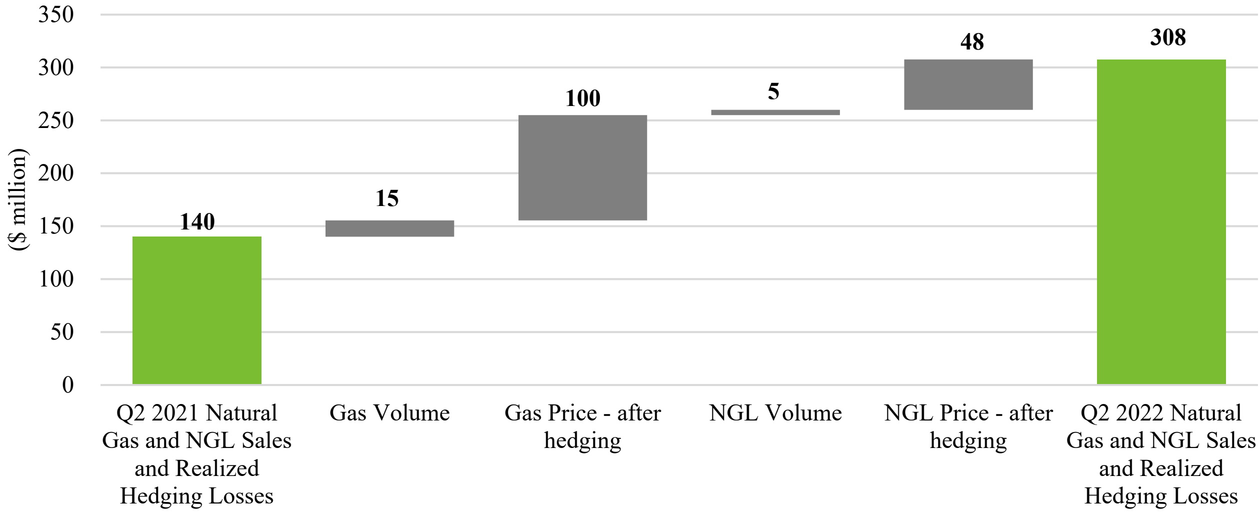


In the second quarter of 2022, natural gas and NGL sales net of realized hedging losses increased 119 per cent to $307.8 million from $140.5 million for the same period in 2021. In the first half of 2022, natural gas and NGL sales net of realized hedging losses increased 88 per cent to $594.7 million from $315.8 million for the same period in 2021. The increases for the three and six months ended June 30, 2022 were a result of increased commodity prices and production volumes, as detailed in the following table and graphs:

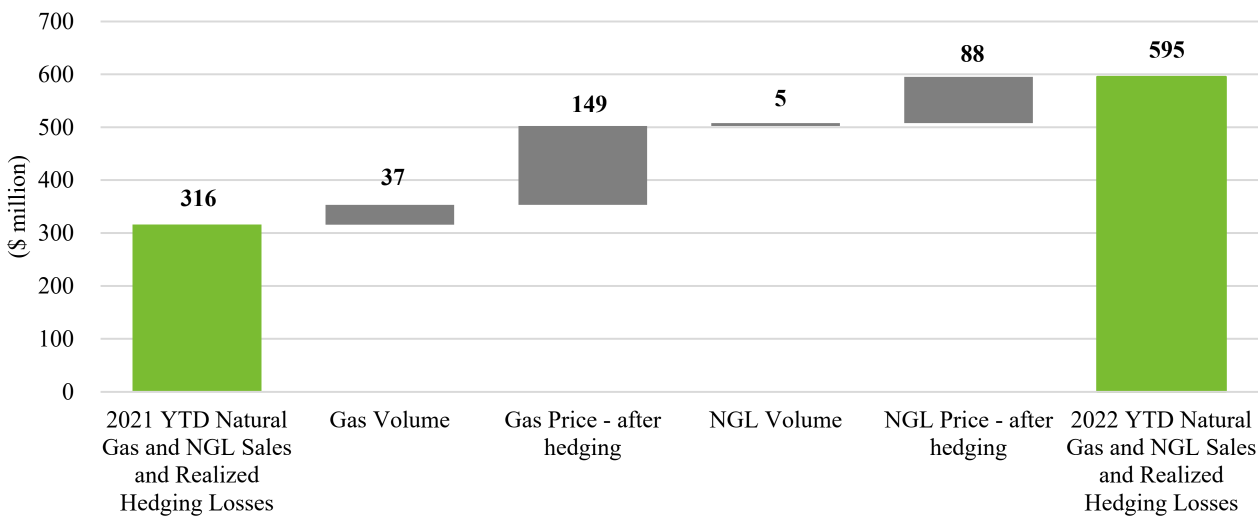
Revenue from Natural Gas and NGL Sales and Realized Hedging Losses

	Three Months ended June 30 2022	2021	**$ million**	Six Months ended June 30 2022	2021	**$ million**
2021			**140**			**316**
change due to:						
Natural gas						
Volume (MMcf)	49,234	41,741	**15**	97,443	82,745	**37**
Price ($/Mcf)	4.08	2.06	**100**	4.08	2.55	**149**
NGL						
Volume (Mbbl)	1,220	1,118	**5**	2,325	2,211	**5**
Price ($/bbl)	87.80	48.77	**48**	84.88	47.22	**88**
2022			**308**			**595**

Change in Revenue and Realized Hedging Losses
Three Months Ended June 30



Change in Revenue and Realized Hedging Losses
Six Months Ended June 30



Sales and Purchases of Natural Gas from Third Parties

	Three Months Ended June 30			Six Months Ended June 30		
($000)	**2022**	2021	% Change	**2022**	2021	% Change
Sales of natural gas from third parties	**40,530**	-		**40,530**	-	
Natural gas purchased from third parties	**(39,543)**	-		**(39,543)**	-	
Net third party sales	**987**	-		**987**	-	

In the second quarter of 2022, Peyto recorded sales of natural gas from third parties totaling $40.5 million, which was purchased for $39.5 million. The purchased natural gas 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.

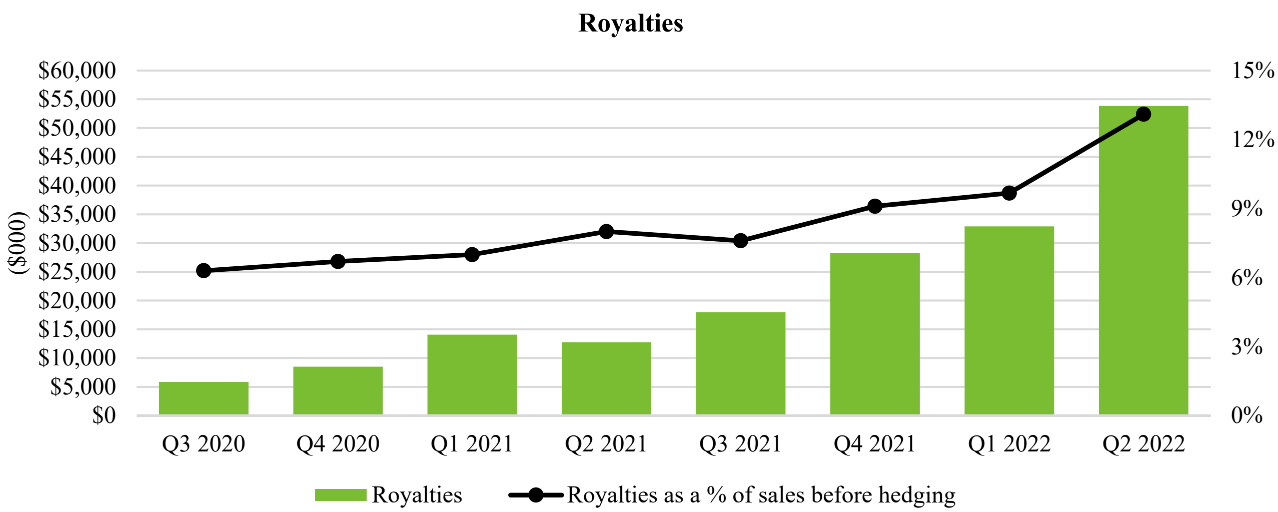
Royalties

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 June 30			**Six Months Ended June 30**		
	2022	2021	% Change	**2022**	2021	% Change
Royalties ($000)	**53,838**	12,730	*323%*	**86,741**	26,799	*224%*
per cent of sales before hedging	**13.1**	7.8	*68%*	**11.5**	7.4	*55%*
$/Mcfe	**0.95**	0.26	*265%*	**0.78**	0.28	*179%*
$/boe	**5.71**	1.58	*261%*	**4.67**	1.67	*180%*

For the second quarter of 2022, royalties increased to $0.95/Mcfe or 13.1 per cent of Peyto's natural gas and NGL sales, compared to $0.26/Mcfe or 7.8 per cent in the same period of 2021. In the first half of 2022, royalties increased to $0.78/Mcfe or 11.5 per cent of Peyto's natural gas and NGL sales, compared to $0.28/Mcfe or 7.4 per cent in the same period of 2021. The increases in the three and six months ended June 30, 2022 were due to the increases in AECO and WTI prices over the past year. Based on forward AECO prices, Peyto's royalty rate for 2022 is expected to range between 11 to 13 per cent of revenue excluding hedging losses, which has decreased from Peyto’s guidance of 15 per cent in the first quarter 2022 MD&A, due to a decline in forward AECO prices.

