Deloitte.

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

Tel: 403-267-1700
Fax: 403-213-5791
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. (the “Company”), which comprise the consolidated balance sheets as at December 31, 2024 and 2023, 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, 2024 and 2023, and its financial performance and its cash flows for the years then ended in accordance with IFRS Accounting Standards.

## 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

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2024. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

***Property, Plant and Equipment - Oil and natural gas properties – Refer to Note 4 in 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.

## 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 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 Accounting Standards, 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. .
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 consolidated 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
March 11, 2025

# Peyto Exploration & Development Corp.

## Consolidated Balance Sheets

(Amounts in $ thousands)

| | **December 31 2024** | December 31 2023 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | 13,635 | 37,177 |
| Accounts receivable (*Note 12)* | 147,561 | 161,735 |
| Prepaid and other | 45,185 | 53,159 |
| Derivative financial instruments *(Note 14)* | 188,136 | 238,865 |
| | **394,517** | 490,936 |
| | | |
| Long-term derivative financial instruments *(Note 14)* | 48,645 | 128,519 |
| Property, plant and equipment, net *(Note 4)* | 5,062,728 | 4,890,187 |
| | **5,111,373** | 5,018,706 |
| | **5,505,890** | 5,509,642 |
| | | |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | 160,053 | 171,760 |
| Dividends payable *(Note 7)* | 21,761 | 21,305 |
| Income tax payable (*Note 13)* | 20,048 | 23,032 |
| Current portion of lease obligation | 936 | 1,310 |
| Current portion of decommissioning provision *(Note 6)* | 8,956 | 4,626 |
| Current portion of long-term debt *(Note 5)* | 57,855 | 57,870 |
| | **269,609** | 279,903 |
| | | |
| Long-term debt *(Note 5)* | 1,295,238 | 1,340,881 |
| Decommissioning provision *(Note 6)* | 360,296 | 275,287 |
| Lease obligation | 7,563 | 2,764 |
| Deferred income taxes *(Note 13)* | 876,855 | 895,864 |
| | **2,539,952** | 2,514,796 |
| | | |
| **Equity** | | |
| Shareholders' capital *(Note 7)* | 1,977,905 | 1,920,311 |
| Contributed surplus *(Note 11)* | 27,176 | 25,021 |
| Retained earnings | 507,273 | 485,072 |
| Accumulated other comprehensive income | 183,975 | 284,539 |
| | **2,696,329** | 2,714,943 |
| | **5,505,890** | 5,509,642 |

Subsequent event *(Note 18)*

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 | |
|---|---|---|
| | **2024** | 2023 |
| **Revenue** | | |
| Natural gas and natural gas liquid sales (*Note 12)* | 857,227 | 985,737 |
| Royalties | (61,551) | (74,342) |
| Marketing revenue | 51,023 | 24,403 |
| Natural gas and natural gas liquid sales, net of royalties | **846,699** | 935,798 |
| | | |
| Realized gain on derivative financial instruments *(Note 14)* | 314,852 | 61,188 |
| Other income | 10,389 | 9,716 |
| **Total revenue, other income, and derivative financial instruments** | **1,171,940** | 1,006,702 |
| | | |
| **Expenses** | | |
| Marketing purchases | 47,793 | 24,511 |
| Operating *(Note 8)* | 145,343 | 113,391 |
| Transportation | 81,229 | 61,668 |
| General and administrative | 14,158 | 10,589 |
| Transaction costs | - | 6,182 |
| Performance based compensation *(Note 10)* | 15,250 | 3,280 |
| Stock based compensation *(Note 11)* | 14,110 | 15,162 |
| Finance costs *(Note 9)* | 107,114 | 70,860 |
| Realized loss (gain) on foreign exchange | (475) | 1,389 |
| Unrealized (gain) loss on foreign exchange | 4,652 | (1,272) |
| Depletion and depreciation *(Note 4)* | 377,689 | 316,135 |
| | **806,863** | 621,895 |
| **Earnings before taxes** | **365,077** | 384,807 |
| | | |
| **Provision for income taxes** | | |
| Current tax *(Note 13)* | 73,477 | 59,047 |
| Deferred tax *(Note 13)* | 11,030 | 33,125 |
| **Total income taxes** | **84,507** | 92,172 |
| | | |
| **Earnings for the year** | **280,570** | 292,635 |
| | | |
| **Earnings per share** *(Note 7)* | | |
| Basic | $1.43 | $1.64 |
| Diluted | $1.42 | $1.62 |
| | | |
| **Weighted average number of common shares outstanding** *(Note 7)* | | |
| Basic | **195,737,374** | 178,894,013 |
| Diluted | **197,084,973** | 180,311,890 |

