Deloitte LLP
700, 850 2 Street SW
Calgary, AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 587-774-5379
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

Opinion

We have audited the consolidated financial statements of Peyto Exploration & Development Corp., and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2023 and 2022, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Property, Plant and Equipment - Oil and natural gas properties - Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

The Company's property, plant and equipment includes oil and natural gas properties. Oil & natural gas properties are depleted using the unit-of-production basis ("depletion") based on total estimated proved plus probable oil and natural gas reserves. The Company engages an independent reservoir engineer to estimate

oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's proved plus probable oil and natural gas reserves used to determine depletion requires management to make significant estimates and assumptions related to future oil and natural gas prices, reserves, and future operating and development costs.

Given the significant judgments made by management related to future oil and natural gas prices, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgement in applying audit procedures and in evaluating the results of those procedures.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and natural gas prices, reserves, and future operating and development costs used to determine depletion included the following, among others:

- Evaluated future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.

- Evaluated the Company's independent reservoir engineer by examining reports and assessing their scope of work and findings and assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.

- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Repsol Acquisition - Refer to Notes 2 and 3 to the financial statements

Key Audit Matter Description

On October 17, 2023, the Company acquired Repsol Canada Energy Partnership. The acquisition was accounted for as a business combination using the acquisition method whereby the acquired assets, including oil and natural gas properties and liabilities assumed are recorded at their estimated fair value at the date of acquisition. Management used a discounted future cash flow model to determine the fair value of the oil and natural gas properties acquired, which required management to determine the future net cash flows of the underlying proved and probable oil and natural gas reserves. The Company engaged an independent reservoir engineer to estimate these reserves using estimates, assumptions, and engineering data. The development of the reserves and their future net cash flows required management to make significant estimates and assumptions related to future oil and natural gas prices, discount rate, reserves, and future operating and development costs.

While there are several estimates and assumptions that are required to determine the fair value of the oil and natural gas properties, those with the highest degree of subjectivity are future oil and natural gas prices, discount rate, reserves, and future operating and development costs. This required a high degree of auditor judgement and an increased extent of audit effort, including the involvement of fair value specialists.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to future oil and natural gas prices, discount rate, reserves, and future operating and development costs used to determine the fair value of the oil and natural gas properties included the following, among others:

- Evaluated future oil and natural gas prices by comparing management forecasts to third party forecasts.

- With the assistance of fair value specialists, evaluated the reasonableness of the discount rate by developing a range of independent estimates and comparing those to the discount rate selected by management.

- Evaluated the Company's independent reservoir engineer by:
    - Examining reports and assessing their scope of work and findings, including verifying that the assumptions included in their estimate of the reserves remained appropriate as of the acquisition date; and
    - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.

- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to actual production volumes.

- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to actual results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Mandeep Singh.

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

March 7, 2024

Peyto Exploration & Development Corp.

Consolidated Balance Sheets

(Amounts in $ thousands)

	December 31 2023	December 31 2022
Assets		
Current assets		
Cash	37,177	11,905
Accounts receivable (*Note 12)*	161,735	188,036
Prepaid and other	53,159	18,609
Derivative financial instruments *(Note 14)*	238,865	-
	490,936	218,550
Long-term derivative financial instruments *(Note 14)*	128,519	15,033
Property, plant and equipment, net *(Note 4)*	4,890,187	3,778,940
	5,018,706	3,793,973
	5,509,642	4,012,523
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	171,760	215,560
Dividends payable *(Note 7)*	21,305	8,674
Income tax payable (*Note 13)*	23,032	20,277
Current portion of lease obligation	1,310	1,266
Current portion of decommissioning provision *(Note 6)*	4,626	-
Current portion of long-term debt *(Note 5)*	57,870	100,000
Derivative financial instruments *(Note 14)*	-	126,081
	279,903	471,858
Long-term debt *(Note 5)*	1,340,881	759,176
Decommissioning provision *(Note 6)*	275,287	144,725
Lease obligation	2,764	4,074
Deferred income taxes *(Note 13)*	895,864	571,024
	2,514,796	1,478,999
Equity		
Shareholders' capital *(Note 7)*	1,920,311	1,697,803
Contributed surplus (*Note 11)*	25,021	16,274
Retained earnings	485,072	431,443
Accumulated other comprehensive income (loss)	284,539	(83,854)
	2,714,943	2,061,666
	5,509,642	4,012,523

Approved by the Board of Directors

(signed) *"Debra Gerlach"*
Director

(signed) *"Jean-Paul Lachance"*
Director

Peyto Exploration & Development Corp.