In its 23-year history, Peyto has invested over $7.0 billion in capital projects, found and developed 4.5 TCFe of natural gas reserves and paid over $1.0 billion in royalties.



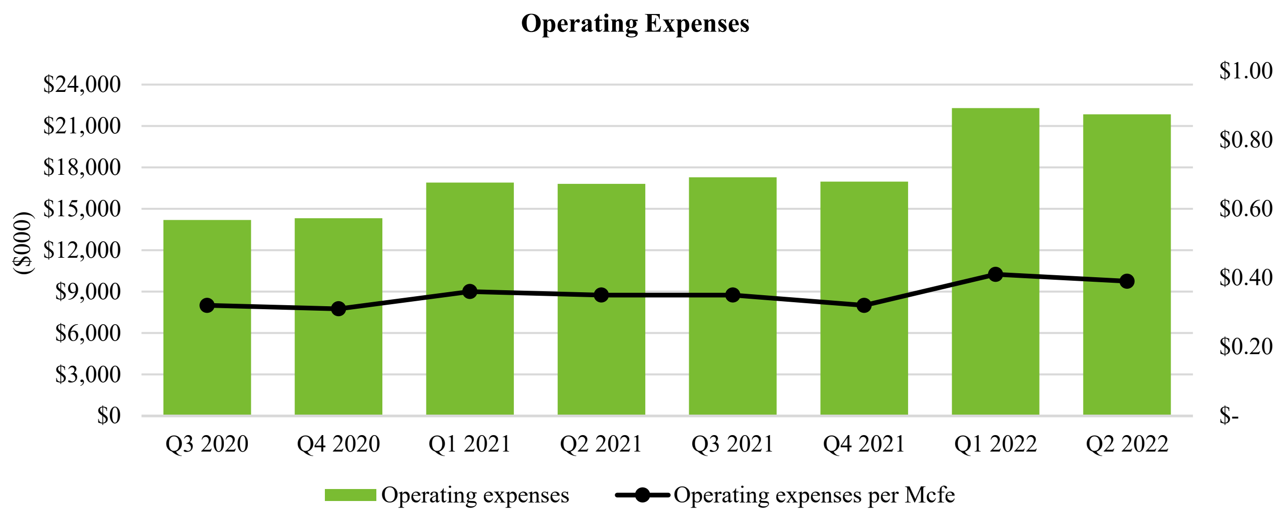
Operating Costs & Transportation

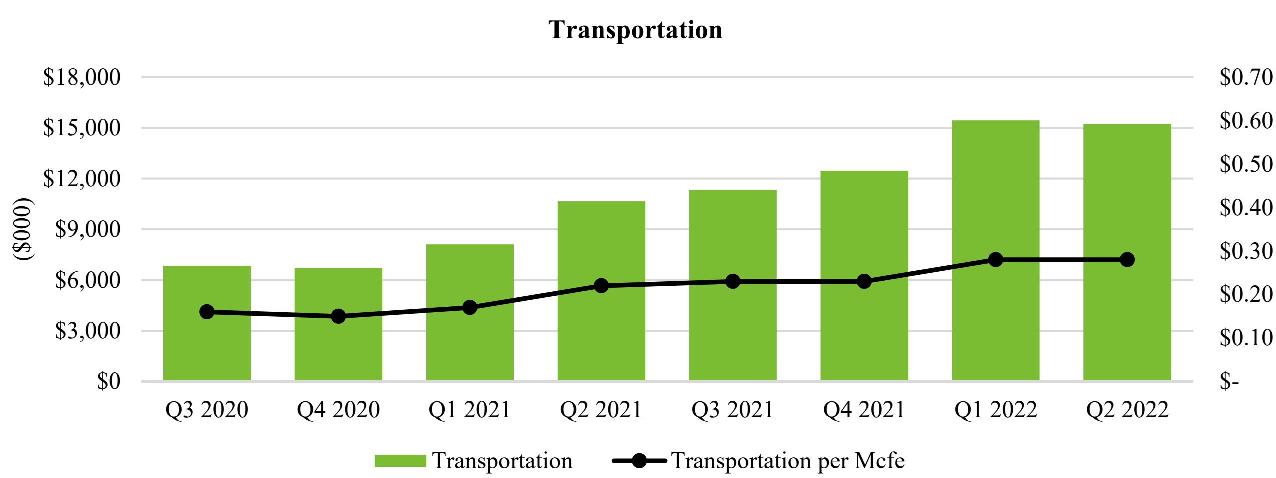
Peyto’s operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months Ended June 30			**Six Months Ended June 30**		
	2022	2021	% Change	**2022**	2021	% Change
Payments to Government ($000)	**5,753**	5,125	*12%*	**10,762**	9,936	*8%*
Other expenses ($000)	**16,085**	11,683	*38%*	**33,372**	23,773	*40%*
Operating costs ($000)	**21,838**	16,808	*30%*	**44,134**	33,709	*31%*
$/Mcfe	**0.39**	0.35	*11%*	**0.40**	0.35	*14%*
$/boe	**2.32**	2.08	*12%*	**2.38**	2.11	*13%*
Transportation ($000)	**15,223**	10,653	*43%*	**30,493**	18,763	*63%*
$/Mcfe	**0.27**	0.22	*23%*	**0.27**	0.20	*35%*
$/boe	**1.62**	1.32	*23%*	**1.64**	1.17	*40%*

For the three and six months ended June 30, 2022, operating expenses were $21.8 million and $44.1 million, respectively, compared to $16.8 million and $33.7 million in the same periods in 2021. On a unit-of-production basis, operating costs increased 11 per cent to $0.39/Mcfe in the second quarter of 2022 from $0.35/Mcfe in the same period of 2021. In the six months ended June 30, 2022, operating costs increased 14 per cent to $0.40/Mcfe compared to $0.35/Mcfe in the same period of 2021. The increases in the three and six months ended June 30, 2022 were due to higher power, chemical, trucking and other operating costs; as suppliers and service providers continued to increase 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 23 per cent on a unit-of production basis to $0.27/Mcfe in the second quarter 2022 from $0.20/Mcfe in the second quarter 2021. In the six months ended June 30, 2022, transportation expenses increased 35 per cent on a unit-of production basis to $0.27/Mcfe compared to $0.20/Mcfe in the same period of 2021. The increased transportation expenses are due to the addition of Empress and Emerson service, coupled with a January 2022 fee increase on the NGTL system. Physical transportation contracts to Emerson and Empress were entered into as part of Peyto's sales diversification strategy.





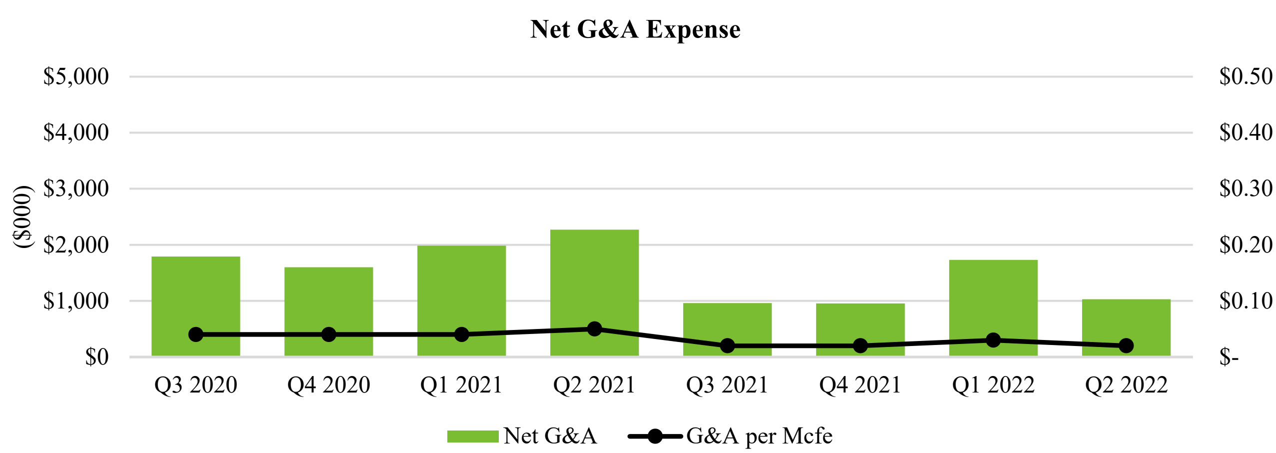
General and Administrative Expenses

	Three Months Ended June 30			Six Months Ended June 30		
	2022	2021	% Change	**2022**	2021	% Change
G&A expenses ($000)	**4,623**	4,111	*12%*	**9,792**	8,301	*18%*
Overhead recoveries ($000)	**(3,594)**	(1,840)	*95%*	**(7,032)**	(4,046)	*74%*
Net G&A expenses ($000)	**1,029**	2,271	*-55%*	**2,760**	4,255	*-35%*
$/Mcfe	**0.02**	0.05	*-60%*	**0.02**	0.05	*-60%*
$/boe	**0.11**	0.28	*-61%*	**0.15**	0.27	*-44%*

For the second quarter of 2022, G&A expenses (before overhead recoveries) increased to $4.6 million compared to $4.1 million for the same quarter of 2021, due to increased employment and insurance costs. In the six months ended June 30, 2022, G&A expenses increased to $9.8 million compared to $8.3 million for the same period of 2021. This increase was due primarily to transaction costs of $0.6 million on the February 2022 corporate acquisition, and increased employment and insurance costs.