# Peyto Exploration & Development Corp.

## Consolidated Statements of Comprehensive Income

(Amounts in $ thousands)

| | Year ended December 31 | |
|---|---|---|
| | **2024** | 2023 |
| **Earnings for the year** | **280,570** | 292,635 |
| **Other comprehensive income** | | |
| Change in unrealized gain on derivative financial instruments | 184,249 | 539,620 |
| Deferred tax recovery (expense) | 30,039 | (110,039) |
| Realized (gain) on derivative financial instruments | (314,852) | (61,188) |
| **Comprehensive Income** | **180,006** | 661,028 |

# Peyto Exploration & Development Corp.

## Consolidated Statements of Changes in Equity

(Amounts in $ thousands)

| | Year ended December 31 | |
|---|---|---|
| | **2024** | 2023 |
| **Shareholders' capital, Beginning of Year** | **1,920,311** | 1,697,803 |
| Common shares issued on exercise of stock options | 45,639 | 21,591 |
| Common shares issued on bought deal *(Note 3)* | - | 201,306 |
| Issued on settlement of DSU's | - | 250 |
| Contributed surplus on exercise of stock options | 11,955 | 6,165 |
| Share issue costs (net of tax) | - | (6,804) |
| **Shareholders' capital, End of Year** | **1,977,905** | 1,920,311 |

| | | |
|---|---|---|
| **Contributed surplus, Beginning of Year** | **25,021** | 16,274 |
| Stock-based compensation expense | 14,110 | 15,162 |
| Recognized under stock-based compensation plans | (11,955) | (6,165) |
| Recognized under DSU plan | - | (250) |
| **Contributed surplus, End of Year** | **27,176** | 25,021 |

| | | |
|---|---|---|
| **Retained earnings, Beginning of Year** | 485,072 | 431,443 |
| Earnings for the year | 280,570 | 292,635 |
| Dividends *(Note 7)* | (258,369) | (237,145) |
| Dividend equivalent payment | - | (1,861) |
| **Retained earnings, End of Year** | **507,273** | 485,072 |

| | | |
|---|---|---|
| **Accumulated other comprehensive income (loss), Beginning of Year** | 284,539 | (83,854) |
| Other comprehensive gain (loss) | (100,564) | 368,393 |
| **Accumulated other comprehensive income, End of Year** | **183,975** | 284,539 |