Consolidated Income Statements

(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Revenue		
Natural gas and natural gas liquid sales (*Note 12)*	985,737	1,539,436
Royalties	(74,342)	(168,379)
Sales of natural gas and natural gas liquids from third parties	24,403	92,625
Natural gas and natural gas liquid sales, net of royalties	**935,798**	1,463,682
Realized gain (loss) on derivative financial instruments *(Note 14)*	61,188	(340,437)
Other income	9,716	10,262
Total revenue, other income, and derivative financial instruments	**1,006,702**	1,133,507
Expenses		
Natural gas and natural gas liquids purchased from third parties	24,511	86,977
Operating *(Note 8)*	113,391	89,415
Transportation	61,668	58,306
General and administrative	10,589	5,253
Transaction costs	6,182	-
Performance based compensation *(Note 10)*	3,280	5,557
Stock based compensation *(Note 11)*	15,162	11,703
Finance costs *(Note 9)*	70,860	53,270
Realized loss (gain) on foreign exchange	1,389	(1,359)
Unrealized (gain) loss on foreign exchange on USD senior notes	(1,272)	3,465
Loss on disposition of capital assets	-	1,250
Depletion and depreciation *(Note 4)*	316,135	302,586
	621,895	616,423
Earnings before taxes	**384,807**	517,084
Provision for income taxes		
Current tax *(Note 13)*	59,047	20,277
Deferred tax *(Note 13)*	33,125	106,144
Total income taxes	**92,172**	126,421
Earnings for the year	**292,635**	390,663
Earnings per share *(Note 7)*		
Basic	**$1.64**	$2.29
Diluted	**$1.62**	$2.23
Weighted average number of common shares outstanding *(Note 7)*		
Basic	**178,894,013**	170,739,471
Diluted	**180,311,890**	175,040,978

Peyto Exploration & Development Corp.
Consolidated Statements of Comprehensive Income
(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Earnings for the year	**292,635**	390,663
Other comprehensive income		
Change in unrealized gain (loss) on derivative financial instruments	539,620	(378,114)
Deferred tax (expense) recovery	(110,039)	8,665
Realized (gain) loss on derivative financial instruments	(61,188)	340,437
Comprehensive Income	**661,028**	361,651

Peyto Exploration & Development Corp.

Consolidated Statements of Changes in Equity

(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Shareholders' capital, Beginning of Year	**1,697,803**	1,664,508
Private Placement	-	2,586
Common shares issued on exercise of stock options	21,591	22,249
Common shares issued on public offering *(Note 3)*	201,306	-
Issued on settlement of DSU's	250	-
Contributed surplus on exercise of stock options	6,165	8,552
Share Issue Costs (net of tax)	(6,804)	(92)
Shareholders' capital, End of Year	**1,920,311**	1,697,803

Contributed surplus, Beginning of Year	**16,274**	13,123
Stock-based compensation expense	15,162	11,703
Recognized under stock-based compensation plans	(6,165)	(8,552)
Recognized under DSU plan	(250)	-
Contributed surplus, End of Year	**25,021**	16,274

Retained earnings, Beginning of Year	**431,443**	143,217
Earnings for the year	292,635	390,663
Dividends *(Note 7)*	(237,145)	(102,437)
Dividend equivalent payment *(Note 7)*	(1,861)	-
Retained earnings, End of Year	**485,072**	431,443

Accumulated other comprehensive income (loss), Beginning of Year	**(83,854)**	(54,842)
Other comprehensive gain (loss)	368,393	(29,012)
Accumulated other comprehensive income (loss), End of Year	**284,539**	(83,854)

Total Equity	**2,714,943**	2,061,666

Peyto Exploration & Development Corp.

Consolidated Statements of Cash Flows

(Amounts in $ thousands)

	Year ended December 31	
	2023	2022
Cash provided by (used in)		
Operating activities		
Earnings	292,635	390,663
Items not requiring cash:		
Deferred income tax	33,125	106,144
Depletion and depreciation	316,135	302,586
Loss on disposition of capital assets	-	1,250
Unrealized (gain) loss on foreign exchange	(1,272)	3,465
Accretion of decommissioning provision	5,224	6,228
Stock-based compensation	15,162	11,703
Decommissioning expenditures	(3,077)	(4,668)
Change in non-cash working capital related to operating activities	(13,064)	(5,593)
	644,868	811,778
Financing activities		
Common shares issued under stock option plan *(Note 7)*	21,591	24,716
Common shares issued on public offering (*Note 7)*	192,472	-
Cash dividends paid	(226,374)	(102,172)
Lease interest	163	206
Principal repayment of lease	(1,429)	(1,429)
Interest and financing charges paid	(3,153)	-
Increase (decrease) of bank debt	484,000	(210,000)
Repayment of senior notes *(Note 5)*	(100,000)	-
Issuance of senior notes *(Note 5)*	160,000	-
	527,270	(288,679)
Investing activities		
Additions to property, plant, and equipment	(411,031)	(473,200)
Asset acquisitions *(Note 4)*	-	(26,064)
Corporate Acquisitions *(Note 3)*	(699,358)	(22,220)
Change in non-cash working capital relating to investing activities	(36,477)	4,572
	(1,146,866)	(516,912)
Net increase in cash	**25,272**	6,187
Cash, beginning of year	11,905	5,718
Cash, end of year	**37,177**	11,905

The following amounts are included in Cash flows from operating activities:

Cash interest paid	**61,420**	48,779
Cash taxes paid	**56,278**	-

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 head office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 7, 2024.

2. Basis of presentation

These consolidated financial statements ("consolidated financial statements") as at and for the years ended December 31, 2023 and December 31, 2022 represent the Company's results and financial position in accordance with International Financial Reporting Standards ("IFRS").

a) Summary of material accounting policies

The precise determination of many assets and liabilities is dependent upon future events and the preparation of periodic consolidated financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Company's basis of presentation as disclosed.

b) Material accounting estimates and judgements

The timely preparation of the consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions and use judgment regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Climate change and the evolving worldwide demand for alternative sources of energy that are not sourced from fossil fuels could result in a change in assumptions used in determining the recoverable amount and could affect the carrying value of the related assets. As these issues become more advanced and regulation changes by governments, future financial performance may be impacted. This also presents uncertainty and risk with respect to the Company, its performance and estimates and assumptions. The timing in which global energy markets transition from carbon based sources to alternative energy or when new regulatory practices may be implemented is highly uncertain. Changes to assumptions could result in a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Depletion and Recoverability of oil & natural gas properties

Depletion, reserve-based bonus and recoverability of oil & natural gas properties are based on estimates of proved plus probable reserves and future development costs required to develop those reserves. By their nature, these estimates of reserves, including the estimates of future prices and production costs, required capital expenditures and the related future cash flows are subject to measurement uncertainty, and the impact in the consolidated financial statements of future periods could be material.