G&A expenses averaged $0.08/Mcfe before overhead recoveries of $0.06/Mcfe for net G&A expenses of $0.02/Mcfe in the second quarter of 2022 ($0.09/Mcfe before overhead recoveries of $0.04/Mcfe for net G&A expenses of $0.05/Mcfe in the second quarter of 2021).

In the three and six months ended June 30, 2022, overhead recoveries increased 95 per cent and 74 per cent, respectively, compared to the same periods of 2021. The increased overhead recoveries is due to Peyto's increased capital investing activities over the same periods 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. Peyto accrued $2.5 million for performance based compensation expense in the three and six months ended June 30, 2022 (June 30, 2021 - $nil).

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 expire.

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 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 10.2 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 three and six months ended June 30, 2022 were $2.6 million and $4.9 million, respectively (June 30, 2021 - $1.4 million and $2.6 million).

Peyto records a non-cash provision for compensation expense over the life of the stock options calculated using a Black-Scholes valuation model (refer to Note 10 of the consolidated financial statements for more details). The stock option plan limits the number of common shares that may be granted to 10 per cent of the outstanding common shares.

Stock Option Plan

	Number of Options	**Weighted average exercise price ($)**
Balance, December 31, 2021	9,173,137	5.05
Stock options granted	2,790,400	11.85
Exercised	(1,810,270)	4.84
Expired	(793)	5.72
Balance, June 30, 2022	10,152,474	6.96

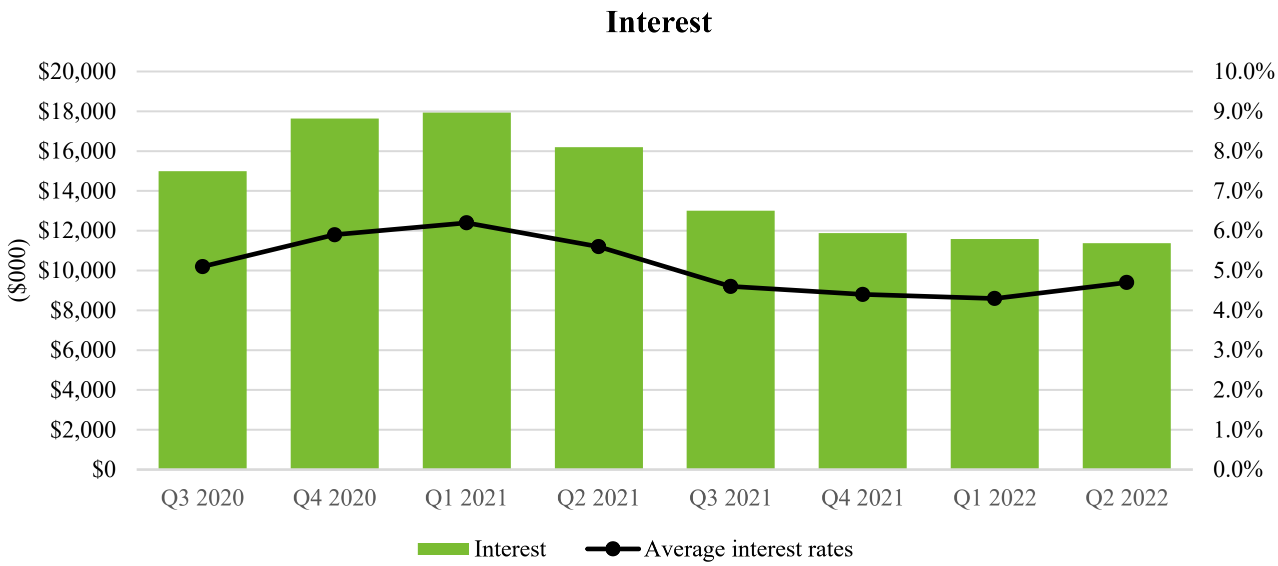
Deferred Share Units

	Number of DSUs	**Weighted average exercise price ($)**
Balance, December 31, 2021	176,669	3.60
DSU granted	20,147	11.60
Balance, June 30, 2022	196,816	4.42

Interest Expense

	Three Months Ended June 30			**Six Months Ended June 30**		
	2022	2021	% Change	**2022**	2021	% Change
Interest expense ($000)	**11,374**	16,194	*-30%*	**22,957**	34,125	*-33%*
$/Mcfe	**0.20**	0.33	*-39%*	**0.21**	0.35	*-40%*
$/boe	**1.21**	1.94	*-38%*	**1.24**	2.13	*-42%*
Average interest rate	**4.7%**	5.6%	*-16%*	**4.5%**	5.9%	*-24%*

For the three and six months ended June 30, 2022, interest expense decreased to $11.4 million and $23.0 million, respectively, compared to $16.2 million and $34.1 million for the same periods of 2021. The decrease is both periods is due to lower average debt outstanding on the Company's revolving credit facility and lower interest rates. Peyto's average interest rate decreased to 4.7 per cent and 4.5 per cent in the three and six months ended June 30, 2022, respectively, due to a decrease in leverage resulting in lower stamping fees charged on the amounts drawn on the revolving credit facility, partially offset by an increase in benchmark interest rates.

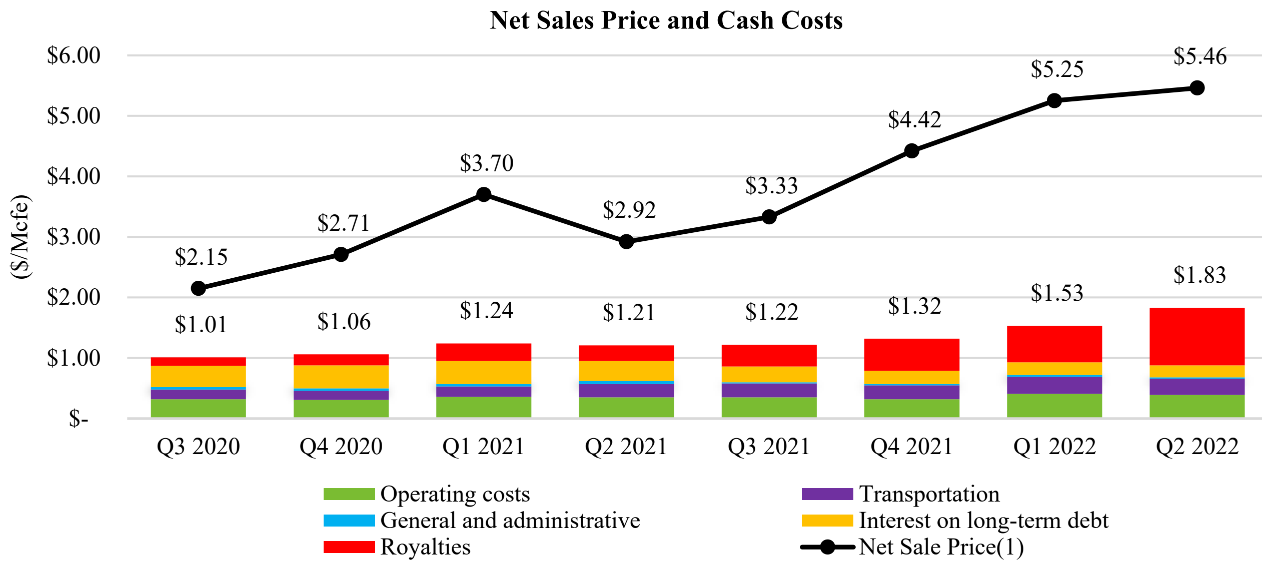


Netbacks

	Three Months Ended June 30			Six Months Ended June 30		
($/Mcfe)	**2022**	2021	% Change	**2022**	2021	% Change
Gross Sale Price	**7.30**	3.37	*117%*	**6.76**	3.80	*78%*
Realized hedging gain (loss)	**(1.84)**	(0.45)	*309%*	**(1.41)**	(0.49)	*188%*
Net Sale Price	**5.46**	2.92	*87%*	**5.35**	3.31	*62%*
Net third party sales	**0.02**	-		**0.01**	-	
Less: Royalties	**0.95**	0.26	*265%*	**0.78**	0.28	*179%*
Operating costs	**0.39**	0.35	*11%*	**0.40**	0.35	*14%*
Transportation	**0.27**	0.22	*23%*	**0.27**	0.20	*35%*
Field netback(1)	**3.87**	2.09	*85%*	**3.91**	2.48	*58%*
Net general and administrative	**0.02**	0.05	*-60%*	**0.02**	0.05	*-60%*
Interest on long-term debt	**0.20**	0.33	*-39%*	**0.21**	0.35	*-40%*
Cash netback(1) ($/Mcfe)	**3.65**	1.71	*113%*	**3.68**	2.08	*77%*
Cash netback(1) ($/boe)	**21.88**	10.23	*114%*	**22.09**	12.48	*77%*

(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

Depletion and Depreciation

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The second quarter 2022 provision for depletion and depreciation totaled $74.1 million ($1.31/Mcfe) compared to $62.2 million ($1.28/Mcfe) in the second quarter 2021. In the six months ended June 30, 2022, depletion and depreciation totaled $147.1 million ($1.31/Mcfe) compared to $127.6 million ($1.33/Mcfe) in the same period of 2021.

