PEYTO

Exploration & Development Corp.

1

Interim Report
for the three months ended March 31, 2019

HIGHLIGHTS

	Three Months Ended March 31		%
	2019	2018	Change
Operations			
Production			
Natural gas (mcf/d)	**462,003**	568,496	*-19%*
Oil & NGLs (bbl/d)	**10,703**	10,043	*7%*
Liquid to Gas Ratio (bbl/mmcf)	**23.2**	17.7	*31%*
Barrels of oil equivalent (boe/d @ 6:1)	**87,703**	104,793	*-16%*
Production per million common shares (boe/d)*	**532**	636	*-16%*
Product prices			
Natural gas ($/mcf)	**2.48**	2.86	*-13%*
Oil & NGLs ($/bbl)	**50.37**	59.67	*-16%*
Operating expenses ($/mcfe)	**0.35**	0.29	*21%*
Transportation ($/mcfe)	**0.19**	0.13	*46%*
Field netback ($/mcfe)	**2.52**	2.95	*-15%*
General & administrative expenses ($/mcfe)	**0.06**	0.08	*-25%*
Interest expense ($/mcfe)	**0.28**	0.24	*17%*
Financial ($000, except per share*)			
Revenue	**151,660**	200,397	*-24%*
Royalties	**6,673**	9,543	*-30%*
Funds from operations	**103,078**	148,986	*-31%*
Funds from operations per share	**0.63**	0.90	*-31%*
Total dividends	**9,893**	29,677	*-67%*
Total dividends per share	**0.06**	0.18	*-67%*
Payout ratio (%)	**10**	20	*-50%*
Earnings	**24,970**	47,749	*-48%*
Earnings per diluted share	**0.15**	0.29	*-48%*
Capital expenditures	**62,395**	35,454	*76%*
Weighted average common shares outstanding	**164,874,175**	164,874,175	-
As at March 31			
End of period shares outstanding (includes shares to be issued)	**164,874,175**	164,874,175	-
Net debt	**1,189,849**	1,243,291	*-4%*
Shareholders' equity	**1,654,076**	1,725,131	*-4%*
Total assets	**3,654,039**	3,762,835	*-3%*

**all per share amounts using weighted average common shares* outstanding

	Three Months Ended March 31	
($000 except per share)	**2019**	2018
Cash flows from operating activities	**91,511**	143,995
Change in non-cash working capital	**9,061**	3,913
Change in provision for performance based compensation	**215**	1,078
Performance based compensation	**2,291**	-
Funds from operations	**103,078**	148,986
Funds from operations per share	**0.63**	0.90

(1) Funds from operations ("FFO") - Management uses FFO to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, FFO is defined throughout this report as earnings before performance based compensation, non-cash and non-recurring expenses. Management believes that FFO is an important parameter to measure the value of an asset when combined with reserve life. FFO is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, FFO, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that FFO should not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. FFO cannot be assured and future dividends may vary.

Report from the president

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the first quarter of the 2019 fiscal year. A 68% Operating Margin(1) and a 16% Profit Margin(2) in the quarter delivered a 6% return on capital employed (ROCE) and a 6% return on equity (ROE), on a trailing twelve month basis. Additional highlights included:

- **Liquids yield increases 31%.** Condensate and NGL yields increased from 17.7 bbl/mmcf in Q1 2018 to 23.2 bbl/mmcf in Q1 2019, due to continued deployment of capital in Peyto's liquids rich Cardium play. Total liquids production of 10,703 bbl/d in Q1 2019 was up 7% year over year, despite suspended deep cut operations during February and March. Natural gas production was down 19% to 462 mmcf/d as Peyto replaced declining dry gas with significantly higher liquids-rich gas. Total Q1 2019 production of 87,703 boe/d was up slightly from Q4 2018 of 86,738 boe/d and Q3 2018 of 85,242 boe/d.

- **Funds from operations of $0.63/share.** Generated $103 million in Funds from operations ("FFO") in Q1 2019 down from $149 million in Q1 2018 due to lower commodity prices and lower production levels. FFO exceeded both capital expenditures ($62 million) and dividend payments ($10 million) by $31 million resulting in reduced net debt levels.

