

Peyto Exploration & Development Corp.

Condensed Consolidated Balance Sheets *(unaudited)*

(Amount in \$ thousands)

As at	September 30 2023	December 31 2022
Assets		
Current assets		
Cash	15,743	11,905
Subscription receipt funds in escrow <i>(Note 3)</i>	201,307	-
Accounts receivable <i>(Note 11)</i>	88,880	188,036
Deposit for Acquisition <i>(Note 3)</i>	63,303	-
Prepaid expenses	17,644	18,609
Derivative financial instruments <i>(Note 13)</i>	94,213	-
	481,090	218,550
Long-term derivative financial instruments <i>(Note 13)</i>	18,759	15,033
Property, plant and equipment, net <i>(Note 4)</i>	3,825,842	3,778,940
	3,844,601	3,793,973
	4,325,691	4,012,523
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	100,604	215,560
Subscription receipts obligation <i>(Note 3)</i>	201,307	-
Dividends payable <i>(Note 3 and 8)</i>	21,222	8,674
Income tax payable	22,675	20,277
Current portion of lease obligation <i>(Note 7)</i>	1,300	1,266
Decommissioning provision <i>(Note 6)</i>	1,940	-
Current portion of long-term debt <i>(Note 5)</i>	100,000	100,000
Derivative financial instruments <i>(Note 13)</i>	-	126,081
	449,048	471,858
Long-term debt <i>(Note 5)</i>	818,080	759,176
Decommissioning provision <i>(Note 6)</i>	120,155	144,725
Lease obligation <i>(Note 7)</i>	3,095	4,074
Deferred income taxes	644,802	571,024
	1,586,132	1,478,999
Equity		
Share capital <i>(Note 8)</i>	1,716,971	1,697,803
Contributed surplus	22,499	16,274
Retained earnings	461,088	431,443
Accumulated other comprehensive income (loss) <i>(Note 8)</i>	89,953	(83,854)
	2,290,511	2,061,666
	4,325,691	4,012,523

Subsequent events *(Note 3)*

See accompanying notes to the condensed consolidated financial statements.

Approved by the Board of Directors

(signed) "Debra Gerlach"
Director

(signed) "Jean-Paul Lachance"
Director

Peyto Exploration & Development Corp.
Condensed Consolidated Income Statements *(unaudited)*

(Amount in \$ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2023	2022	2023	2022
Revenue				
Natural gas and natural gas liquid sales <i>(Note 11)</i>	198,241	371,786	715,392	1,124,006
Royalties	(15,482)	(40,024)	(54,743)	(126,764)
Sales of natural gas to third parties	-	42,769	-	83,299
Natural gas and natural gas liquid sales, net of royalties	182,759	374,531	660,649	1,080,541
Realized (loss) gain on derivative financial instruments <i>(Note 13)</i>	33,697	(92,125)	14,287	(249,621)
Other Income	807	2,215	6,745	2,982
	217,263	284,621	681,681	833,902
Expenses				
Natural gas purchased from third parties	-	38,657	-	78,201
Operating	23,889	21,683	77,092	65,817
Transportation	15,449	14,807	44,701	45,301
General and administrative	2,135	1,167	6,706	3,926
Transaction costs <i>(Note 3)</i>	1,196	-	1,196	-
Performance based compensation	-	2,500	-	5,000
Stock based compensation <i>(Note 10)</i>	3,919	2,948	10,662	7,807
Finance expense <i>(Note 12)</i>	17,051	13,686	43,170	39,484
Realized loss (gain) on foreign exchange	(541)	(1,135)	64	(1,135)
Unrealized loss on foreign exchange	2,823	3,284	1,607	4,116
Depletion and depreciation <i>(Note 4)</i>	74,173	75,934	225,966	223,025
	140,094	173,531	411,164	471,542
Earnings before taxes	77,169	111,090	270,517	362,360
Income tax				
Current tax	12,944	-	43,689	-
Deferred tax	6,781	26,229	21,988	85,138
Total income taxes	19,725	26,229	65,677	85,138
Earnings for the period	57,444	84,861	204,840	277,222
Earnings per share <i>(Note 8)</i>				
Basic	\$0.33	\$0.50	\$1.17	\$1.63
Diluted	\$0.33	\$0.48	\$1.16	\$1.59