Income Taxes

The second quarter 2022 provision for deferred income tax expense totaled $29.0 million, compared to $4.2 million in the second quarter 2021. In the six months ended June 30, 2022, deferred income tax expense totaled $58.9 million, compared to $16.1 million in the same period of 2021. Resource pools are generated from Peyto's capital program, which are available to offset current income tax liabilities for the six months ended June 30, 2022.

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 three and six months ended June 30, 2022, Peyto recorded realized hedging losses of $104.1 million and $157.5 million, respectively, as compared to losses of $21.9 million and $47.0 million in the same periods of 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	90,000 GJ	$2.19
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 - Daily Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
April 1, 2022 to October 31, 2022	Fixed Price	25,000 GJ	$2.16

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	70,000 MMBtu	$4.29
November 1, 2023 to March 31, 2024	Fixed Price	5,000 MMBtu	$5.01

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

Crude Oil Period Hedged – WTI	Type	Daily Volume	Price (WTI CAD/bbl)
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	$81.96
July 1, 2022 to September 30, 2022	Fixed Price	1,000 bbl	$123.65
July 1, 2022 to December 31, 2022	Fixed Price	1,300 bbl	$95.35
October 1, 2022 to December 31, 2022	Fixed Price	400 bbl	$124.08
January 1, 2023 to March 31, 2023	Fixed Price	1,700 bbl	$113.38
April 1, 2023 to June 30, 2023	Fixed Price	800 bbl	$114.61

As at June 30 2022, Peyto had committed to the future sale of 82,110,000 gigajoules (GJ) of natural gas at an average price of $2.71 per GJ or $3.12 per mcf, 73,805,000 MMBtu at an average price of $3.68 US per MMBtu, 55,200 barrels of crude at an average price of $64.05 USD per bbl, and 759,400 barrels of crude at an average price of $102.73 CAD per bbl. Had these contracts closed on June 30, 2022, Peyto would have realized a loss in the amount of $299.3 million. Total hedged volumes represent approximately 6 per cent of Peyto's developed 2021 year end reserves.

Subsequent to June 30, 2022, Peyto entered into the following contracts:

Natural Gas Period Hedged – Monthly Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
November 1, 2022 to March 31, 2023	Fixed Price	5,000 GJ	$6.62
November 1, 2023 to March 31, 2024	Fixed Price	5,000 GJ	$5.00

Crude Oil Period Hedged – WTI	Type	Daily Volume	Price (WTI CAD/bbl)
July 1, 2022 to September 30, 2022	Fixed Price	400 bbl	$128.25
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$121.60
January 1, 2023 to March 31, 2023	Fixed Price	100 bbl	$117.00
April 1, 2023 to June 30, 2023	Fixed Price	100 bbl	$113.25
July 1, 2023 to September 30, 2023	Fixed Price	100 bbl	$110.30

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. Currently, Peyto has not entered into any agreements to further manage its currency risks. The $40 million USD in senior secured notes does provide structural foreign exchange risk mitigation.

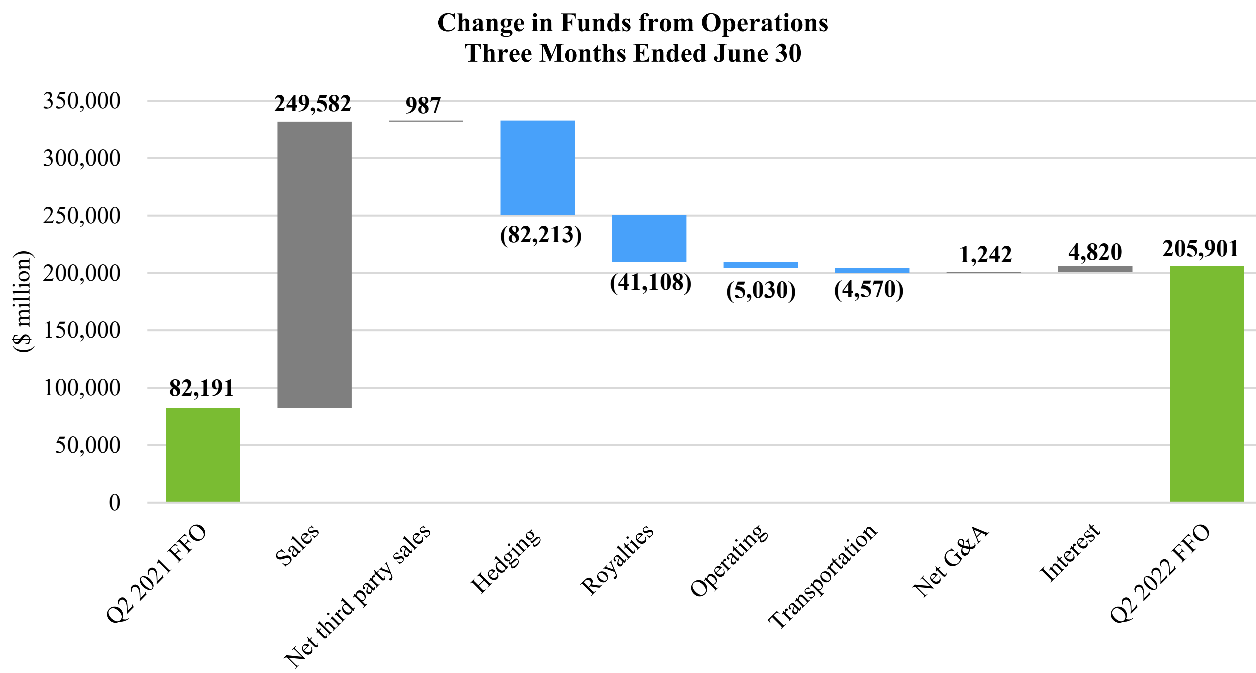
Interest Rate Risk Management
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently there are no agreements to manage the risk on the credit facility. At June 30, 2022, the increase or decrease in earnings for each 100 bps (1 per cent) change in weighted average borrowing rate paid on the outstanding revolving demand loan amounts to approximately $1.5 million per quarter. Average debt outstanding for the quarter was $1.00 billion (including $417 million fixed rate debt).

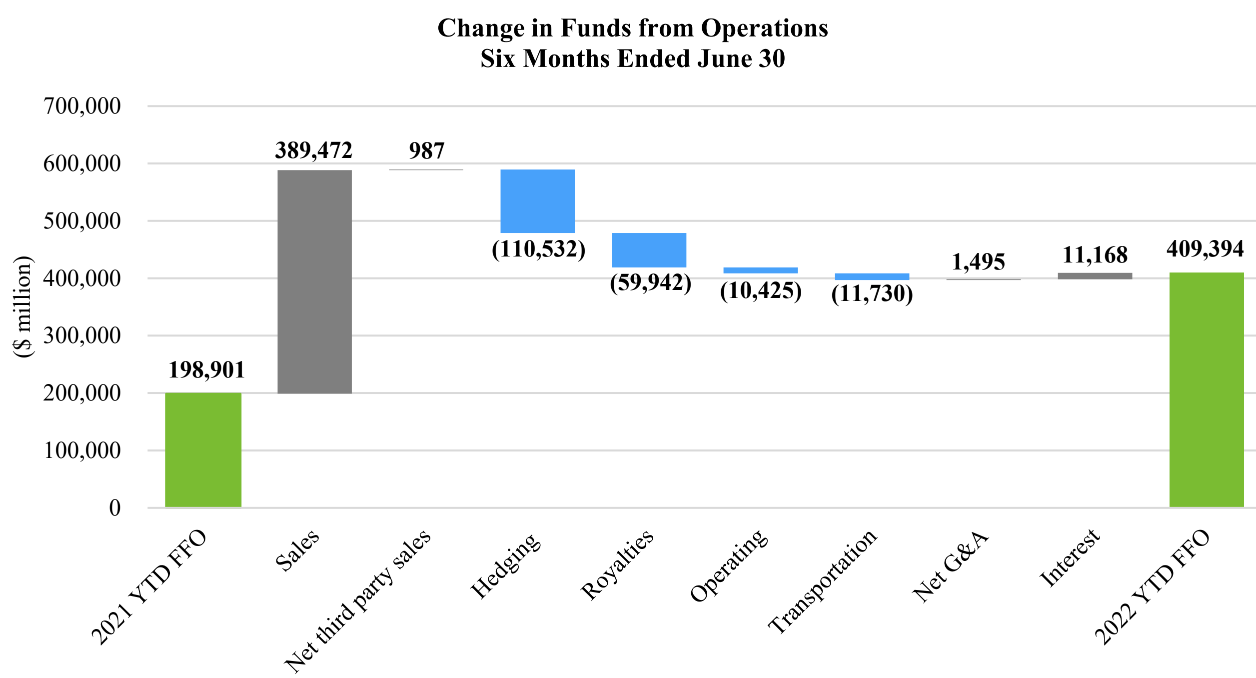
Cash Flow from Operating Activities, Funds from Operations and Earnings