- **Total cash costs of $1.02/Mcfe (or $0.88/Mcfe ($5.30/boe) excluding royalties).** Industry leading total cash costs, included $0.14/Mcfe royalties, $0.35/Mcfe operating costs, $0.19/Mcfe transportation, $0.06/Mcfe G&A and $0.28/Mcfe interest, combined with a realized price of $3.20/Mcfe, resulted in a $2.18/Mcfe ($13.06/boe) cash netback, down 17% from $2.63/Mcfe in Q1 2018.

- **Capital investment of $62 million**. A total of 15 gross wells (13.5 net) were drilled in the first quarter, 15 gross wells (14 net) were completed, and 15 gross wells (14 net) were brought on production. Over the last 12 months the 69 gross (64.8 net) wells brought on production accounted for 17,500 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $259 million, equates to an annualized capital efficiency of $14,800/boe/d. Peyto anticipates the 2019 full year capital efficiency will be $10,000/boe/d.

- **Earnings of $0.15/share, dividends of $0.06/share.** Earnings of $25 million were generated in the quarter while dividends of $10 million were paid to shareholders. The Company has never incurred a write down nor recorded an impairment of its assets and this quarter represents Peyto's 57th consecutive quarter of earnings.

First Quarter 2019 in Review

Peyto spent the majority of the first quarter advancing its Greater Sundance, liquids-rich, Cardium play with all drilling and completions focused on the Cardium. Success with this program was evidenced by some of the strongest initial production and most consistent well results in the Company's 20 year history in this play. As well, Peyto added 49 sections of new Cardium lands in the quarter, all with multiple identified drilling locations, for an average cost of $52/acre. This brings total Cardium land additions to 157 gross (123 net) sections since 2017. Cardium production, with a minimum 50 bbl/mmcf of NGLs (67% pentanes and condensate), now represents 22% of total corporate production and has increased Peyto's proportion of oil and NGL production to 13%. It is anticipated that Cardium production will represent approximately 40% of total production by year end. The added liquids production and Peyto's gas market diversification efforts in the quarter helped strengthen Peyto's revenues and contributed to stronger netbacks despite consistently weak AECO monthly gas prices. In total, 78% of Peyto's natural gas had been hedged for the quarter, and 8% was exported to markets outside of Alberta, leaving just 14% exposed to the domestic Alberta market. Cost control remained a consistent focus, and despite higher methanol costs and usage due to an extremely cold February, cash costs continued to be industry leading. Significant free cashflow generated in the quarter was utilized to reduce net debt levels and improve Peyto's balance sheet. Also in the quarter, the Company extended its four year revolving credit facility which included a revised, peer equivalent, covenant package.

1. Operating Margin is defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.
2. Profit Margin is defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.
Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead

Exploration & Development

First quarter 2019 activity was focused exclusively in the Greater Sundance area on the Cardium play as shown in the following table:

	Field							Total Wells Drilled
Zone	Sundance	Nosehill	Wildhay	Ansell	Whitehorse	Kisku/ Kakwa	Brazeau	
Belly River	-	-	-	-	-	-	-	-
Cardium	6	-	9	-	-	-	-	15
Notikewin	-	-	-	-	-	-	-	-
Falher	-	-	-	-	-	-	-	-
Wilrich	-	-	-	-	-	-	-	-
Bluesky	-	-	-	-	-	-	-	-
Total	6	-	9	-	-	-	-	15

The Company continues to drive down costs with its preferred Cardium drilling and completion design. As illustrated in the following table, drilling cost per meter have continued to drop as have completion costs per frac stage.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1
Gross Hz Spuds	52	70	86	99	123	140	126	135	70	**15**
Measured Depth (m)	3,762	3,903	4,017	4,179	4,251	4,309	4,197	4,229	4,020	**3,853**
Drilling ($MM/well)	$2.76	$2.82	$2.79	$2.72	$2.66	$2.16	$1.82	$1.90	$1.71	**$1.54**
$ per meter	$734	$723	$694	$651	$626	$501	$433	$450	$425	**$400**
Completion ($MM/well)	$1.36	$1.68	$1.67	$1.63	$1.70	$1.21	$0.86	$1.00	$1.13	**$1.15**
Hz Length (m)	1,335	1,303	1,358	1,409	1,460	1,531	1,460	1,241	1,348	**1,528**
$ per Hz Length (m)	$1,017	$1,286	$1,231	$1,153	$1,166	$792	$587	$803	$835	**$751**
$ '000 per Stage	$231	$246	$257	$188	$168	$115	$79	$81	$51	**$46**

Capital Expenditures

During the first quarter of 2019, Peyto spent $24.2 million on drilling, $20.2 million on completions, $5.1 million on wellsite equipment and tie-ins, $8.9 million on facilities and major pipeline projects, and $4.0 million acquiring new lands and seismic, for total capital investments of $62.4 million.