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

Condensed Consolidated Statements of Comprehensive Income (loss) (unaudited)

(Amount in \$ thousands)

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Earnings for the period	57,444	84,861	204,840	277,222
Other comprehensive loss				
Change in unrealized gain (loss) on cash flow hedges	(723)	(114,047)	240,406	(497,518)
Deferred income tax recovery (expense)	7,967	5,042	(51,916)	57,016
Realized loss (gain) on cash flow hedges	(33,914)	92,125	(14,683)	249,621
Comprehensive income	30,774	67,981	378,647	86,341

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.
Condensed Consolidated Statements of Changes in Equity *(unaudited)*

(Amount in \$ thousands)

	Nine months ended September 30	
	2023	2022
Share capital, beginning of period	1,697,803	1,664,508
Common shares issued on exercise of stock options and private placement	15,152	24,093
Issued on settlement of DSU's	250	-
Contributed surplus on exercise of stock options	4,187	-
Share Issue Costs (net of tax)	(421)	-
Share capital, end of period	1,716,971	1,688,601
Contributed surplus, beginning of period	16,274	13,123
Stock based compensation expense	10,662	7,807
Recognized under share-based compensation plans	(4,437)	(6,733)
Contributed surplus, end of period	22,499	14,197
Retained earnings, beginning of period	431,443	143,217
Earnings for the period	204,840	277,222
Dividends <i>(Note 8)</i>	(173,334)	(76,529)
Dividend equivalent payment <i>(Note 3)</i>	(1,861)	-
Retained earnings, end of period	461,088	343,910
Accumulated other comprehensive loss, beginning of period	(83,854)	(54,842)
Other comprehensive income (loss)	173,807	(190,881)
Accumulated other comprehensive income (loss), end of period	89,953	(245,723)
Total equity	2,290,511	1,800,985

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.
Condensed Consolidated Statements of Cash Flows *(unaudited)*

(Amount in \$ thousands)

	Three months ended		Nine months ended	
	September 30		September 30	
	2023	2022	2023	2022
Cash provided by (used in)				
Operating activities				
Earnings	57,444	84,861	204,840	277,222
Items not requiring cash:				
Deferred income tax	6,781	26,229	21,988	85,138
Depletion and depreciation	74,173	75,934	225,966	223,025
Accretion of decommissioning provision <i>(Note 12)</i>	1,644	1,632	3,893	4,473
Stock based compensation	3,919	2,948	10,662	7,807
Unrealized loss (gain) on foreign exchange	2,823	3,284	1,607	4,116
Decommissioning expenditures	(1,026)	(3,579)	(1,026)	(3,579)
Change in non-cash working capital related to operating activities	(6,352)	14,155	3,691	13,633
	139,406	205,464	471,621	611,835
Financing activities				
Common shares issued on exercise of stock options and private placement	5,650	6,101	14,605	17,452
Stock option issuance costs	-	(108)	-	(119)
Subscription receipts <i>(Note 3)</i>	201,307	-	201,307	-
Cash dividends paid	(57,841)	(25,604)	(162,646)	(76,335)
Lease interest <i>(Note 7)</i>	40	51	126	158
Principal repayment of lease <i>(Note 7)</i>	(358)	(358)	(1,071)	(1,071)
Increase (decrease) in bank debt	69,000	(45,000)	59,000	(135,000)
	217,798	(64,918)	111,321	(194,915)
Investing activities				
Additions to property, plant, and equipment	(97,630)	(121,024)	(298,365)	(357,566)
Deposit for Acquisition <i>(Note 3)</i>	(63,303)	-	(63,303)	-
Subscription receipt funds in escrow <i>(Note 3)</i>	(201,307)	-	(201,307)	-
Asset acquisitions	-	(26,116)	-	(26,069)
Corporate Acquisition	-	-	-	(22,220)
Change in non-cash working capital relating to investing activities	11,460	6,206	(16,129)	4,243
	(350,780)	(140,934)	(579,104)	(401,612)
Net increase (decrease) in cash	6,424	(388)	3,838	15,308
Cash, beginning of period	9,319	21,414	11,905	5,718
Cash, end of period	15,743	21,026	15,743	21,026
The following amounts are included in cash flows from operating activities:				
Cash interest paid	13,396	7,837	34,102	30,726
Cash taxes paid	21,000	-	67,556	-

See accompanying notes to the condensed consolidated financial statements.