	Three Months Ended June 30			**Six Months Ended June 30**		
($000, except per share amounts)	**2022**	2021	% Change	**2022**	2021	% Change
Cash Flow from Operating Activities	**220,580**	85,914	*157%*	**406,371**	205,666	*98%*
Funds from Operations[1]	**205,901**	82,191	*151%*	**409,394**	198,901	*106%*
Funds from operations per share[1] – basic	**1.21**	0.50	*142%*	**2.42**	1.20	*102%*
Funds from operations per share[1] – diluted	**1.18**	0.49	*141%*	**2.35**	1.18	*99%*
Free Funds Flow[1]	**97,812**	25,105	*290%*	**157,974**	32,964	*379%*
Earnings	**94,545**	12,760	*641%*	**192,361**	51,260	*275%*
Earnings per share – basic	**0.56**	0.08	*600%*	**1.14**	0.31	*268%*
Earnings per share – diluted	**0.54**	0.08	*575%*	**1.10**	0.30	*267%*

(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 second quarter of 2022, funds from operations ("FFO") increased 151 per cent to $205.9 million, compared to $82.2 million in the second quarter of 2021. Cash flow from operating activities increased to $220.6 million in the second quarter of 2022 from $85.9 million in the second quarter of 2021. For the six months ended June 30, 2022, FFO totaled $409.4 million, compared to $198.9 million for the same period of 2021. Cash flow from operating activities increased to $406.4 million in the six months ended June 30, 2022 from $205.7 million for the same period of 2021. The increases in FFO and cash flow from operating activities was due to increases in commodity prices and production volumes and lower interest and G&A costs, 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 three and six months ended June 30, 2022, free funds flow increased to $97.8 million and $158.0 million, respectively, from $25.1 million and $33.0 million for the same periods 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 earnings in the three and six months ended June 30, 2022 increased to $94.5 million and $192.4 million, respectively, from $12.8 million and $51.3 million for the same periods 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 totaled $108.1 million for the second quarter of 2022. Exploration and development related activity represented $79.5 million (74 per cent), while expenditures on facilities, gathering systems and equipment totaled $20.8 million (19 per cent). Second quarter 2022 facilities and pipelines expenditures included $6 million for final construction costs of Peyto's new gas plant in the Chambers area, and $8 million for major pipeline projects in the Chambers and Cecilia areas. An additional $6 million was spent acquiring 24 sections of new crown land, along with $1 million for new seismic.

The following table summarizes capital expenditures for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30			**Six Months Ended June 30**		
($000)	**2022**	2021	% Change	**2022**	2021	% Change
Land	**6,313**	579	*990%*	**6,368**	579	*1000%*
Seismic	**1,419**	744	*91%*	**2,647**	1,838	*44%*
Drilling	**44,751**	27,876	*61%*	**96,820**	61,412	*58%*
Completions	**25,244**	15,173	*66%*	**58,486**	33,393	*75%*
Equipping & tie-ins	**9,553**	4,078	*134%*	**19,528**	8,889	*120%*
Facilities & pipelines	**20,809**	8,403	*148%*	**67,623**	24,008	*182%*
Asset acquisitions & dispositions	**-**	233	*-100%*	**(52)**	35,818	*-100%*
Total capital expenditures	**108,089**	57,086	*89%*	**251,420**	165,937	*52%*
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 $0.6 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 June 30, 2022, December 31, 2021 and June 30, 2021 is summarized as follows:

($000)	**As at June 30, 2022**	As at December 31, 2021	As at June 30, 2021
Long-term debt	**976,544**	1,065,712	1,140,000
Current assets	**(221,456)**	(144,370)	(89,687)
Current liabilities	**479,777**	239,620	209,740
Financial derivative instruments	**(242,247)**	(61,091)	(111,326)
Current portion of lease obligation	**(1,244)**	(1,123)	(1,164)
Net debt(1)	**991,374**	1,098,748	1,147,563

(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 $991.4 million as at June 30, 2022 decreased by $107.3 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)	**June 30, 2022**	December 31, 2021
Bank credit facility	**560,000**	650,000
Long term senior secured notes	**416,544**	415,712
Balance, end of the period	**976,544**	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 totaling $390 million at June 30, 2022 ($300 million at December 31, 2021) 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	**June 30, 2022**	December 31, 2021
Total Debt to EBITDA	Less than 4.0	**1.36**	2.04
Senior Debt to EBITDA	Less than 3.5	**1.36**	2.04
Interest coverage	Greater than 3.0	**15.08**	8.89

Peyto is in compliance with all financial covenants at June 30, 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

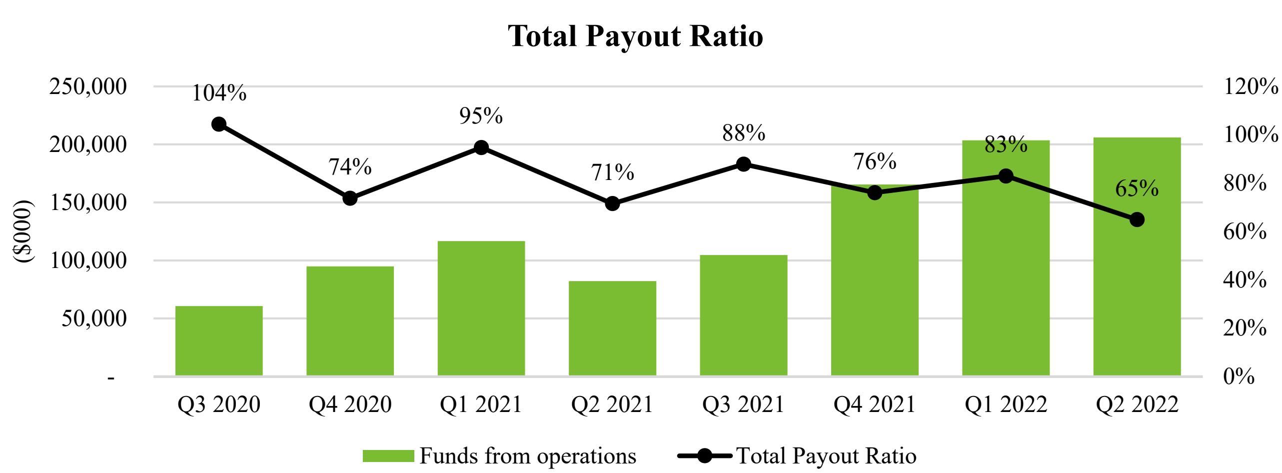
Common Shares (no par value)	Number of Common Shares	Amount $000
Balance, December 31, 2021	**168,151,219**	**1,664,508**
Private Placement	247,785	2,578
Common shares issued	1,989,291	13,694
Balance, June 30, 2022	**170,388,295**	**1,680,780**

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 June 30			Six Months Ended June 30		
($000, except total payout ratio)	**2022**	2021	% Change	**2022**	2021	% Change
Total dividends declared	**25,485**	1,658	*1437%*	**50,843**	3,309	*1437%*
Additions to property, plant and equipment	**108,089**	57,086	*89%*	**251,420**	165,937	*52%*
Total payout(1)	**133,574**	58,744	*127%*	**302,263**	169,246	*79%*
Funds from operations(1)	**205,902**	82,191	*151%*	**409,394**	198,901	*16%*
Total payout ratio(1)	**65%**	71%	*-8%*	**74%**	85%	*-13%*

(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 June 30, 2022:

($000)	2022	2023	2024	2025	2026	Thereafter
Interest payments [1]	6,439	16,827	13,127	11,743	8,163	9,962
Transportation commitments	44,364	68,856	43,991	42,432	31,032	357,916
Operating leases	1,100	2,200	2,200	2,200	2,200	-
Total	51,903	87,883	59,318	56,375	41,395	367,878

(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				Accounts Payable	
Three Months ended June 30		Six Months ended June 30		As at June 30	
2022	2021	**2022**	2021	**2022**	2021
110.2	(96.0)	**828.4**	(52.0)	**24.8**	(4)

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 it's financial covenants and lenders do not grant covenant relief, Peyto's access to capital could be restricted or repayment required.

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

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

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

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

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

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

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

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

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

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

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

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

For a detailed discussion of the risks, uncertainties and industry conditions associated with Peyto's business, refer to the Company's Annual Information Form dated March 31, 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 June 30, 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.