The recoverability of oil & natural gas properties carrying values is assessed at the CGU level. The determination of cash generating units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU are determined by shared infrastructure, commodity type, similar exposure to market risks and materiality.

In assessing the recoverability of oil and natural properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. Management has determined that Peyto's asset base represents one CGU. The properties contained in the CGU are in close proximity to each other, with similar cost structure and marketing arrangements. Peyto applies information on estimates of future commodity prices, expected production volumes, quantity of reserves and resources, future development costs, future operating costs, discount rates and income taxes when determining an acceptable range of recoverable amounts.

Oil & natural gas properties are reviewed for impairment at a CGU level quarterly or when indicators of impairment exist. When indicators of impairment exist, the carrying value of each CGU is compared to its recoverable amount which is defined as the higher of its fair value less cost of disposal ("FVLCD") or its value in use ("VIU"). VIU is estimated as the present value of the future cash flows expected to arise from the continuing use of a CGU or an asset. FVLCD is the amount that would be realized from the disposition of an asset or CGU in an arm's length transaction between knowledgeable and willing parties. FVLCD is based on the discounted after-tax cash flows of reserves using forward prices and costs, consistent with the Company's independent qualified reserves evaluators and may consider an evaluation of comparable asset transactions.

Key estimates used in determining cash flows from the Company's reserves include:

- Reserves- Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, required capital expenditures or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.
- Crude oil and natural gas prices- Forward price estimates are used in the discounted cash flow model. These prices are adjusted for quality differentials, heat content and distance to market. Commodity prices can fluctuate for a variety of reasons including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.
- Discount rate- The discount rate used to calculate the net present value of cash flows is based on estimates of an industry peer group weighted average cost of capital as appropriate for each CGU being tested. Changes in the general economic environment could result in significant changes to this estimate.

Decommissioning provision

Decommissioning provision is based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Actual costs and cash outflows can differ from estimates because of changes in laws and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

Derivative financial instruments

The estimated fair value of derivative financial instruments resulting in financial assets and liabilities is reliant upon forward prices. Any change in the forward price curves could result in a change to the estimated valuation of the instruments.

Stock-based compensation

All equity-settled, share-based awards issued by the Company are recorded at fair value using the Black Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant date.

Income Taxes

Tax regulations and legislation are subject to change and differing interpretations requiring management judgement. Deferred tax assets are recognized when it is considered probable that deductible temporary differences will be recovered in future periods, which requires management judgement. Deferred tax liabilities are recognized when it is considered probable that the tax on temporary differences will be payable to tax authorities in future periods, which requires management judgement. Income tax filings are subject to audits and re-assessments and changes in facts, circumstances and interpretations of the regulations and legislation may result in a material increase or decrease in the Company's provision for income taxes.

c) Presentation currency
All amounts in these consolidated financial statements are expressed in Canadian dollars, as this is the functional and presentation currency of the Company.

d) Cash Equivalents
Cash equivalents include term deposits or a similar type of instrument, with a maturity of three months or less when purchased.

e) Jointly controlled operations and assets
Certain activities of the Company are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of Peyto reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

Processing and gathering recoveries related to joint operations reduces operating expenses.

f) Exploration and evaluation assets

Pre-license costs
Costs incurred prior to obtaining the legal right to explore for hydrocarbon resources are expensed in the period in which they are incurred. The Company has no pre-license costs.

Exploration and evaluation costs
Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated. All such costs are subject to technical feasibility, commercial viability and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. The Company has no exploration or evaluation assets.

g) Property, plant and equipment
All property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment charges.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the decommissioning provision and borrowing costs for qualifying assets. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset. Costs include expenditures on the construction, installation or completion of infrastructure such as well sites, pipelines and facilities including activities such as drilling, completion and tie-in costs, equipment and installation costs, associated geological and human resource costs, including unsuccessful development or delineation wells.

Depletion and depreciation
Oil and natural gas properties are depleted on a unit-of-production basis over proved plus probable reserves. All costs related to oil and natural gas properties (net of salvage value) and estimated costs of future development of proved plus probable undeveloped reserves are depleted using the unit-of-production method based on proved plus probable reserves as determined by independent reservoir engineers. For purposes of the depletion calculation, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Gas processing facilities are depreciated using a declining balance method over useful life of 20 years.

h) Business Combination
Management's determination of whether a transaction constitutes a business combination or asset acquisition is determined based on the criteria in IFRS 3 Business Combinations ("IFRS 3"). Business combinations are accounted for using the acquisition method of accounting. Management makes estimates of the acquisition-date fair value of assets acquired and liabilities assumed which includes assessing the estimated fair value of oil and natural gas properties (included in property, plant and equipment) derived from estimated recoverable quantities of proved and probable oil and natural gas reserves and the related cash flows being acquired. Transaction costs incurred are expensed.

i) Impairment of non-financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of fair value less costs to sell or value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of a CGU. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a after- tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded securities or other available fair value indicators.