Peyto Exploration & Development Corp.

Notes to Condensed Consolidated Financial Statements *(unaudited)*

As at September 30, 2023 and for the three and nine months ended September 30, 2023 and 2022

(Amount in \$ thousands, except as otherwise noted)

1. Nature of operations

Peyto Exploration & Development Corp and its subsidiaries (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 condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 8, 2023.

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, 2022 and 2021.

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 condensed 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, 2022 and 2021.

(b) Adoption of new standards January 1, 2023

IAS 1 – Disclosure of Accounting Policies

Effective January 1, 2023, the amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies, while providing guidance on how entities can identify material accounting policy information and examples of when accounting policy information is likely to be material. This did not have a material impact on the consolidated financial statements.

IAS 8 – Definition of Accounting Estimates

Effective January 1, 2023, the amendments distinguish how an entity should present and disclose different types of accounting changes in its financial statements and provides updated definitions to changes in accounting estimates to

assist issuers in assessing between a change in accounting policy and a change in accounting estimate. This did not have a material impact on the consolidated financial statements.

IAS 12 – Income Taxes

Effective January 1, 2023, the amendments clarify that the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24 does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. This did not have a material impact on the consolidated financial statements.

3. Subscription receipt funds in escrow, Subscription receipt obligations and Subsequent Events

On October 17, 2023, Peyto completed its acquisition (the "Acquisition") of Repsol Canada Energy Partnership, which held the Canadian upstream oil and gas business of Repsol Exploración, S.A.U. The Acquisition included all related midstream facilities and infrastructure located predominantly in the Deep Basin of Alberta, for cash consideration of US\$468 million (CDN\$636 million), subject to closing adjustments. The Acquisition was funded through an upsizing of the Company's existing revolving credit facility, a new two-year amortizing term loan and net proceeds of an offering of subscription receipts, as described below.

On September 26, 2023, the Company completed a bought deal financing (the "Financing") issuing 16,916,500 subscription receipts (the "Subscription Receipts") at a price of \$11.90 per Subscription Receipt for gross proceeds of \$201.3 million. The gross proceeds from the Financing were held in escrow pending completion of the Acquisition. The Company had an obligation to either exchange each Subscription Receipt for a common share, in the event the Acquisition closed, or refund the proceeds from the Financing in the Acquisition did not close. Accordingly, the Company reported a Subscription Receipts obligation and Subscription Receipt funds in escrow of \$201.3 million at September 30, 2023. Holders of the Subscription Receipts were entitled to receive payments per Subscription Receipt equal to the cash dividends on Peyto's common shares (the "Dividend Equivalent Payments") actually paid or payable to holders of such common shares in respect of all record dates for such dividends occurring from the closing date of the Financing to, but excluding, the last day on which the Subscription Receipts remained outstanding, to be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend. Peyto announced that a monthly dividend of \$0.11 per Common Share was to be paid on October 13, 2023, for shareholders of record on September 30, 2023. Accordingly, holders of Subscription Receipts on September 30, 2023, were entitled to a Dividend Equivalent Payment equal to \$0.11 per Subscription Receipt, which was paid on October 13, 2023 concurrently with the dividend on the common shares.

On closing of the Acquisition on October 17, 2023, the net proceeds of \$192.0 million from the Financing were released from escrow to Peyto. In accordance with the terms of the Subscription Receipts, each Subscription Receipt was exchanged for one common share of Peyto.