| | | |
|---|---|---|
| **Total Equity** | **2,696,329** | 2,714,943 |

# Peyto Exploration & Development Corp.
## Consolidated Statements of Cash Flows
(Amounts in $ thousands)

| | Year ended December 31 | |
|---|---|---|
| | **2024** | 2023 |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Earnings | 280,570 | 292,635 |
| Items not requiring cash: | | |
| Deferred income tax | 11,030 | 33,125 |
| Depletion and depreciation | 377,689 | 316,135 |
| Unrealized (gain) loss on foreign exchange | 4,652 | (1,272) |
| Accretion of decommissioning provision | 9,457 | 5,224 |
| Stock-based compensation | 14,110 | 15,162 |
| Decommissioning expenditures | (8,446) | (3,077) |
| Change in non-cash working capital related to operating activities *(Note 15)* | (16,699) | (13,064) |
| | **672,363** | 644,868 |
| **Financing activities** | | |
| Common shares issued under stock option plan *(Note 7)* | 45,639 | 21,591 |
| Common shares issued under bought deal (*Note 7)* | - | 192,472 |
| Cash dividends paid | (257,912) | (226,374) |
| Lease interest | 378 | 163 |
| Principal repayment of lease | (1,457) | (1,429) |
| Interest and financing charges | (2,310) | (3,153) |
| Change in bank debt | (58,000) | 484,000 |
| Repayment of senior notes *(Note 5)* | (65,000) | (100,000) |
| Issuance of senior notes *(Note 5)* | 75,000 | 160,000 |
| | **(263,662)** | 527,270 |
| **Investing activities** | | |
| Additions to property, plant, and equipment | (456,872) | (411,031) |
| Asset dispositions, net of acquisitions | 474 | - |
| Corporate Acquisition *(Note 3)* | - | (699,358) |
| Change in non-cash working capital relating to investing activities *(Note 15)* | 24,155 | (36,477) |
| | **(432,243)** | (1,146,866) |
| **Net increase in cash** | **(23,542)** | 25,272 |
| **Cash, beginning of year** | 37,177 | 11,905 |
| **Cash, end of year** | **13,635** | 37,177 |

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

| | | |
|---|---|---|
| Cash interest paid | **77,053** | 61,420 |
| Cash taxes paid | **65,218** | 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 11, 2025.

## 2. Basis of presentation

These consolidated financial statements ("consolidated financial statements") as at and for the years ended December 31, 2024 and December 31, 2023 represent the Company's results and financial position in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

**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 and natural gas properties**

Depletion, performance-based compensation and recoverability of oil and 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 and natural gas properties carrying values is assessed at the cash generating unit ("CGU") level. The determination of CGUs 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. CGUs 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 of disposal ("FVLCD") and value in use ("VIU"). Management has determined that Peyto's asset base represents one CGU as its properties are in close proximity to each other, with interconnected infrastructure, similar cost structure and aggregated 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 and natural gas properties are reviewed for impairment at a CGU level 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 FVLCD or its 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 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 are 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 reassessments 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 plus probable 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 receivable 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 reassessed at each reporting date. ECLs are probability-weighted estimates 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 earnings (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 and natural gas liquids from third parties on the statements of income.

**Marketing revenue and marketing purchases**

Peyto purchases natural gas liquid mix from third parties, transports and fractionates the product, and sells the natural gas liquid components. The marketing revenue and marketing purchases of the third-party natural gas liquids are recorded gross for financial statement presentation purposes.

**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, 2024**

The International Accounting Standards Board (IASB) issued two amendments to IAS 1 Presentation of Financial Statements, effective January 1, 2024, related to the classification of liabilities as current and non-current. There was not a material impact on the Company’s Financial Statements.

**Future Accounting Pronouncements**

**Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instrument: Disclosures**

In May 2024, the IASB issued amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures relating to settling financial liabilities using an electronic payment system and assessing contractual cash flow characteristics of financial assets. The amendments will be effective on January 1, 2026, but are not expected to have a material impact on the Company’s financial statements.

**IFRS 18 Presentation and Disclosure in Financial Statements**

In April 2024, the IASB issues IFRS 18 Presentation and Disclosure in Financial Statements ("IFRS 18"), which will replace IAS 1 and includes requirements for all entities applying IFRS Accounting Standards for the presentation and disclosure of information in the financial statements. IFRS 18 will introduce new totals, subtotals, and categories for income and expenses in the statement of income, as well as requiring disclosure about management-defined performance measures and additional requirements regarding the aggregation and disaggregation of certain information. It will be effective on January 1, 2027, with earlier adoption permitted, and it must be adopted on a retrospective basis. The Company is currently evaluating the impact on its financial statements.

## 3. Corporate Acquisitions

### Repsol Canada Energy Partnership

On October 17, 2023, Peyto completed its acquisition of Repsol Canada Energy Partnership (the "Repsol Acquisition"), which held the Canadian upstream oil and natural gas business of Repsol Exploración, S.A.U. The Repsol Acquisition included all related midstream facilities and infrastructure located predominantly in the Deep Basin of Alberta, for cash consideration of $699.4 million. The Repsol Acquisition was funded through an upsizing of the Company's existing revolving credit facility, an amortizing term loan and net proceeds of a bought deal financing offering issuing 16,916,500 common shares at a price of $11.90 per common share for gross proceeds of $201.3 million. The transaction was accounted for as a business combination in accordance with IFRS 3 using the acquisition method.