	Three Months ended June 30		Six Months ended June 30	
($000)	**2022**	2021	**2022**	2021
Cash flows from operating activities	**220,580**	85,914	**406,371**	205,666
Change in non-cash working capital	**(17,179)**	(3,723)	**523**	(6,765)
Performance based compensation	**2,500**	-	**2,500**	-
Funds from operations	**205,901**	82,191	**409,394**	198,901

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

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

	Three Months ended June 30		Six Months ended June 30	
($000)	**2022**	2021	**2022**	2021
Cash flows from operating activities	**220,580**	85,914	**406,371**	205,666
Change in non-cash working capital	**(17,179)**	(3,723)	**523**	(6,765)
Performance based compensation	**2,500**	-	**2,500**	-
Funds from operations	**205,901**	82,191	**409,394**	198,901
Additions to property, plant and equipment	**(108,089)**	(57,086)	**(251,420)**	(165,937)
Free funds flow	**97,812**	25,105	**157,974**	32,964

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 June 30, 2022**	As at December 31, 2021	As at June 30, 2021
Long-term debt	**976,544**	1,065,712	1,140,000
Current assets	**(221,456)**	(144,370)	(89,687)
Current liabilities	**479,777**	239,620	209,740
Financial derivative instruments	**(242,247)**	(61,091)	(111,326)
Current portion of lease obligation	**(1,244)**	(1,123)	(1,164)
Net debt	**991,374**	1,098,748	1,147,563

Non-GAAP Financial Ratios

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

Netback per MCFE and BOE

"Netback" is a non-GAAP measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Peyto computes "field netback per Mcfe" as commodity sales from production, plus net third party sales, if any, 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.

	Three Months ended June 30		Six Months ended June 30	
($/Mcfe)	**2022**	2021	**2022**	2021
Gross Sale Price	**7.30**	3.37	**6.76**	3.80
Realized hedging gain (loss)	**(1.84)**	(0.45)	**(1.41)**	(0.49)
Net Sale Price	**5.46**	2.92	**5.35**	3.31
Net third party sales	**0.02**	-	**0.01**	-
Less: Royalties	**0.95**	0.26	**0.78**	0.28
Operating costs	**0.39**	0.35	**0.40**	0.35
Transportation	**0.27**	0.22	**0.27**	0.20
Field netback	**3.87**	2.09	**3.91**	2.48
General and administrative	**0.02**	0.05	**0.02**	0.05
Interest on long-term debt	**0.20**	0.33	**0.21**	0.35
Cash netback ($/Mcfe)	**3.65**	1.71	**3.68**	2.08
Cash netback ($/boe)	**21.88**	10.23	**22.09**	12.48

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 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 June 30		Six Months ended June 30	
	2022	2021	**2022**	2021
Total dividends declared ($000)	**25,485**	1,658	**50,843**	3,309
Additions to property, plant and equipment ($000)	**108,089**	57,086	**251,420**	165,937
Total payout ($000)	**133,574**	58,744	**302,263**	169,246
Funds from operations ($000)	**205,902**	82,191	**409,394**	198,901
Total payout ratio (%)	**65%**	71%	**74%**	85%

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.

"Net third party sales 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.

"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 range between 11 to 13 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 (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

	2022		2021		
	Q2	Q1	Q4	Q3	Q2
Operations					
Production					
Natural gas (Mcf/d)	**541,030**	535,660	517,606	473,008	458,696
NGLs (bbl/d)	**13,411**	12,273	11,038	11,164	12,289
Total (boe/d @ 6:1)	**103,583**	101,549	97,306	89,998	88,738
Total (Mcfe/d @ 6:1)	**621,499**	609,294	583,834	539,990	532,430
Liquid to gas ratio (bbl per MMcf)	**24.8**	22.9	21.3	23.6	26.8
Average product prices					
Realized natural gas price – after hedging and diversification ($/Mcf)	**4.08**	4.08	3.58	2.48	2.06
Realized NGL price – after hedging ($/bbl)	**87.80**	81.66	64.71	55.47	48.77
$/Mcfe					
Net sale price ($/Mcfe)	**5.46**	5.25	4.42	3.33	2.92
Net third party sales ($/Mcfe)	**0.02**	-	-	-	-
Royalties ($/Mcfe)	**0.95**	0.60	0.53	0.36	0.26
Operating costs ($/Mcfe)	**0.39**	0.41	0.32	0.35	0.35
Transportation ($/Mcfe)	**0.27**	0.28	0.23	0.23	0.22
Field netback ($/Mcfe) (2)	**3.87**	3.96	3.34	2.39	2.09
General & administrative expense ($/Mcfe)	**0.02**	0.03	0.02	0.02	0.05
Interest expense ($/Mcfe)	**0.20**	0.21	0.22	0.26	0.33
Cash netback ($/Mcfe) (2)	**3.65**	3.72	3.10	2.11	1.71
Financial ($000 except per share)					
Revenue and realized hedging gains (losses) (1)	**307,830**	286,894	236,360	164,777	140,457
Royalties	**53,838**	32,903	28,304	17,985	12,370
Funds from operations(2)	**205,901**	203,492	166,165	104,608	82,191
Funds from operations per share(2)	**1.21**	1.20	0.99	0.63	0.50
Funds from operations per diluted share(2)	**1.18**	1.17	0.96	0.62	0.50
Total dividends	**25,485**	25,358	16,779	1,671	1,658
Total dividends per share(2)	**0.15**	0.15	0.10	0.01	0.01
Earnings	**94,545**	97,816	71,718	29,271	12,760
Earnings per share	**0.56**	0.58	0.43	0.18	0.08
Earnings per diluted share	**0.54**	0.56	0.42	0.17	0.08
Capital expenditures	**108,089**	143,331	108,951	90,170	57,086
Corporate acquisition	**-**	22,220	-	-	-
Total payout ratio (%)(2)	**65%**	83%	76%	88%	71%
Weighted average shares outstanding (basic)	**169,896,849**	169,058,178	167,546,601	166,440,704	165,343,937
Weighted average shares outstanding (diluted)	**175,040,905**	173,320,559	172,582,450	169,512,566	168,635,872

(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

Peyto Exploration & Development Corp.

Condensed Consolidated Balance Sheet *(unaudited)*

(Amount in $ thousands)

	June 30 2022	December 31 2021
Assets		
Current assets		
Cash	21,414	5,718
Accounts receivable (*Note 11)*	171,796	118,948
Prepaid expenses	28,246	19,704
	221,456	144,370
Property, plant and equipment, net *(Note 4)*	3,678,537	3,639,825
	3,678,537	3,639,825
	3,899,993	3,784,195
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	227,767	168,998
Dividends payable *(Note 8)*	8,519	8,408
Current portion of lease obligation *(Note 7)*	1,244	1,123
Derivative financial instruments *(Note 12)*	242,247	61,091
	479,777	239,620
Long-term debt *(Note 5)*	976,544	1,065,712
Long-term derivative financial instruments *(Note 12)*	57,099	12,280
Decommissioning provision *(Note 6)*	151,629	204,220
Lease obligation *(Note 7)*	4,712	5,440
Deferred income taxes	480,507	490,917
	1,670,491	1,778,569
Equity		
Share capital *(Note 8)*	1,680,780	1,664,508
Contributed surplus	13,053	13,123
Retained earnings	284,735	143,217
Accumulated other comprehensive loss *(Note 8)*	(228,843)	(54,842)
	1,749,725	1,766,006
	3,899,993	3,784,195

See accompanying notes to the condensed consolidated financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Consolidated Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended June 30		Six months ended June 30	
	2022	**2021**	**2022**	**2021**
Revenue				
Natural gas and natural gas liquid sales (*Note 11)*	411,951	162,365	752,221	362,748
Royalties	(53,838)	(12,730)	(86,741)	(26,799)
Sales of natural gas from third parties	40,530	-	40,530	-
Natural gas and natural gas liquid sales, net of royalties	**398,643**	149,635	**706,010**	335,949
Realized loss on derivative financial instruments *(Note 12)*	(104,121)	(21,908)	(157,496)	(46,964)
Unrealized loss on derivative financial instruments (*Note 12)*	-	(3,524)	-	(2,071)
Other Income	386	390	767	768
	294,908	124,593	**549,281**	287,682
Expenses				
Natural gas purchased from third parties	39,543	-	39,543	-
Operating	21,838	16,808	44,134	33,709
Transportation	15,223	10,653	30,493	18,763
General and administrative	1,029	2,271	2,760	4,255
Performance based compensation	2,500	-	2,500	-
Stock based compensation *(Note 10)*	2,571	1,435	4,860	2,552
Interest	11,374	16,194	22,957	34,125
Unrealized loss on foreign exchange	1,560	-	832	-
Gain on disposition of capital assets	-	(3,000)	-	(2,581)
Accretion of decommissioning provision (*Note 6)*	1,645	989	2,841	1,928
Depletion and depreciation (*Note 4)*	74,071	62,243	147,090	127,596
	171,354	107,593	**298,010**	220,347
Earnings before taxes	**123,554**	17,000	**251,271**	67,335
Income tax				
Deferred income tax expense	29,009	4,240	58,910	16,075
Earnings for the period	**94,545**	12,760	**192,361**	51,260

Earnings per share *(Note 8)*				
Basic	**$0.56**	$0.08	**$1.14**	$0.31
Diluted	**$0.54**	$0.08	**$1.10**	$0.30

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Earnings for the period	**94,545**	12,760	**192,361**	51,260
Other comprehensive income				
Change in unrealized loss on derivative financial instruments	(54,842)	(127,841)	(383,471)	(173,869)
Deferred income tax recovery (expense)	(11,334)	24,519	51,974	29,343
Realized loss on derivative financial instruments	104,121	21,235	157,496	46,290
Comprehensive income (loss)	**132,490**	(69,327)	**18,360**	(46,976)