Impairment charges of continuing operations are recognized in the income statement.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment charges may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depletion, had no impairment charge been recognized for the asset in prior years.

j) Financial instruments

The Company has classified each financial instrument into the following categories: "Amortized Cost, Fair Value through Other Comprehensive Income and Fair Value through Profit and Loss". On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

The Company has made the following classifications:

Financial Assets & Liabilities	**Category**
Cash	Fair value through profit or loss
Accounts Receivable	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Dividends Payable	Amortized cost
Long Term Debt	Amortized cost
Derivative Financial Instruments (non-hedged)	Fair value through profit or loss ("FVTPL")
Derivative Financial Instruments (hedged)	Fair value through other comprehensive income ("FVOCI")

Impairment of Financial Assets

Impairment of financial assets is determined by measuring the assets' expected credit loss ("ECL"). Accounts receivables are due within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime ECL is measured at the date of initial recognition of the accounts receivable. ECL allowances have not been recognized for cash and cash equivalents due to the virtual certainty associated with their collection. The ECL pertaining to accounts receivable is assessed at initial recognition and this provision is re-assessed at each reporting date. ECLs are a probability-weighted estimate of all possible default events related to the financial asset (over the lifetime or within 12 months after the reporting period, as applicable) and are measured as the difference between the present value of the cash flows due to Peyto and the cash flows the Company expects to receive, including cash flows expected from collateral and other credit enhancements that are a part of contractual terms. In making an assessment as to whether financial assets are credit-impaired, the Company considers historically realized bad debts, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor will enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels

of default, the number of days a debtor is past due in making a contractual payment, and the term to maturity of the specified receivable. The carrying amounts of financial assets are reduced by the amount of the ECL through an allowance account and losses are recognized in the statements of income.

Derivative financial instruments

Derivative financial instruments are utilized by the Company to manage economic risk to market risk against volatility in commodity prices. All derivative financial instruments are initiated within the guidelines of the Company's risk management policy. This includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company's policy is not to utilize derivative instruments for speculative purposes. The estimated fair value of all derivative financial instruments is based on quoted market prices or, in their absence, third-party market indications and forecasts.

All derivative financial instruments, other than those designated as effective hedging instruments, are classified as FVTPL and are recorded at fair value. Derivative financial instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded in the consolidated balance sheets as either an asset or liability with changes in fair value recognized in earnings (loss) as unrealized gain or loss on derivative financial instruments. Realized gains and losses on these instruments are recorded in the consolidated income statements in the period they occur. Derivative instruments that have been designated as effective hedging instruments are further classified as either fair value or cash flow hedges (see "Hedging").

Embedded derivatives

An embedded derivative is a component of a contract that causes some of the cash flows of the combined instrument to vary in a way similar to a stand-alone derivative. This causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable, such as interest rate, financial instrument price, commodity price, foreign exchange rate, a credit rating or credit index, or other variables to be treated as a financial derivative.

Normal purchase or sale exemption

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 *Financial Instruments: Presentation* ("IAS 32"), which is known as the 'normal purchase or sale exemption'. The Company recognizes such contracts in its balance sheet only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

k) Hedging

At the inception of a derivative transaction, if the Company elects to use hedge accounting, formal designation and documentation is required. The documentation must include: identification of the hedged item or transaction, the hedging instrument, the nature of the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item.

A hedge is assessed at inception and at the end of each reporting period to ensure that it is highly effective in offsetting changes in fair values or cash flows of the hedged item. For a fair value hedge, the gain or loss from remeasuring the hedging instrument at fair value is recognized immediately in net loss with the offsetting gain or loss on the hedged item. When fair value hedge accounting is discontinued, the carrying amount of the hedging instrument is deferred and amortized to net loss over the remaining maturity of the hedged item.

For a cash flow hedge, the effective portion of the gain or loss is recorded in other comprehensive income. Any hedge or portion of a hedge that is ineffective is immediately recognized in net loss. Hedge accounting is discontinued on a prospective basis when the hedging relationship no longer qualifies for hedge accounting. Any gain or loss on the hedging instrument resulting from the discontinuation of a cash flow hedge is deferred in other comprehensive income until the forecasted transaction date. If the forecasted transaction date is no longer expected to occur, the gain or loss is recognized in net loss in the period of discontinuation.

The Company has chosen to designate its existing derivative financial instruments as cash flow hedges.

l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of producing oil and natural gas is accounted on a weighted average basis. This cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition.

m) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Decommissioning provision

Decommissioning provision is recognized when the Company has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. A corresponding amount equivalent to the provision is also recognized as part of the cost of the related property, plant and equipment. The amount recognized is the estimated cost of decommissioning, discounted to its present value using a risk-free rate. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment.

The decommissioning provision represents the present value of the decommissioning costs related to oil & natural gas properties, which are expected to be incurred over the economic life of the assets. The provisions have been based on the Company's internal estimates on the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain.

n) Taxes

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in Canada.
Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

The Company follows the liability method of accounting for income taxes. Under this method, income tax assets and liabilities are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. Deferred income tax assets are only recognized to the extent it is probable that sufficient future taxable income will be available to allow the deferred income tax asset to be realized. Accumulated deferred income tax balances are adjusted to reflect changes in income tax rates that are enacted or substantively enacted with the adjustment being recognized in earnings in the period that the change occurs, except for items recognized in equity.

o) Revenue recognition

Revenue associated with the sale of natural gas and natural gas liquids is measured based on the consideration specified in contracts with customers. Revenue from contracts with customers is recognized when Peyto satisfies a performance obligation by transferring a promised good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of natural gas and natural gas liquids usually coincides with title passing to the customer and the customer taking physical possession.