The $8.9 million on new facilities and major pipeline projects included two pipeline looping projects in Sundance and liquid handling modifications to our Wildhay, Oldman and Oldman North gas plants.

Commodity Prices

Average Monthly AECO natural gas prices were $1.84/GJ in Q1 2019, up from $1.80/GJ in the previous quarter and $1.76/GJ in the prior year. This is in contrast to the average Daily AECO gas price of $2.49/GJ in Q1 2019. Historically, monthly prices have outperformed daily prices, however, this was not the case in the first quarter. Peyto typically hedges the majority of the AECO exposed production using fixed price swaps settled against the monthly price which is why such a large portion of Peyto's unhedged gas received the monthly price.

On average for Q1 2019, Peyto realized a natural gas price of $2.48/Mcf ($2.16/GJ) or 135% of the AECO monthly average price. This was the result of a combination of approximately 14% of natural gas production being sold into the daily or monthly spot market at an average of $1.94/GJ, approximately 78% having been pre-sold at an average hedged price of $2.04/GJ, and approximately 8% being sold to export markets in Eastern Canada at $3.69/GJ.

In the first quarter of 2019, NGL prices, relative to natural gas prices, justified the operation of Peyto's Oldman deep cut plant only during the month of January. As a result, Peyto realized a blended oil and natural gas liquids price of $50.37/bbl, which represented 69% of the $72.98/bbl average Canadian WTI price. Details of realized commodity prices by component are shown in the following table:

Commodity Prices by Component

		Three Months ended Mar 31	
		2019	2018
AECO monthly	($/GJ)	**1.84**	1.76
AECO daily	($/GJ)	**2.49**	1.97
Henry Hub spot	($US/MMBTU)	**2.92**	3.08
Peyto natural gas – prior to hedging	($/GJ)	**2.05**	1.72
	($/mcf)	**2.36**	1.98
Peyto natural gas – after hedging	($/GJ)	**2.16**	2.49
	($/mcf)	**2.48**	2.86
Condensate ($/bbl)		**71.23**	72.56
Propane ($/bbl)		**16.99**	26.04
Butane ($/bbl)		**26.69**	40.83
Pentane ($/bbl)		**64.16**	79.26
Total Oil and natural gas liquids ($/bbl)		**50.37**	59.67
Canadian WTI ($/bbl)		**72.98**	79.54
Peyto Realized liquids price/Canadian WTI		**69%**	75%

Liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.

Financial Results

Approximately 34%, or $1.02/Mcfe, of Peyto's unhedged revenue came from its associated natural gas liquids sales while 66%, or $2.00/Mcfe, came from natural gas. Natural gas hedging activity contributed $0.18/Mcfe for total revenue of $3.20/Mcfe. Liquids production represented 12% of total production but 34% of revenue which covered all cash costs. Cash costs of $1.02/Mcfe, included royalties of $0.14/Mcfe, operating costs of $0.35/Mcfe, transportation costs of $0.19/Mcfe, G&A of $0.06/Mcfe and interest costs of $0.28/Mcfe. Cash costs per unit of production were higher than the previous quarter and previous year due to increased royalties, related to higher liquids pricing, higher operating and transportation costs, reduced production levels, and increased interest rates. For the balance of the year, Peyto expects to lower per unit operating and interest costs as chemical requirements diminish in summer months and as debt is reduced.

Total cash costs, when deducted from realized revenues of $3.20/Mcfe, resulted in a cash netback of $2.18/Mcfe or a 68% operating margin. Historical cash costs and operating margins are shown in the following table.