On October 17, 2023, the Company entered into an agreement with its syndicate of lenders to amend and its senior secured covenant-based credit facility to reflect an upsized \$1 billion revolving credit facility to its existing \$800 million revolving credit facility and a new \$174 million two-year amortizing term loan with no change to the maturity of the facility of October 13, 2025. The term loan requires quarterly payments commencing March 31, 2024. 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 SOFR loan rates, plus applicable margin, and stamping fees. There was no change to the financial covenants in the amended agreement.

As at the date that these financial statements were authorized for issuance, the initial accounting for the acquisition is incomplete and as such the value of the assets acquired and the liabilities assumed have not been disclosed.

4. Property, plant and equipment, net

Cost	
At December 31, 2022	6,979,099
Additions	298,365
Decommissioning provision additions	(25,497)
At September 30, 2023	7,251,967
Accumulated depletion and depreciation	
At December 31, 2022	(3,200,159)
Depletion and depreciation	(225,966)
At September 30, 2023	(3,426,125)
Carrying amount at December 31, 2022	
	3,778,940
Carrying amount at September 30, 2023	3,825,842

During the three and nine month periods ended September 30, 2023, Peyto capitalized \$2.5 million and \$7.4 million (2022 - \$3.1 million and \$10.1 million) of general and administrative expenses directly attributable to exploration and development activities.

As at September 30, 2023, the Company identified no indicators of impairment and therefore a test was not performed.

5. Long-term debt

	September 30, 2023	December 31, 2022
Bank credit facility	499,000	440,000
Current senior secured note	100,000	100,000
Long-term senior secured notes	319,080	319,176
Balance, end of the period	918,080	859,176

On October 3, 2022, the Company entered into an agreement with its syndicate of lenders to amend and extend its senior secured covenant-based credit facility to reflect a reduction in credit limit to \$800 million. The facility has a maturity date of October 13, 2025, and is made up of a \$40 million working capital tranche, a \$760 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 SOFR loan rates, plus applicable margin, and stamping fees.

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.

On October 17, 2023, Peyto amended its credit facility in conjunction with closing the Acquisition. See note 3 for further information.

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

On October 24, 2023, Peyto issued \$160 million of senior secured notes. The notes have a coupon rate of 6.46% and mature on October 24, 2030. The notes have been issued by way of a private placement pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase and private shelf agreement. Interest will be paid semi-annually in arrears. Proceeds from the notes have been used to repay the \$100 million, 3.7% notes that was due October 24, 2023.

Peyto is in compliance with all financial covenants at September 30, 2023.

Total interest expense for the three and nine month periods ended September 30, 2023, was \$12.2 million and \$36.1 million (2022 - \$12.0 million and \$35 million) and the average borrowing rate for the periods was 5.5% and 5.7% (2022– 5.1% and 4.7%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2022	144,725
New provisions	2,776
Accretion of decommissioning provision	3,893
Change in discount rate and estimates	(28,273)
Abandonment costs	(1,026)
Balance, September 30, 2023	122,095
Current	1,940
Non-current	120,155

The Company has estimated the net present value of its total decommissioning provision to be \$122.1 million as at September 30, 2023 (December 31, 2022 – \$144.7 million) based on a total escalated future undiscounted liability of \$405 million (December 31, 2022 – \$398.8 million). At September 30, 2023 management estimates that these payments are expected to be made over the next 48 years (December 31, 2022 – 48 years) with the majority of payments being made in years 2024 to 2071. The Bank of Canada's long-term bond rate of 3.81 per cent (December 31, 2022 – 2.00 per cent) and an inflation rate of 2.0 per cent (December 31, 2022 – 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, 2022	4,034
Depreciation	(773)
Balance at September 30, 2023	3,261

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

Lease Obligation

Lease obligation at December 31, 2022	5,340
Lease interest expense	126
Principal repayment of lease	(1,071)
Lease obligation at September 30, 2023	4,395
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Current portion of lease obligation at September 30, 2023	1,300
Non-current portion of lease obligation at September 30, 2023	3,095

The variable lease payments not included in the measurement of the office lease obligation is \$0.2 million and \$0.6 million for the three and nine months ended September 30, 2023 (2022-\$0.2 million and \$0.6 million). The variable lease payments are recognized through general and administration expense.