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Six months ended June 30	
	2022	**2021**
Share capital, beginning of period	**1,664,508**	1,649,635
Private Placement	2,578	-
Common shares issued under stock option plan	13,694	5,885
Share capital, end of period	**1,680,780**	1,655,520
Contributed surplus, beginning of period	**13,123**	10,487
Stock based compensation expense	4,860	2,553
Recognized under stock-based compensation plans	(4,930)	(1,327)
Contributed surplus, end of period	**13,053**	11,713
Retained earnings, beginning of period	**143,217**	12,727
Earnings for the period	192,361	51,260
Dividends *(Note 8)*	(50,843)	(3,309)
Retained earnings, end of period	**284,735**	60,678
Accumulated other comprehensive income (loss), beginning of period	**(54,842)**	4,624
Other comprehensive loss	(174,001)	(98,236)
Accumulated other comprehensive loss, end of period	**(228,843)**	(93,612)
Total equity	**1,749,725**	1,634,299

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2022	2021	**2022**	2021
Cash provided by (used in)				
Operating activities				
Earnings	94,545	12,760	192,361	51,260
Items not requiring cash:				
Deferred income tax	29,009	4,240	58,910	16,075
Depletion and depreciation	74,071	62,243	147,090	127,596
Gain on disposition of capital assets	-	(3,000)	-	(2,581)
Accretion of decommissioning provision	1,645	989	2,841	1,928
Stock based compensation	2,571	1,435	4,860	2,552
Unrealized loss on derivative financial instruments	-	3,524	-	2,071
Unrealized loss on foreign exchange	1,560	-	832	-
Change in non-cash working capital related to operating activities	17,179	3,723	(523)	6,765
	220,580	85,914	**406,371**	205,666
Financing activities				
Common shares issued and private placement	6,591	4,077	11,339	4,558
Bank overdraft	-	(93)	-	-
Cash dividends paid	(25,427)	(1,651)	(50,731)	(3,300)
Lease interest *(Note 7)*	53	63	106	127
Principal repayment of lease *(Note 7)*	(357)	(338)	(713)	(677)
Decrease in bank debt	(65,000)	(10,000)	(90,000)	(30,000)
	(84,140)	(7,942)	**(129,999)**	(29,292)
Investing activities				
Additions to property, plant and equipment	(108,089)	(57,086)	(251,420)	(165,937)
Change in prepaid capital	(1,842)	(5,395)	14,931	(4,466)
Corporate Acquisition	-	-	(22,220)	-
Change in non-cash working capital relating to investing activities	(8,669)	(11,958)	(1,967)	(11,748)
	(118,600)	(74,439)	**(260,676)**	(182,151)
Net increase (decrease) in cash	**17,840**	3,533	**15,696**	(5,777)
Cash, beginning of period	**3,574**	-	**5,718**	9,310
Cash, end of period	**21,414**	3,533	**21,414**	3,533
The following amounts are included in cash flows from operating activities:				
Cash interest paid	**13,563**	13,865	**21,780**	30,620
Cash taxes paid	**-**	-	**-**	-

See accompanying notes to the condensed consolidated financial statements.

1. Nature of operations

Peyto Exploration & Development Corp and its subsidiary (together "Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development, and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on August 10, 2022.

2. Basis of presentation

The condensed consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company's consolidated financial statements as at and for the years ended December 31, 2021 and 2020.

Significant Accounting Policies

(a) Significant Accounting Judgments Estimates and Assumptions

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

All accounting policies and methods of computation followed in the preparation of these consolidated financial statements are the same as those disclosed in Note 2 of Peyto's consolidated financial statements as at and for the years ended December 31, 2021 and 2020.

3. Corporate Acquisition

On February 28, 2022, Peyto acquired all the issued and outstanding shares of a private company ("PrivateCo") 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. The transaction has been accounted for as a business combination in accordance with IFRS 3 using the acquisition method.

Results from operations for PrivateCo are included in the Company's consolidated financial statements from the closing date of the transaction. Total transaction costs incurred by Peyto of $0.6 million associated with this acquisition were expensed in the consolidated statements of income and comprehensive income. The following purchase price allocation is based on Management's best estimate of the assets acquired and liabilities assumed and is subject to change based upon finalizing the value of the net assets acquired.

Fair value of net assets acquired:	
Working capital	133
Property, plant and equipment	5,900
Deferred income tax asset	17,344
Decommissioning provision	(1,157)
Total	**22,220**

Consideration:	
Cash	**22,220**

The acquisition of PrivateCo has contributed revenue of $4.4 million and earnings of $3.4 million since February 28, 2022. Had the acquisition of PrivateCo closed on January 1, 2022, estimated contributed revenue and earnings would have been approximately $5.2 million and $3.6 million, respectively, for the three and six months ended June 30, 2022.

4. Property, plant and equipment, net

Cost	
At December 31, 2021	**6,537,637**
Additions	256,165
Change in Decommissioning provision	(55,432)
Prepaid capital	(14,931)
At June 30, 2022	6,723,439
Accumulated depletion and depreciation	
At December 31, 2021	**(2,897,812)**
Depletion and depreciation	(147,090)
At June 30, 2022	**(3,044,902)**
Carrying amount at December 31, 2021	3,639,825
Carrying amount at June 30, 2022	**3,678,537**

During the three and six month periods ended June 30, 2022, Peyto capitalized $3.5 million and $7.0 million (2021- $1.6 million and 3.5 million) of general and administrative expense directly attributable to exploration and development activities.

As at June 30, 2022, the Company identified no indicators of impairment and therefore a test was not performed.

On February 1, 2021, the Company acquired assets in the Deep Basin for cash consideration of $35.0 million. The acquisition resulted in an increase in PP&E of approximately $48.0 million including $13 million in decommissioning liabilities. The assets acquired include a working interest in production, reserves, and a gas processing facility The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

On March 5, 2021, the Company acquired assets in the Deep Basin for cash consideration of $0.75 million. The acquisition resulted in an increase in PP&E of approximately $1.5 million including $0.75 million in decommissioning liabilities. The assets acquired include a working interest in production and reserves. The Company applied the optional IFRS 3 concentration test to this acquisition which resulted in the acquired assets being accounted for as an asset acquisition.

5. Long-term debt

	June 30, 2022	December 31, 2021
Bank credit facility	560,000	650,000
Long-term senior secured notes	416,544	415,712
Balance, end of the period	976,544	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, is made up of a $40 million working capital tranche, a $910 million production line, and is available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar 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 the following financial covenants as defined in the credit facility and note purchase agreements:

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

Outstanding senior notes are as follows:

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

Peyto is in compliance with all financial covenants at June 30, 2022.

Total interest expense for the three and six month periods ended June 30, 2022 was $11.4 million and $23.0 million (2021 - $16.1 million and $34.0 million) and the average borrowing rate for the period was 4.7% and 4.5% (2021– 5.6% and 5.9%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2021	**204,220**
New provisions	2,543
New provisions relating to corporate acquisitions	3,401
Accretion of decommissioning provision	2,841
Change in discount rate and estimates	(61,376)
Balance, June 30, 2022	**151,629**
Current	-
Non-current	**151,629**

The Company has estimated the net present value of its total decommissioning provision to be $151.6 million as at June 30, 2022 (2021 – $204.2 million) based on a total escalated future undiscounted liability of $387 million (2021 – $374.3 million). At June 30, 2022 management estimates that these payments are expected to be made over the next 50 years (2021 – 50 years) with the majority of payments being made in years 2024 to 2070. The Bank of Canada's long-term bond rate of 3.14 per cent (2021 – 2.00 per cent) and an inflation rate of 2.0 per cent (2021 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

7. Leases

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

Right of use Asset

Balance as at December 31, 2021	**5,043**
Depreciation	(504)
Balance at June 30, 2022	**4,539**

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

Lease Obligation

Lease obligation at December 31, 2021	**6,563**
Lease interest expense	106
Principal repayment of lease	(713)
Lease obligation at June 30, 2022	**5,956**

Current portion of lease obligation at June 30, 2022	**1,244**
Non-current portion of lease obligation at June 30, 2022	**4,712**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million and $0.4 million for the three and six months ended June 30, 2022 (2021-$0.2 million and $0.4 million). The variable lease payments are recognized through general and administration expense.

During the three and six months ended June 30, 2022, $7.6 million and $15.9 million (2021- $4.2 million and $9.6 million) was capitalized in relation to short-term leases.

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

	As at June 30, 2022
Less than 1 year	714
1-3 years	4,286
Year 4	1,428
Total lease payment	6,428
Amount representing interest	(472)
Present value of lease payments	5,956
Current portion of lease obligation	1,244
Non-current portion of lease obligation	4,712

8. Share 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, 2021	**168,151,219**	**1,664,508**
Private Placement	247,785	2,578
Common shares issued	1,989,291	13,694
Balance, June 30, 2022	**170,388,295**	**1,680,780**

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

	Three Months ended June 30		Six Months ended June 30	
	2022	2021	**2022**	2021
Weighted average common shares basic	**169,896,849**	165,343,937	**169,479,830**	165,207,341
Weighted average common shares diluted	**175,040,905**	168,635,872	**174,248,420**	168,110,438

Dividends
During the three and six month periods ended June 30, 2022, Peyto declared and paid dividends of $0.05 per common share per month totaling $25.4 million and $50.8 million respectively (2021 - $0.01 and $0.02 per common share per quarter totaling $1.7 million and $3.3 million respectively).