Results from operations for the Repsol Acquisition 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 | 908,895 |
| Accounts payable | (52,298) |
| Deferred income tax liability | (185,970) |
| Decommissioning provision | (23,321) |
| **Total** | **699,358** |

| **Consideration:** | |
|---|---|
| **Cash** | **699,358** |

The Respol Acquisition contributed natural gas and NGL sales of $35.4 million and earnings of $1.1 million from October 17, 2023 to December 31, 2023. Had the Repsol Acquisition 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.

## 4. Property, plant and equipment

| Cost | |
|---|---|
| **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** |
| Additions | 456,872 |
| Asset dispositions, net of acquisitions | (474) |
| ROU Asset | 5,504 |
| Change in decommissioning provision | 88,328 |
| **At December 31, 2024** | **8,956,711** |

| Accumulated depletion and depreciation | |
|---|---|
| **At December 31, 2022** | **(3,200,159)** |
| Depletion and depreciation | (316,135) |
| **At December 31, 2023** | **(3,516,294)** |
| Depletion and depreciation | (377,689) |
| **At December 31, 2024** | **(3,893,983)** |

| | |
|---|---|
| Carrying amount at December 31, 2023 | 4,890,187 |
| **Carrying amount at December 31, 2024** | **5,062,728** |

During 2024, Peyto capitalized $11.9 million (2023- $10.1 million) of general and administrative expense directly attributable to exploration and development activities.

At December 31, 2024, the Company identified no indicators of impairment and therefore a test was not performed.

## 5. Current and long-term debt

| | **December 31, 2024** | December 31, 2023 |
|---|---|---|
| Revolving Credit Facility | 760,000 | 750,000 |
| Term Loan | 106,000 | 174,000 |
| Long-term senior secured notes | 492,556 | 477,904 |
| **Total current and long-term debt** | **1,358,556** | 1,401,904 |
| Deferred financing costs | (5,463) | (3,153) |
| **Total current and long-term debt, net of deferred financing costs** | **1,353,093** | 1,398,751 |
| Current portion of long-term debt, net of deferred financing costs | **57,855** | 57,870 |
| Long-term debt, net of deferred financing costs | **1,295,238** | 1,340,881 |

On June 10, 2024, the Company amended and restated its credit facilities (the "Credit Facilities") with a syndicate of banks to extend the maturity dates of its $1 billion revolving operating facility (the "Revolving Credit Facility") and its amortizing term facility (the "Term Loan"). The maturity dates of the Revolving Credit Facility and the Term Loan have been extended to October 13, 2027, and October 13, 2026, respectively, from October 13, 2025. The Term Loan requires equal quarterly payments in the amount of $14.5 million with a final payment due on October 13, 2026, in the amount of $4.5 million. The Revolving Credit Facility includes a $40 million working capital sub-tranche and a $960 million production line and is available on a revolving basis. Borrowings under the Credit Facilities bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar CORRA advances or US dollar SOFR loan rates, plus adjustments and applicable margin. There was no change to the financial covenants in the amended agreement.

The Company had $6.6 million Letters of Credit outstanding at December 31, 2024 ($6.7 million at December 31, 2023).

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, 2024.

Outstanding senior notes are as follows:

| Senior Secured Notes | Date Issued | Rate | Maturity Date |
|---|---|---|---|
| $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 |
| $75 million (CAD) | October 17, 2024 | 5.638% | October 17, 2034 |

On October 17, 2024, Peyto issued $75 million of senior secured notes. The notes have a coupon rate of 5.638% and mature on October 17, 2034. 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 $65 million, 4.26% notes that were due May 1, 2025.

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 and financing costs for 2024 was $97.7 million (2023 - $65.6 million) and the weighted average borrowing rate for 2024 was 7.1% (2023 – 5.8%).