During the three and nine months ended September 30, 2023, \$6.5 million and \$20.8 million (2023- \$9.1 million and \$25.1 million) was capitalized in relation to short-term leases.

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

	As at September 30, 2023
Less than 1 year	357
1-3 years	4,286
Total lease payment	4,643
Amount representing interest	(248)
Present value of lease payments	4,395
Current portion of lease obligation	1,300
Non-current portion of lease obligation	3,095

8. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

	Number of Common Shares	Amount \$
Common Shares (no par value)		
Balance, December 31, 2022	173,470,242	1,697,803
Common shares issued on exercise of stock options	2,491,838	15,152
Issued on settlement of DSU's	42,994	250
Contributed surplus on exercise of stock options	-	4,187
Share Issue Costs (net of tax)	-	(421)
Balance, September 30, 2023	176,005,074	1,716,971

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

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	2023	2022
Weighted average common shares basic	175,573,752	171,230,853	175,085,253	169,642,562
Dilutive impact of share-based compensation	1,159,194	3,910,057	1,504,141	4,562,179
Weighted average common shares diluted	176,732,946	175,140,910	176,589,394	174,204,741

Dividends

During the three and nine month periods ended September 30, 2023, Peyto declared and paid dividends of \$0.11 per common share per month totaling \$59.8 million and \$175.2 million respectively, including the dividend equivalent payment (2022 - \$0.05 per common share per month, totaling \$25.6 million and \$76.5 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 13.

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 nine months ended September 30, 2023 Peyto recorded \$ nil for performance based compensation, (2022 - \$2.5 million and \$5 million).

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.

Stock option plans

The following tables summarize the stock options outstanding at September 30, 2023:

		Weighted average exercise price \$
Balance, December 31, 2022	9,940,868	9.86
Stock options granted	3,984,300	12.45
Exercised	(2,495,030)	6.09
Forfeited	(1,423,163)	10.35
Expired	(397,077)	14.22
Balance, September 30, 2023	9,609,898	11.66

The Company estimates the fair value of options under the stock option plan using the Black-Scholes pricing model. During the nine months period ended September 30, 2023, the weighted-average fair value per option was \$3.66. The following tables summarize the assumptions used in the Black-Scholes model:

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

	September 30, 2023	September 30, 2022
Fair value of options granted (weighted average)	\$3.26	\$3.82
Expected volatility	49.59%	54.96%
Average option life	2 years	2 years
Risk-free interest rate	4.32%	2.33%
Forfeiture rate	5.65%	3.69%

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 September 30, 2023, 250,651 stock options were exercisable.

Deferred Share Units (“DSU’s”)

The following tables summarize the DSU’s outstanding at September 30, 2023:

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

11. Revenue and receivables

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	2023	2022
Natural Gas Sales	123,191	270,219	490,580	790,760
Natural Gas Liquid sales	75,050	101,567	224,812	333,246
Natural gas and natural gas liquid sales	198,241	371,786	715,392	1,124,006

	September 30, 2023	December 31, 2022
Accounts receivable from customers	78,490	184,207
Accounts receivable from realized risk management contracts	7,961	92
Accounts receivable from joint venture partners and other	2,429	3,737
	88,880	188,036

Account receivable from customers are 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. Accounts receivable from realized risk management contracts settle on the 25th of each month. Joint venture receivables are typically collected one to three months after production.

12. Finance expense

	Three Months ended September 30		Nine Months ended September 30	
	2023	2022	2023	2022
Accretion of decommissioning provision	1,644	1,632	3,893	4,473
Financing costs	3,178	-	3,178	-
Interest	12,229	12,054	36,099	35,011
Finance Expense	17,051	13,686	43,170	39,484

13. Financial instruments

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 September 30, 2023 except for derivative financial instruments.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2022.

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 and Level 2, respectively.

Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, subscription receipt funds in escrow, deposit for acquisition, accounts payable, subscription receipts obligation, accrued liabilities, dividend payable, long term debt and derivative financial instruments. At September 30, 2023 and 2022, cash and derivative financial instruments are carried at fair value. Current assets 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 September 30, 2023:

Commodity contracts

Natural Gas			Average Price
Period Hedged-	Monthly Index	Type	(AECO CAD/GJ)
Q4 2023		Fixed Price	\$3.82
Q1 2024		Fixed Price	\$4.18
Q2 2024		Fixed Price	\$2.90
Q3 2024		Fixed Price	\$2.90
Q4 2024		Fixed Price	\$3.71
Q1 2025		Fixed Price	\$4.00
Q2 2025		Fixed Price	\$3.34
Q3 2025		Fixed Price	\$3.34
Q4 2025		Fixed Price	\$3.85
Q1 2026		Fixed Price	\$4.16
Q2 2026		Fixed Price	\$3.33
Q3 2026		Fixed Price	\$3.33
Q4 2026		Fixed Price	\$3.33

Natural Gas Period Hedged - Daily Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
Q4 2023	Fixed Price	20,217	\$2.42
Q2 2024	Fixed Price	45,000	\$2.72
Q3 2024	Fixed Price	45,000	\$2.72
Q4 2024	Fixed Price	15,163	\$2.72
Q2 2025	Fixed Price	25,000	\$3.60
Q3 2025	Fixed Price	25,000	\$3.60
Q4 2025	Fixed Price	8,424	\$3.60

Natural Gas Period Hedged - NYMEX	Type	Daily Volume (MMBtu)	Average Price (Nymex USD/MMBtu)
Q4 2023	Fixed Price	226,141	\$3.86
Q1 2024	Fixed Price	275,000	\$4.11
Q2 2024	Fixed Price	115,000	\$3.85
Q3 2024	Fixed Price	115,000	\$3.85
Q4 2024	Fixed Price	148,152	\$3.97
Q1 2025	Fixed Price	165,000	\$4.01
Q2 2025	Fixed Price	100,000	\$3.86
Q3,2025	Fixed Price	100,000	\$3.86
Q4,2025	Fixed Price	43,641	\$4.00
Q1,2026	Fixed Price	15,000	\$4.51

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
Q4 2023	Fixed Price	3,300	\$105.57
Q1 2024	Fixed Price	2,400	\$102.71
Q2 2024	Fixed Price	1,600	\$100.76
Q3 2024	Fixed Price	1,200	\$102.91
Q2 2024	Fixed Price	900	\$103.15

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Average Price (WTI USD/bbl)
Q4 2023	Fixed Price	400	\$70.80
Q1 2024	Fixed Price	200	\$70.15

Crude Oil Period Hedged - WTI	Type	Daily Volume (bbl)	Put - Call (WTI CAD/bbl)
Q4 2023	Collar	500	\$90.00-\$116.25
Q1 2024	Collar	500	\$90.00-\$110.20
Q2 2024	Collar	500	\$90.00-\$100.25
Q3 2024	Collar	500	\$85.00-\$95.00

As at September 30, 2023, Peyto had committed to the future sale of 216,427,500 gigajoules (GJ) of natural gas at an average price of \$3.54 per GJ or \$4.08 per Mcf, 119,020,000 MMBtu at an average price of \$3.95 USD per MMBtu, 860,800 barrels of crude at an average price of \$103.46 CAD per bbl, 55,000 barrels of crude at an average price of \$70.58 USD per bbl and 183,000 barrels of crude at an average price of \$70.58 USD per bbl and 183,000 barrels of crude with an average collar of \$88.74-\$105.43 CAD per bbl. Had these contracts closed on September 30, 2023, Peyto would have realized a gain in the amount of \$117.9 million. If the gas price on September 30, 2023 were to increase by \$0.10/GJ, the unrealized gain would decrease by approximately \$34.2 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Foreign exchange contracts

Average Rate forward	Amount (USD)	Rate (CAD/USD)
Purchased USD Contracts		
Q4 2023	\$495.0 million	1.3594
Sold USD Contracts		
Q4 2023	\$47.5 million	1.3521
Q1 2024	\$76.5 million	1.3420
Q2 2024	\$56.5 million	1.3462
Q3 2024	\$48.0 million	1.3360
Q4 2024	\$43.0 million	1.3314
Q1 2025	\$39.0 million	1.3321
Q2 2025	\$25.0 million	1.3252
Q3 2025	\$18.0 million	1.3252
Q4 2025	\$12.0 million	1.3252

Had these contracts closed on September 30, 2023, Peyto would have realized loss in the amount of \$6.8 million.