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

Accumulated hedging gains and losses
Gains and losses from financial derivative instruments are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement. Further information on these contracts is set out in Note 12.

9. Performance-based compensation

Reserve based component
The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a realized price at December 31 of the current year and a discount rate of 8%. For three and six months ended June 30, 2022, $2.5 million, (2021 - $nil) was expensed.

10. Stock based compensation

The Company has a stock option plan allowing for the granting of stock options to officers, employees, and consultants of the Company. This plan limits the number of options and DSU's that may be granted to 10% of the issued and outstanding common shares.

Equity compensation arrangements

The following tables summarize the Company's equity compensation arrangements:

		Weighted Average Exercise price $	**Weighted Average Remaining Contractual life-Years**
Stock options	10,152,474	6.96	1.19
DSU	196,816	4.42	16.14

Stock option plans

The following tables summarize the stock options outstanding at June 30, 2022:

		Weighted average exercise price $
Balance, December 31, 2021	**9,173,137**	**5.05**
Stock options granted	2,790,400	11.85
Exercised	(1,810,270)	4.84
Expired	(793)	5.72
Balance, June 30, 2022	**10,152,474**	**6.96**

The Company estimates the fair value of options under the stock option plan using the Black-Scholes pricing model.

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

		June 30
	2022	2021
Fair value of options granted	$3.71	$1.41
Expected volatility	55.63%	60.49%
Average life	2 years	2 years
Risk-free interest rate	1.80%	0.31%
Forfeiture rate	3.89%	5.77%

Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant. At the vesting, recipients have thirty days to exercise options after which any unexercised options are expired.

At June 30, 2022, no stock options were exercisable.

Deferred Share Units ("DSU's")

The following tables summarize the DSU's outstanding at June 30, 2022:

		Weighted average exercise price $
Balance, December 31, 2021	**176,669**	**3.60**
DSU granted	20,147	11.60
Balance June 30, 2022	**196,816**	**4.42**

11. Revenue and receivables

	Three Months ended June 30		Six Months ended June 30	
	2022	**2021**	**2022**	**2021**
Natural Gas Sales	286,195	99,793	520,541	242,456
Natural Gas Sales from third parties	40,530	-	40,530	-
Natural Gas Liquid sales	125,756	62,572	231,680	120,292
Natural gas and natural gas liquid sales	**452,481**	162,365	**792,751**	362,748

	June 30, 2022	December 31, 2021
Accounts receivable from customers	162,247	106,831
Accounts receivable from realized risk management contracts	-	3,481
Accounts receivable from joint venture partners and other	9,549	8,636
	171,796	118,948

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

12. Financial instruments and capital management

Financial instrument classification and measurement
Financial instruments of the Company carried on the condensed consolidated balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at June 30, 2022 except for derivative financial instruments.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2021.

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

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

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

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, dividend payable, long term debt and derivative financial instruments. At June 30, 2022 and 2021, cash and derivative financial instruments, are carried at fair value. Accounts receivable and current liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

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

Following is a summary of all risk management contracts in place as at June 30, 2022:

Natural Gas Period Hedged- Monthly Index	**Type**	**Daily Volume**	**Price (AECO CAD/GJ)**
April 1, 2022 to October 31, 2022	Fixed Price	90,000 GJ	$2.07 to $2.26
November 1, 2022 to March 31, 2023	Fixed Price	195,000 GJ	$2.30 to $4.03
April 1, 2023 to October 31, 2023	Fixed Price	180,000 GJ	$2.05 to $3.00

Natural Gas Period Hedged- Daily Index	**Type**	**Daily Volume**	**Price (AECO CAD/GJ)**
April 1, 2022 to October 31, 2022	Fixed Price	25,000 GJ	$2.13 to $2.20

Natural Gas Period Hedged - NYMEX	**Type**	**Daily Volume**	**Price (Nymex USD/mmbtu)**
April 1, 2022 to October 31, 2022	Fixed Price	55,000 mmbtu	$2.56 to $4.19
November 1, 2022 to December 31, 2022	Fixed Price	70,000 mmbtu	$3.97 to $4.78
November 1, 2022 to March 31, 2023	Fixed Price	70,000 mmbtu	$4.05 to $5.10
January 1, 2023 to December 31, 2023	Fixed Price	70,000 mmbtu	$3.42 to $3.77
April 1, 2023 to October 31, 2023	Fixed Price	40,000 mmbtu	$3.35 to $3.90
November 1, 2023 to March 31, 2024	Fixed Price	5,000 mmbtu	$5.01
January 1, 2024 to March 31, 2024	Fixed Price	70,000 mmbtu	$4.15 to $5.03

Natural Gas Period Hedged - Malin	**Type**	**Daily Volume**	**Price (Nymex USD/mmbtu)**
April 1, 2022 to October 31, 2022	Fixed Price	40,000 mmbtu	$2.35 to $2.40
November 1, 2022, to March 31, 2023	Fixed Price	40,000 mmbtu	$2.90 to $3.10

Crude Oil Period Hedged - WTI	**Type**	**Daily Volume**	**Price (WTI USD/bbl)**
January 1, 2022 to December 31, 2022	Fixed Price	300 bbl	$63.75 to $64.65

Crude Oil Period Hedged - WTI	**Type**	**Daily Volume**	**Price (WTI CDN/bbl)**
January 1, 2022 to December 31, 2022	Fixed Price	900 bbl	$79.75 to $85.50
July 1, 2022 to September 30, 2022	Fixed Price	1,000 bbl	$100.15 to $150.60
July 1, 2022 to December 31, 2022	Fixed Price	1,300 bbl	$87.75 to $125.00
October 1, 2022 to December 31, 2022	Fixed Price	400 bbl	$100.70 to $134.60
January 1, 2023 to March 31, 2023	Fixed Price	1,700 bbl	$85.25 to $133.75
April 1, 2023 to June 30, 2023	Fixed Price	800 bbl	$111.50 to $115.85

As at June 30, 2022, Peyto had committed to the future sale of 82,110,000 gigajoules (GJ) of natural gas at an average price of $2.71 per GJ or $3.12 per mcf, 73,805,000 mmbtu at an average price of $3.68 US per mmbtu, 55,200 barrels of crude at an average price of $64.05 USD per bbl,and 759,400 barrels of crude at an average price of $102.73 CAD per bbl. Had these contracts closed on June 30, 2022, Peyto would have realized a loss in the amount of $299.3 million. If the gas price on June 30, 2022, were to increase by $0.10/GJ, the unrealized loss would increase by approximately $31.1 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to June 30, 2022, Peyto entered into the following contracts:

Natural Gas **Period Hedged- Monthly Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD/GJ)**
November 1, 2022 to March 31, 2023	Fixed Price	5,000 GJ	$6.62
November 1, 2023 to March 31, 2024	Fixed Price	5,000 GJ	$5.00

Crude Oil **Period Hedged - WTI**	**Type**	**Daily Volume**	**Price** **(WTI CDN/bbl)**
July 1, 2022 to September 30, 2022	Fixed Price	400 bbl	$126.50 to $130.00
October 1, 2022 to December 31, 2022	Fixed Price	100 bbl	$121.60
January1, 2023 to March 31, 2023	Fixed Price	100 bbl	$117.00
April 1, 2023 to June 30, 2023	Fixed Price	100 bbl	$113.25
July 1, 2023 to September 30, 2023	Fixed Price	100 bbl	$110.30

13. Related party transactions

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

Expense				Accounts Payable	
Three Months ended June 30		Six Months ended June 30		As at June 30	
2022	2021	**2022**	2021	**2022**	2021
110.2	(96.0)	**828.4**	(52.0)	**24.8**	(4)

14. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at June 30, 2022:

	2022	2023	2024	2025	2026	Thereafter
Interest payments (1)	6,439	16,827	13,127	11,743	8,163	9,962
Transportation commitments	44,364	68,856	43,991	42,432	31,032	357,916
Operating leases	1,100	2,200	2,200	2,200	2,200	-
Total	51,903	87,883	59,318	56,375	41,395	367,878

(1) Fixed interest payments on senior secured notes

Officers

Darren Gee
Chief Executive Officer

Jean-Paul Lachance
President and Chief Operating Officer

Kathy Turgeon
Chief Financial Officer

Scott Robinson
Vice President, Business Development

David Thomas
Vice President, Exploration

Stephen Chetner
Corporate Secretary

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Derick Czember
Vice President, Land

Riley Frame
Vice President, Engineering

Tavis Carlson
Vice President, Finance

Directors

Don Gray, Chairman
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Kathy Turgeon
John Rossall

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Canadian Imperial Bank of Commerce
ATB Financial
National Bank of Canada
Royal Bank of Canada
The Bank of Nova Scotia
The Toronto-Dominion Bank
Wells Fargo Bank, N.A., Canadian Branch
Canadian Western Bank
Bank of China (Canada)
Business Development Bank of Canada

Transfer Agent

Computershare

Head Office

300, 600 – 3 Avenue SW
Calgary, AB
T2P 0G5
Phone: 403.261.6081
Fax: 403.451.4100
Web: www.peyto.com
Stock Listing Symbol: PEY.TO