## 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 $366.2 million as at December 31, 2024 (2023 – $280.0 million) based on a total escalated future undiscounted liability of $971.7 million (2023 – $655.2 million). At December 31, 2024 management estimates that these payments are expected to be made over the next 50 years (2023 – 50 years) with the majority of payments being made in years 2045 to 2071. The Bank of Canada's long-term bond rate of 3.33 per cent (2023 – 3.02 per cent) and an inflation rate of 2.0 per cent (2023 – 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, 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** |
| New or increased provisions | 5,274 |
| Accretion of discount | 9,457 |
| Change in discount rate and estimates | 83,054 |
| Decommissioning expenditures | (8,446) |
| **Balance, December 31, 2024** | **369,252** |
| Current | **8,956** |
| Non-current | **360,296** |

## 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, 2022** | **173,470,242** | **1,697,803** |
| Common shares issued on exercise of stock options | 3,249,239 | 21,591 |
| Common shares issued on bought deal | 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** |
| Common shares issued on exercise of stock options | 4,150,505 | 45,639 |
| Contributed surplus on exercise of stock options | - | 11,955 |
| **Balance, December 31, 2024** | **197,829,480** | **1,977,905** |

**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** | |
|---|---|---|
| | **2024** | 2023 |
| Weighted average common shares basic | **195,737,374** | 178,894,013 |
| Weighted average common shares diluted | **197,084,973** | 180,311,890 |

**Dividends**
During the year ended December 31, 2024, Peyto declared $1.32 per common share or $0.11 per common share for the months of January to December 2024, totaling $258.4 million (2023-$1.32 per common share or $0.11 per common share for the months of January to December totaling $237.0 million).

## 8. Operating expense

The Company's operating expenses include all costs with respect to day-to-day well and facility operations. Processing and gathering recoveries related to jointly owned production reduces gross field expenses to Peyto's operating expenses.

| | Years ended December 31 | |
|---|---|---|
| | **2024** | **2023** |
| Gross field expense | 174,899 | 132,783 |
| Cost recoveries related to processing and gathering of partner production | (29,556) | (19,392) |
| **Operating expense** | **145,343** | 113,391 |

## 9. Finance costs

| | Years ended December 31 | |
|---|---|---|
| | **2024** | **2023** |
| Accretion of decommissioning provision | 9,457 | 5,224 |
| Financing expense | 3,468 | 8,319 |
| Interest | 94,189 | 57,317 |
| **Finance costs** | **107,114** | 70,860 |

## 10. Performance-based compensation

**Reserve value-based bonus**

The reserves value-based bonus 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 $15.3 million for 2024 (2023 $3.3 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 ("DSU") plan allowing for the granting of DSUs to the Board of Directors. These plans limit the number of stock options and DSUs 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 | 11,260,657 | 13.85 |
| DSU | 340,053 | 17.41 |

**Stock option plans**

The following tables summarize the stock options outstanding at December 31, 2024:

| | | Weighted average exercise price $ |
|---|---|---|
| **Balance, December 31, 2023** | **9,868,323** | **12.02** |
| Stock options granted | 6,592,527 | 14.62 |
| Exercised | (4,150,505) | 11.00 |
| Forfeited | (811,285) | 12.44 |
| Expired | (238,403) | 13.78 |
| **Balance, December 31, 2024** | **11,260,657** | **13.85** |

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the year ended December 31, 2024, the weighted-average fair value per option was $1.87. The following tables summarize the assumptions used in the Black-Scholes model:

| | December 31, 2024 |
|---|---|
| Fair value of options granted (weighted average) | $1.87 |
| Expected volatility | 35.29% |
| Average option life | 2 years |
| Risk-free interest rate | 3.62% |
| Forfeiture rate | 6.90% |
| Dividend Yield | 9.17% |

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, 2024, no stock options are exercisable.