Interest rate contracts

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

Had these contracts closed on September 30, 2023, Peyto would have realized a gain in the amount of \$1.8 million.

Subsequent to September 30, 2023, Peyto entered into the following contracts:

Natural Gas			Average Price
Period Hedged – AECO Monthly Index	Type	Daily Volume (Gj)	(AECO CAD/GJ)
November 1, 2023 to March 31, 2024	Fixed Price	37,500	\$2.91
April 1, 2024 to October 31, 2024	Fixed Price	30,000	\$2.50
November 1, 2024 to March 31, 2025	Fixed Price	70,000	\$3.68
April 1, 2025 to October 31, 2025	Fixed Price	30,000	\$3.30
November 1, 2025 to March 31, 2026	Fixed Price	10,000	\$4.20
April 1, 2026 to October 31, 2026	Fixed Price	25,000	\$3.42

Natural Gas		Daily Volume	Average Price
Period Hedged – NYMEX	Type	(MMBtu)	(NYMEX USD/MMBtu)
April 1, 2024 to October 31, 2024	Fixed Price	90,000	\$3.29
November 1, 2024 to March 31, 2025	Fixed Price	45,000	\$4.11
April 1, 2025 to October 31, 2025	Fixed Price	85,000	\$3.80

Crude Oil			Average Price
Period Hedged – WTI	Type	Daily Volume (bbl)	(WTI CAD/bbl)
October 1, 2023 to December 31, 2023	Fixed Price	300	\$112.35
January 1, 2024 to March 31, 2024	Fixed Price	900	\$110.68
April 1, 2024 to June 30, 2024	Fixed Price	900	\$109.11
July 1, 2024 to September 30, 2024	Fixed Price	800	\$106.23
October 1, 2024 to December 31, 2024	Fixed Price	300	\$104.87
January 1, 2025 to March 31, 2025	Fixed Price	200	\$104.60

Foreign exchange contracts

Average Rate forward (Sold USD Contracts)	Amount (USD)	Rate (CAD/USD)
Q4 2023	\$8 million	1.3830
Q1 2024	\$12 million	1.3830
Q2 2024	\$18 million	1.3775
Q3 2024	\$21 million	1.3759
Q4 2024	\$15 million	1.3704
Q1 2025	\$15 million	1.3650
Q2 2025	\$17 million	1.3662
Q3 2025	\$18 million	1.3667
Q4 2025	\$12 million	1.3667

14. 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 September 30		Nine Months ended September 30		As at September 30	
2023	2022	2023	2022	2023	2022
149.6	113.1	276.8	941.5	8.8	25.8

15. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at September 30, 2023:

	2023	2024	2025	2026	2027	Thereafter
Interest payments ⁽¹⁾	4,309	13,258	11,874	8,294	6,099	4,124
Transportation commitments	14,845	60,033	61,508	42,435	31,836	364,699
Operating leases	557	2,227	2,227	2,227	-	-
Methanol	-	5,753	-	-	-	-
Total	19,711	81,271	75,609	52,956	37,935	368,823

⁽¹⁾ Fixed interest payments on senior secured notes

Officers

Jean-Paul Lachance
President and Chief Executive Officer

Kathy Turgeon
Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Derick Czember
Vice President of Land and Business Development

Riley Frame
Vice President, Engineering

Tavis Carlson
Vice President, Finance

Stephen Chetner
Corporate Secretary

Directors

Don Gray, Chairman
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
John Rossall
Debra Gerlach
Jean-Paul Lachance
Jocelyn McMinn
Nikki Stevens

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Canadian Imperial Bank of Commerce
ATB Financial
China Construction Bank (Canada)
Canadian Western Bank
Bank of China (Canada)
National Bank of Canada
Business Development Bank of Canada
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