Peyto principally satisfies its performance obligations at a point in time. Joint venture partners are not considered customers and therefore processing and gathering recoveries related to joint operations are netted against operating expenses.

At times, Peyto may purchase commodity products from third parties to fulfill sales commitments; Peyto subsequently sells these products to its customers. These transactions are presented as sales and purchases of natural gas from third parties on the statements of income.

p) Share-based payments

Peyto has two share-based plans: stock options and deferred share units. Each share-based compensation plan is equity-settled. Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

The Black Scholes model is used to value the equity settled awards. The model incorporates the period-end share price, expected life, dividends, volatility, discount rate and managements estimate around forfeitures.

q) Earnings per share

Basic earnings per share is computed by dividing the earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for the dilutive common shares related to the Company's share-based compensation plans which could have a dilutive impact on earnings during the year. The number of shares included is computed using the treasury stock method, whereby the common shares are assumed to be purchased at the average market price.

r) Share capital

Common shares are classified within equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from Share capital.

s) 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.

Future Accounting Pronouncements

Peyto plans to adopt the following amendments to IFRS Accounting Standards that are effective for annual periods beginning on or after January 1, 2024. The pronouncements will be adopted on their respective effective dates; however, neither is expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1 Presentation of Financial Statements

In January 2020, the IASB issued an amendment to IAS 1 Presentation of Financial Statements ("IAS 1") to clarify its requirements for the presentation of liabilities as current or noncurrent in the statement of financial position. This will be effective on January 1, 2024.

In October 2022, the IASB issued amendments to IAS 1, which specify the classification and disclosure of a liability with covenants. This will be effective January 1, 2024.

3. Corporate Acquisitions

Repsol Canada Energy Partnership

On October 17, 2023, Peyto completed its acquisition of Repsol Canada Energy Partnership ("Repsol"), which held the Canadian upstream oil and natural 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 $699.4 million. The acquisition was funded through an increase of the Company's existing revolving credit facility, a new two-year amortizing term loan and net proceeds of a public offering (the "Financing") issuing 16,916,500 common shares at a price of $11.90 per common share for gross proceeds of $201.3 million. The transaction has been accounted for as a business combination in accordance with IFRS 3 using the acquisition method.

Results from operations for Repsol are included in the Company's consolidated financial statements from the closing date of the transaction. Total transaction costs incurred by Peyto of $6.2 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.

Fair value of net assets acquired:	
Cash	363
Accounts receivable	38,033
Prepaids and other	13,656
Property, plant and equipment	906,630
Accounts payable	(52,298)
Deferred income tax liability	(183,705)
Decommissioning provision	(23,321)
Total	**699,358**

Consideration:	
Cash	**699,358**

The acquisition contributed natural gas and NGL sales of $35.4 million and earnings of $1.1 million since October 17, 2023. Had the acquisition of Repsol closed on January 1, 2023, estimated contributed natural gas and NGL sales and earnings would have been approximately $200.4 million and $5.5 million, respectively, for the year ended December 31, 2023.

PrivateCo.

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.

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 contributed revenue of $8.3 million and earnings of $3.7 million from February 28, 2022 to December 31, 2022. Had the acquisition of PrivateCo closed on January 1, 2022, estimated contributed revenue and earnings would have been approximately $9.1 million and $3.9 million, respectively, for the year ended December 31, 2022.

4. Property, plant and equipment

Cost	
At December 31, 2021	**6,537,637**
Additions	470,553
Asset acquisitions & dispositions	26,064
Corporate Acquisition	5,900
Change in decommissioning provision	(61,055)
At December 31, 2022	**6,979,099**
Additions	411,032
Corporate Acquisition	906,630
Change in decommissioning provision	109,720
At December 31, 2023	**8,406,481**

Accumulated depletion and depreciation	
At December 31, 2021	**(2,897,812)**
Depletion and depreciation	(302,347)
At December 31, 2022	**(3,200,159)**
Depletion and depreciation	(316,135)
At December 31, 2023	**(3,516,294)**

Carrying amount at December 31, 2022	3,778,940
Carrying amount at December 31, 2023	**4,890,187**

During 2023 Peyto capitalized $10.1 million (2022- $13.3 million) of general and administrative expense directly attributable to exploration and development activities.

At December 31, 2023, the Company identified no indicators of impairment and therefore a test was not performed.

On September 13, 2022, the Company acquired assets in the Brazeau area for cash consideration of $26.2 million. The acquisition resulted in an increase in PP&E of approximately $27.7 million and the assumption of $1.5 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. Current and long-term debt

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

On October 17, 2023, the Company entered into an agreement with its syndicate of lenders to amend the credit facility to reflect an upsized $1 billion revolving credit facility from a $800 million revolving credit facility and a new $174 million two-year amortizing term loan with no change to the maturity of the credit facility of October 13, 2025. The term loan requires equal quarterly payments in the amount of $14.5 million commencing March 31, 2024, with a lump sum payment due on October 13, 2025, in the amount of $58 million. Borrowings under the credit facility and term loan 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.