The following tables summarize the DSUs outstanding at December 31, 2024:

| | |
|---|---|
| **Balance, December 31, 2023** | **248,037** |
| DSUs granted | 92,016 |
| **Balance December 31, 2024** | **340,053** |

## 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 | |
|---|---|---|
| | **2024** | **2023** |
| Natural gas sales | 485,857 | 664,675 |
| Natural gas liquid sales | 371,370 | 321,062 |
| **Natural gas and natural gas liquid sales** | **857,227** | 985,737 |

| | December 31, 2024 | December 31, 2023 |
|---|---|---|
| Accounts receivable from customers | 113,780 | 117,201 |
| Accounts receivable from realized derivative financial instruments | 22,702 | 22,135 |
| Accounts receivable from joint venture partners and other | 11,079 | 22,399 |
| **Accounts Receivable** | **147,561** | 161,735 |

## 13. Income taxes

| | Years Ended December 31 | |
|---|---|---|
| | **2024** | **2023** |
| Earnings before income taxes | **365,077** | 384,807 |
| Statutory income tax rate | **23.00%** | 23.00% |
| Expected income taxes | **83,968** | 88,506 |
| Increase (decrease) in income taxes from: | | |
| Stock based compensation | **3,245** | 3,487 |
| True-up tax pools | **(1,680)** | (97) |
| Change in unrecognized deferred tax asset | **(813)** | (862) |
| Other | **(213)** | 1,138 |
| **Total income tax expense** | **84,507** | 92,172 |
| | | |
| Current income tax expense | **73,477** | 59,047 |
| Deferred income tax expense | **11,030** | 33,125 |
| **Total income tax expense** | **84,507** | 92,172 |

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

| | **December 31, 2024** | December 31, 2023 |
|---|---|---|
| Property, plant and equipment in excess of tax basis | **(913,489)** | (880,521) |
| Derivative financial instruments | **(54,459)** | (84,498) |
| Share issuance costs | **3,552** | 3,807 |
| Long-term debt | **922** | 388 |
| Other | **2,399** | 580 |
| Decommission provision | **84,220** | 64,380 |
| **Deferred income taxes** | **(876,855)** | (895,864) |

The following tables provide a continuity of deferred income taxes during the years ended December 31, 2024 and 2023:

| | December 31, 2023 | Recognized in Net Earnings | Acquired in Business Combination | Recognized in OCI/Equity | **December 31, 2024** |
|---|---|---|---|---|---|
| Property, plant and equipment in excess of tax basis | (880,521) | (32,968) | - | - | **(913,489)** |
| Derivative financial instruments | (84,498) | - | - | 30,039 | **(54,459)** |
| Share issuance costs | 3,807 | (255) | - | - | **3,552** |
| Long-term debt | 388 | 534 | - | - | **922** |
| Other | 580 | 1,819 | - | - | **2,399** |
| Provision for decommission provision | 64,380 | 19,840 | - | - | **84,220** |
| Deferred income taxes | (895,864) | (11,030) | - | 30,039 | **(876,855)** |

| | 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) |

At December 31, 2024, the Company has federal tax pools of approximately $1,103 million (2023 - $1,073 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, 2024** | | Year ended December 31, 2023 | |
|---|---|---|---|---|
| | **Gross amount** | **Tax effect** | Gross amount | Tax effect |
| Deductible temporary differences | **63,270** | **14,552** | 72,900 | 16,767 |

## 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, 2024 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, 2024 and 2023, 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, 2024:

**Commodity contracts**

| Natural Gas<br>Period Hedged- Monthly Index | Type | Daily Volume (GJ) | Average Price<br>(AECO CAD/GJ) |
|---|---|---|---|
| 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 | 212,500 | $3.31 |
| Q3 2026 | Fixed Price | 212,500 | $3.31 |
| Q4 2026 | Fixed Price | 114,701 | $3.36 |
| Q1 2027 | Fixed Price | 65,000 | $3.44 |

| Natural Gas<br>Period Hedged- Daily Index | Type | Daily Volume (GJ) | Average Price<br>(AECO CAD/GJ) |
|---|---|---|---|
| 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<br>Period Hedged - NYMEX | Type | Daily Volume (MMBtu) | Average Price<br>(Nymex USD/MMBtu) |
|---|---|---|---|
| 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 | 122,065 | $3.89 |
| Q1 2026 | Fixed Price | 85,000 | $4.00 |
| Q2 2026 | Fixed Price | 115,000 | $3.68 |
| Q3 2026 | Fixed Price | 115,000 | $3.68 |
| Q4 2026 | Fixed Price | 38,750 | $3.68 |