The Company had $6.7 million of Letters of Credit outstanding at December 31, 2023 ($0.3 million at December 31, 2022

Peyto is subject to the following financial covenants as defined in the credit facility, term loan and senior secured note 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.

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

Outstanding senior notes are as follows:

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

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

Total interest expense for 2023 was $57.3 million (2022 - $47.0 million) and the weighted average borrowing rate for 2023 was 5.8% (2022 – 4.8%).

6. Decommissioning provision

The Company provides for the future cost of decommissioning wells and facilities on a discounted basis based on the timing of abandonment and reclamation of these assets.

The Company has estimated the net present value of its total decommissioning provision to be $280.0 million as at December 31, 2023 (2022 – $144.7 million) based on a total escalated future undiscounted liability of $655.2 million (2022 – $398 million). At December 31, 2023 management estimates that these payments are expected to be made over the next 50 years (2022 – 48 years) with payments being made in the years 2024 to 2074. The Bank of Canada’s long-term bond rate of 3.02 per cent (2022 – 3.28 per cent) and an inflation rate of 2.0 per cent (2022 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2021	**204,220**
New or increased provisions	7,389
New provisions relating to corporate and asset acquisition	2,880
Accretion of discount	6,228
Change in discount rate and estimates	(71,324)
Decommissioning expenditures	(4,668)
Balance, December 31, 2022	**144,725**
New or increased provisions	3,862
New provisions relating to corporate acquisition	23,321
Accretion of discount	5,224
Change in discount rate and estimates	7,637
Change in discount rate relating to corporate acquisition	98,221
Decommissioning expenditures	(3,077)
Balance, December 31, 2023	**279,913**
Current	**4,626**
Non-current	**275,287**

7. Equity

Share capital
Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2021	**168,151,219**	**1,664,508**
Private placement	247,785	2,586
Common shares issued	5,071,238	22,249
Stock option issuance costs (net of tax)	-	(92)
Contributed surplus on exercised of stock options	-	8,552
Balance, December 31, 2022	**173,470,242**	**1,697,803**
Common shares issued on exercise of stock options	3,249,239	21,591
Common shares issued on public offering	16,916,500	201,306
Issued on settlement of DSU’s	42,994	250
Share issue costs (net of tax)	-	(6,804)
Contributed surplus on exercise of stock options	-	6,165
Balance, December 31, 2023	**193,678,975**	**1,920,311**

Per share amounts

Basic and dilutive earnings per share have been calculated based upon the weighted average number of basic common shares outstanding.

	Years ended December 31	
	2023	2022
Weighted average common shares basic	**178,894,013**	170,739,471
Weighted average common shares diluted	**180,311,890**	175,040,978

Dividends

During the year ended December 31, 2023, Peyto declared $1.32 per common share or $0.11 per common share for the months of January to December 2023 totaling $237.0 million (2022-$0.60 per common share or $0.05 per common share for the months of January to December totaling $102.4 million).

Dividend equivalent payment

On September 26, 2023, the Company completed a public offering 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 Repsol Acquisition. The Company exchanged each Subscription Receipt for a common share when the acquisition closed on October 17, 2023. Holders of the Subscription Receipts issued on September 26, 2023, were entitled to receive payments per Subscription Receipt equal to the cash dividends ("Dividend equivalent payment") on Peyto's common shares. The Dividend Equivalent Payment equaled to $0.11 per Subscription Receipt. The Dividend Equivalent payment was in the amount of $1.9 million and recognized in dividends for year ended December 31, 2023.

8. Operating expenses

The Company's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering recoveries of costs relate to partner owned production volumes.

	Years ended December 31	
	2023	2022
Gross field expenses	124,474	102,297
Cost recoveries related to processing and gathering of partner production	(11,083)	(12,882)
Total operating expenses	**113,391**	89,415

9. Finance Expense

	Years ended December 31	
	2023	2022
Accretion of decommissioning provision	5,224	6,228
Financing costs	8,319	-
Interest	57,317	47,042
Total finance expenses	**70,860**	53,270

10. Performance-based compensation

Reserve value-based bonus

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 costs 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%. The Company recognized $3.3 million for 2023 (2022 $5.6 million).

11. 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. The Company also has a deferred share unit plan ("DSU's) allowing for the granting of DSUs to the Board of Directors. These plans limits the number of stock 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 $
Stock options	9,868,323	12.02
DSU	248,037	7.41

Stock option plans

The following tables summarize the stock options outstanding at December 31, 2023:

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

The Company estimates the fair value of stock options using the Black-Scholes pricing model. The balance of the stock option plan at December 31, 2023 has a weighted-average fair value per option of $3.49. The following tables summarize the assumptions used in the Black-Scholes model:

	December 31, 2023
Fair value of options granted (weighted average)	$2.93
Expected volatility	47.40%
Average option life	2 years
Risk-free interest rate	4.33%
Forfeiture rate	5.87%
Dividend Yield	5.14%

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 December 31, 2023, no stock options are exercisable.

The following tables summarize the DSU's outstanding at December 31, 2023:

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

12. Revenue and receivables

Peyto derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

	Years ended December 31	
	2023	2022
Natural gas sales	664,675	1,111,897
Natural gas liquid sales	321,062	427,539
Natural gas and natural gas liquid sales	**985,737**	1,539,436

	December 31, 2023	December 31, 2022
Accounts receivable from customers	117,201	184,207
Accounts receivable from realized derivative financial instruments	22,135	92
Accounts receivable from joint venture partners and other	22,399	3,737
Accounts Receivable	**161,735**	188,036

13. Income taxes

	Years Ended December 31	
	2023	2022
Earnings before income taxes	**384,807**	517,084
Statutory income tax rate	**23.00%**	23.00%
Expected income taxes	**88,506**	118,929
Increase (decrease) in income taxes from:		
Stock based compensation	**3,487**	2,692
True-up tax pools	**(97)**	2,922
Change in unrecognized deferred tax asset	**(862)**	-
Other	**1,138**	1,878
Total income tax expense	**92,172**	126,421

Deferred income tax expense	**33,125**	106,144
Current income tax expense	**59,047**	20,277
Total income tax expense	**92,172**	126,421

The components of deferred income tax assets and liabilities are as follows:

	December 31, 2023	December 31, 2022
Property, plant and equipment in excess of tax basis	**(880,521)**	(631,649)
Derivative financial instruments	**(84,498)**	25,540
Share issuance costs	**3,807**	36
Long-term debt	**388**	534
Other	**580**	1,228
Decommission provision	**64,380**	33,287
Deferred income taxes	**(895,864)**	(571,024)

The following tables provide a continuity of deferred income taxes during the year ended December 31, 2023 and 2022:

	December 31, 2022	Recognized in Net Earnings	Acquired in Business Combination	Recognized in OCI/Equity	**December 31, 2023**
Property, plant and equipment in excess of tax basis	(631,649)	(59,803)	(189,069)	-	**(880,521)**
Derivative financial instruments	25,540	-	-	(110,038)	**(84,498)**
Share issuance costs	36	1,744	-	2,027	**3,807**
Long-term debt	534	(146)	-	-	**388**
Other	1,228	(648)	-	-	**580**
Provision for decommission provision	33,287	25,729	5,364	-	**64,380**
Deferred income taxes	(571,024)	(33,124)	(183,705)	(108,011)	**(895,864)**

	December 31, 2021	Recognized in Net Earnings	Acquired in Business Combination	Recognized in OCI/Equity	December 31, 2022
Property, plant and equipment in excess of tax basis	(581,525)	(50,124)	-	-	(631,649)
Derivative financial instruments	16,875	-	-	8,665	25,540
Share issuance costs	21	(13)	-	28	36
Long-term debt	-	534	-	-	534
Other	1,645	(417)	-	-	1,228
Provision for decommission provision	46,971	(13,950)	266	-	33,287
Tax loss carry-forwards recognized	25,096	(42,174)	17,078	-	-
Deferred income taxes	(490,917)	(106,144)	17,344	8,693	(571,024)

At December 31, 2023, the Company has federal tax pools of approximately $1,072.5 million (2022 - $1,029.3 million) available for deduction against future income.

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profits will be available against which the Company can use the benefits:

	Year ended December 31, 2023		Year ended December 31, 2022	
	Gross amount	**Tax effect**	Gross amount	Tax effect
Deductible temporary differences	**72,900**	**16,767**	74,196	17,065

14. Financial instruments

Financial instrument classification and measurement
Financial instruments of the Company carried on the 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 December 31, 2023 except for derivative financial instruments.

The fair value of the Company's cash and derivative financial 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, deposits, accounts receivable, accounts payable and accrued liabilities, dividend payable, current portion of long-term debt, long-term debt, and derivative financial instruments. At December 31, 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.

Market risk

Market risk is the risk that changes in market prices will affect the Company's earnings or the value of its financial instruments. Market risk is comprised of commodity price risk and interest rate risk. The objective of market risk management is to manage and control exposures within acceptable limits, while maximizing returns. The Company's objectives, processes, and policies for managing market risks have not changed from the previous year.

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 contracts with well-established counterparties for the purpose of protecting a portion of its future earnings and cash flows from operations from the volatility of petroleum and natural gas prices. The Company believes the derivative financial instruments that do apply hedge accounting are effective, both at inception and over the term of the instrument, as the term and notional amount do not exceed the Company's firm commitment or forecasted transactions and the underlying basis of the instruments correlate highly with the Company's exposure.

Following is a summary of all derivative financial instruments in place at December 31, 2023:

Commodity contracts

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

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

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

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

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

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

As at December 31, 2023, Peyto had committed to the future sale of 239,840,000 gigajoules (GJ) of natural gas at an average price of $3.50 per GJ or $4.03 per Mcf, 144,600,000 MMBtu at an average price of $3.85 USD per MMBtu, 1,004,600 barrels of crude at an average price of $103.83 CAD per bbl, 18,200 barrels of crude at an average price of $70.15 USD per bbl and 137,000 barrels of crude with an average collar of $88.33–$101.82 CAD per bbl. Had these contracts closed on December 31, 2023, Peyto would have realized a gain in the amount of $352.7 million. If the gas price on December 31, 2023 were to increase by $0.10/GJ, the unrealized gain would decrease by approximately $39.2 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)
Sold USD Contracts		
Q1 2024	$88.5 million	1.3475
Q2 2024	$74.5 million	1.3537
Q3 2024	$69.0 million	1.3481
Q4 2024	$58.0 million	1.3415
Q1 2025	$54.0 million	1.3458
Q2 2025	$54.0 million	1.3524
Q3 2025	$48.0 million	1.3532
Q4 2025	$28.0 million	1.3501

Had these contracts settled on December 31, 2023, Peyto would have realized a gain in the amount of $14.2 million. If the CAD/USD FX rate on December 31, 2023 were to increase by $0.05, the unrealized gain would decrease by

approximately $23.7 million to an unrealized loss of $9.5 million. An opposite change in the CAD/USD FX rate would result in an opposite impact on other comprehensive income.