| Crude Oil<br>Period Hedged - WTI | Type | Daily Volume (bbl) | Average Price<br>(WTI CAD/bbl) |
|---|---|---|---|
| Q1 2025 | Fixed Price | 4,600 | $98.03 |
| Q2 2025 | Fixed Price | 3,400 | $98.18 |
| Q3 2025 | Fixed Price | 2,400 | $96.39 |
| Q4 2025 | Fixed Price | 1,400 | $96.55 |
| Q1 2026 | Fixed Price | 1,100 | $92.56 |

| Crude Oil<br>Period Hedged - WTI | Type | Daily Volume (bbl) | Put - Call<br>(WTI CAD/bbl) |
|---|---|---|---|
| Q1 2025 | Collar | 1,000 | $85.00–$102.63 |
| Q2 2025 | Collar | 500 | $90.00–$110.25 |
| Q3 2025 | Collar | 500 | $90.00–$110.00 |
| Q4 2025 | Collar | 500 | $90.00–$110.50 |
| Q1 2026 | Collar | 500 | $85.00–$100.00 |

| Propane<br>Period Hedged - Conway | Type | Daily Volume (bbl) | Average Price<br>(USD/bbl) |
|---|---|---|---|
| Q1 2025 | Fixed Price | 500 | $33.86 |

Had these contracts closed on December 31, 2024, Peyto would have realized a gain in the amount of $260.8 million. If the gas price on December 31, 2024, were to increase by $0.10/GJ, the unrealized gain would decrease by approximately $28.6 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 2025 | $54.0 million | 1.3458 |
| Q2 2025 | $69.0 million | 1.3517 |
| Q3 2025 | $63.0 million | 1.3523 |
| Q4 2025 | $59.0 million | 1.3530 |
| Q1 2026 | $39.0 million | 1.3569 |
| Q2 2026 | $31.5 million | 1.3540 |
| Q3 2026 | $31.5 million | 1.3540 |
| Q4 2026 | $10.5 million | 1.3540 |

Had these contracts settled on December 31, 2024, Peyto would have realized a loss in the amount of $23.7 million. If the CAD/USD FX rate on December 31, 2024 were to increase by 0.05, the unrealized loss would increase by approximately $17.9 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(1) | $50 million | 3.280% | CORRA |

(1) The March 17, 2023 interest rate contracts were modified in June 2024 with the transition of the underlying interest rate benchmark from the Canadian Dollar Offer Rate (CDOR) to the Canadian Overnight Repo Rate Average (CORRA).

Had these contracts closed on December 31, 2024, Peyto would have realized a loss in the amount of $0.3 million.

Subsequent to December 31, 2024, Peyto entered into the following contracts:

| Natural Gas<br>Period Hedged – AECO Monthly Index | Type | Daily Volume<br>(GJ) | Average Price<br>(AECO CAD/GJ) |
|---|---|---|---|
| Q4 2026 | Fixed Price | 13,261 | $3.45 |
| Q1 2027 | Fixed Price | 20,000 | $3.45 |

| Natural Gas Period Hedged - NYMEX | Type | Daily Volume (MMBtu) | Average Price (Nymex USD/MMBtu) |
|---|---|---|---|
| Q4 2025 | Fixed Price | 36,467 | $4.46 |
| Q1 2026 | Fixed Price | 55,000 | $4.46 |
| Q2 2026 | Fixed Price | 60,000 | $3.79 |
| Q3 2026 | Fixed Price | 60,000 | $3.79 |
| Q4 2026 | Fixed Price | 43,424 | $4.07 |
| Q1 2027 | Fixed Price | 35,000 | $4.32 |

| Crude Oil Period Hedged - WTI | Type | Daily Volume (bbl) | Average Price (WTI USD/bbl) |
|---|---|---|---|
| Q2 2025 | Fixed Price | 600 | $104.43 |
| Q3 2025 | Fixed Price | 500 | $101.79 |
| Q4 2025 | Fixed Price | 300 | $99.42 |
| Q1 2026 | Fixed Price | 100 | $97.00 |

| Crude Oil Period Hedged - WTI | Type | Daily Volume (bbl)_ | Put - Call (WTI CAD/bbl) |
|---|---|---|---|
| Q2 2026 | Collar | 500 | $90.00–$100.50 |

**Interest rate contracts**

| Term | Notional Amount | Peyto pays fixed rate | Peyto receives floating rate |
|---|---|---|---|
| January 30, 2025 to January 30, 2028 | $50 million | 2.67% | CORRA |

**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, 2024, would decrease by $13.7 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 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. 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, 2024, approximately 26% was received from two companies (14% and 12%) (December 31, 2023 –29% was received from two companies 19% and 10%). Of the Company's accounts receivable at December 31, 2024, there were two companies that had a receivable balance over 10% (December 31, 2023 no companies that had a receivable balance over 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, 2024:

| | **December 31, 2024** | December 31, 2023 |
|---|---|---|
| Current (less than 30 days) | 136,539 | 134,173 |
| 31-60 days | 1,069 | 15,897 |
| 61-90 days | 1,031 | 6,621 |
| Over 90 days | 8,922 | 5,044 |
| | **147,561** | 161,735 |

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, 2024 and 2023, 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, 2024:

| | **< 1 Year** | **1-2 Years** | **3-5 Years** | **Thereafter** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 160,053 | - | - | - |
| Dividends payable | 21,761 | - | - | - |
| Current and long-term debt(1) | 58,000 | 808,000 | - | - |
| Secured senior notes | - | 100,000 | 157,556 | 235,000 |

(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 adjusts 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, raise 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 2024** | December 31 2023 |
|---|---|---|
| Equity | 2,696,329 | 2,714,943 |
| Long-term debt | 1,295,238 | 1,340,881 |
| Working capital deficit (surplus) | (124,908) | (211,033) |
| | **3,866,659** | 3,844,791 |

## 15. Changes in non-cash working capital

| | **December 31 2024** | December 31 2023 |
|---|---|---|
| Change in current assets and liabilities | | |
| Accounts receivable | 14,174 | 26,301 |
| Prepaid expense and other (1) | 7,974 | (34,551) |
| Accounts payable and accrued liabilities | (14,692) | (41,291) |
| | **7,456** | (49,541) |
| Relating to operating activities | **(16,699)** | (13,064) |
| Relating to investing activities | **24,155** | (36,477) |

(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 | |
| **2024** | 2023 | **2024** | 2023 |
| **1,951.9** | 486.8 | **5.7** | (134.9) |

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 $2.2 million is included in general and administrative expenses, $6.5 million in stock-based compensation expense and $6.5 million in performance-based compensation expense relating to key management personnel for the year 2024 (2023 - $2.2 million is included in general and administrative expenses, $7.4 million in stock-based compensation expense and $1.5 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, 2024

| | 2025 | 2026 | 2027 | 2028 | 2029 | Thereafter |
|---|---|---|---|---|---|---|
| Interest payments [1] | 24,706 | 20,681 | 20,316 | 16,529 | 14,376 | 29,672 |
| Transportation commitments | 90,307 | 110,505 | 82,755 | 49,307 | 44,399 | 464,823 |
| Operating leases | 2,434 | 2,429 | 2,436 | 2,438 | 2,539 | 5,454 |
| Methanol | 4,333 | - | - | - | - | - |
| Total | 121,780 | 133,615 | 105,507 | 68,274 | 61,314 | 499,949 |

[1] Fixed interest payments on senior secured notes

## 18. Subsequent event

In February 2025, Peyto contracted 30,000 MMBtu/d of physical firm service and physical delivery commitments, delivering gas to the Union Dawn hub on the Great Lakes Gas Transmission line. These long-term contracts commence on November 1, 2025.

**Officers**

Jean-Paul Lachance
President and Chief Executive Officer

Riley Frame
Chief Operating Officer

Tavis Carlson
Vice President, Finance and Chief Financial Officer

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Derick Czember
Vice President of Land and Business Development

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