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 December 31, 2023, Peyto would have realized a gain in the amount of $0.5 million.

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

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

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

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

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Peyto uses interest rate swaps on a portion of its floating rate debt to mitigate its interest rate exposure. If the weighted average borrowing rate were to increase by 100 bps (1%) it is estimated that the Company's earnings before income tax for the year ended December 31, 2023, would decrease by $9.9 million. An opposite change in interest rates would result in an opposite impact on earnings before income tax.

Credit risk

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. The Company generally extends unsecured credit to purchasers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. Credit limits exceeding $2,000,000 per month are not granted to non-investment grade counterparties unless the Company receives either i) a parental guarantee from an investment grade parent; or ii) an irrevocable letter of credit for two months revenue. The Company has not previously experienced any material credit losses on the collection of accounts receivable. Of the Company's revenue for the year ended December 31, 2023, approximately 29% was received from two companies (19.2% and10%) (December 31, 2022 –48% was received from four companies 14%,13%,11% and 10%). Of the Company's accounts receivable at December 31, 2023, there were no companies that had a receivable balance over 10% (December 31, 2022 approximately 50% was receivable from four companies (17%,

12%, 11% and 10%). Maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and no accounts have been written off.

The Company's accounts receivable was aged as follows at December 31, 2023:

	December 31, 2023	December 31, 2022
Current (less than 30 days)	134,173	184,668
31-60 days	15,897	894
61-90 days	6,621	279
Over 90 days	5,044	2,195
	161,735	188,036

The Company may be exposed to certain losses in the event of non-performance by counterparties to commodity price contracts. The Company mitigates this risk by entering into transactions with counterparties that have investment grade credit ratings.

Counterparties to financial instruments expose the Company to credit losses in the event of non-performance. Counterparties for derivative instrument transactions are limited to high credit-quality financial institutions, which are all members of our syndicated credit facility.

The Company assesses quarterly if there should be any impairment of financial assets. At December 31, 2023 and 2022, there was no impairment of any of the financial assets of the Company.

Liquidity risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete our existing capital expenditure program, are continuously monitored, and adjusted as input variables change. These variables include, but are not limited to, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and availability of markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues, obtain debt financing, alter capital spending or change dividend levels.

The following are the contractual maturities of financial liabilities as at December 31, 2023:

	< 1 Year	**1-2 Years**	**3-5 Years**	**Thereafter**
Accounts payable and accrued liabilities	171,760	-	-	-
Dividends payable	21,305	-	-	-
Current and long-term debt(1)	58,000	866,000	-	-
Secured senior notes	-	65,000	252,904	160,000

(1) Revolving credit facility (*see Note 5*)

Capital disclosures

The Company's objectives when managing capital are: (i) to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk; and (ii) to maintain investor, creditor, and market confidence to sustain the future development of the business.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue common shares,

incur debt, adjust its capital spending or change dividends paid to manage its current and projected debt levels. The Company monitors capital based on the following measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and impairment ("EBITDA") ratios, payout ratios and net debt levels. To facilitate the management of these ratios, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. Currently, all ratios are within acceptable parameters. The annual budget is approved by the Board of Directors.

There were no changes in the Company's approach to capital management from the previous year.

	December 31 2023	December 31 2022
Equity	2,714,943	2,061,666
Long-term debt	1,340,881	759,176
Working capital deficit (surplus)	(211,033)	253,308
	3,844,791	3,074,150

15. Changes in non-cash working capital

	December 31 2023	December 31 2022
Change in current assets and liabilities		
Accounts receivable	26,301	(69,088)
Prepaid expense and other [1]	(34,551)	1,095
Accounts payable and accrued liabilities	(41,291)	66,972
	(49,541)	(1,021)
Relating to operating activities	**(13,064)**	(5,593)
Relating to investing activities	**(36,477)**	4,572

(1) The majority of the 2023 prepaid includes deposits held by government agencies, prepaid interest on the credit facility and carbon credits.

16. 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 or the related entities. The dollar value of the transactions between Peyto and the related reporting entities is summarized below:

Expense (Income)		Accounts Payable (Accounts Receivable)	
Year ended December 31		As at December 31	
2023	2022	**2023**	2022
486.8	**1,145.8**	**(134.9)**	**82.8**

The Company has determined that the key management personnel consists of key employees, officers and directors. In addition to the salaries and directors' fees paid to these individuals, the Company also provides compensation in the form of stock options and reserved based bonus to some of these individuals. Compensation expense of $1.8 million is included in general and administrative expenses, $6.5 million in stock-based compensation expense and $1.5 million in performance based compensation expense relating to key management personnel for the year 2023 (2022 - $2.5 million is included in general and administrative expenses, $5.4 million in stock-based compensation expense and $2.7 in performance based compensation expense relating to key management personnel).

17. 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 December 31, 2023

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

(1) Fixed interest payments on senior secured notes

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 & Chief Operating Officer

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
Nicki Stevens

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Canadian Imperial Bank of Commerce
National Bank of Canada
ATB Financial
The Toronto-Dominion Bank
China Construction Bank (Canada)
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