	2016				**2017**				**2018**				**2019**
($/Mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	**Q1**
Revenue	3.24	2.92	3.16	3.38	3.44	3.36	3.24	3.50	3.54	3.20	3.27	3.03	**3.20**
Royalties	0.13	0.10	0.12	0.18	0.19	0.17	0.09	0.15	0.17	0.10	0.14	0.12	**0.14**
Op Costs	0.23	0.26	0.25	0.26	0.29	0.24	0.26	0.28	0.29	0.30	0.31	0.33	**0.35**
Transportation	0.16	0.17	0.16	0.16	0.17	0.18	0.17	0.16	0.13	0.18	0.19	0.19	**0.19**
G&A	0.03	0.06	0.04	0.03	0.04	0.05	0.03	0.03	0.08	0.05	0.03	0.04	**0.06**
Interest	0.17	0.21	0.19	0.18	0.20	0.21	0.21	0.21	0.24	0.26	0.27	0.27	**0.28**
Cash Costs	0.72	0.80	0.76	0.81	0.89	0.85	0.76	0.83	0.91	0.89	0.94	0.95	**1.02**
Netback	2.52	2.12	2.40	2.57	2.55	2.51	2.48	2.67	2.63	2.31	2.33	2.08	**2.18**
Operating Margin	78%	73%	76%	76%	74%	75%	76%	76%	74%	72%	71%	69%	**68%**

Depletion, depreciation and amortization charges of $1.38/Mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of $0.53/Mcfe, or a 16% profit margin. Dividends of $0.21/Mcfe were paid to shareholders.

Natural Gas Marketing

Peyto continues to make meaningful progress on its market diversification strategy. This thoughtful plan is designed to complement the Company's highly successful hedging strategy and endeavors to achieve, over the long term, a balanced marketing approach whereby 40% of natural gas sales are linked to AECO based pricing, 40% are linked to US-based pricing and 20% are sold directly to intra-Alberta industrial markets. The Company has been actively securing both synthetic and physical transportation arrangements to link gas sales to US-based markets and Eastern Canadian markets that are more closely tied to NYMEX price.

For 2019, Peyto has 25% of forecast natural gas volumes linked to NYMEX prices with 84% of this volume already hedged, 12% linked to Eastern Canadian markets in Dawn and Ventura where 13% is hedged (100% of Ventura volumes are hedged for this summer), and 63% to the AECO market where 72% is hedged. The result of these arrangements means less than 5% of annual revenue is exposed to the AECO spot market.

For 2020, Peyto has 47% of forecast natural gas volumes linked to NYMEX prices, 13% to Dawn and Ventura, and 40% to AECO. At those markets, 6% of the NYMEX and 38% of the AECO volume has already been hedged.

For a real time summary of Peyto's market diversification portfolio and future hedges refer to Peyto's website at: http://www.peyto.com/Files/Operations/Marketing/hedges.pdf

Activity Update

Drilling activity was shut down in mid-April for the annual spring breakup period while completion activity continued with the completion of four standing Cardium wells. Four additional wells remain standing, awaiting completion which is expected to occur in June.

No new wells were brought on production in April, however, 5 gross (4.5 net) Cardium wells have recently been equipped and tied in during the first week of May. Production in April was impacted by extremely volatile AECO natural gas prices, where at times Peyto had approximately 10% of its dry gas production shut in due to low prices. This reduced April average production by approximately 1,000 boe/d. The new, liquids-rich wells added in May, all with NGL yields in excess of 75 bbl/mmcf, have grown current liquid production to 12,500 bbl/d. This added liquid volume has created high gathering system pressures which has backed out approximately 1,500 boe/d of existing production. Pipeline looping and plant liquid handling projects are ready to be installed immediately following spring breakup to recover this production.

Also, since the end of the first quarter, Peyto has acquired 7 net sections of Cardium rights at an average cost of $55/acre, increasing total crown purchases this year to 67 sections.

Peyto's first Montney well, which was drilled in the fourth quarter of 2018, will also be completed in June. The Company plans to complete the well using a slick-water fracture stimulation which will incorporate approximately 3,400 tonnes of sand pumped along the 1,935m horizontal lateral.

New Ventures

Peyto continues to work on design attributes for its Big Sunny storage scheme. Reservoir simulation work has been completed and a pilot project utilizing existing vertical wells is currently being contemplated. The Company is also awaiting the imminent market impact to local propane prices by a new West Coast export terminal before making a final investment decision on the Swanson Deep Cut facility installation, as this facility will primarily extract liquid propane from the sales gas stream. In addition, Peyto continues to evaluate opportunities to vertically integrate its energy business to extract maximum value from existing and future reserves and infrastructure assets.

Outlook

The current capital program for 2019 remains unchanged with an expected range of $150 to $200 million, involving the drilling of approximately 50 Cardium liquids-rich gas wells, the testing of Peyto's new Montney play, the continued accumulation of new lands which add profitable drilling inventory, and continued debt reduction. The rapidly growing liquids revenue, particularly from free wellhead condensate, is expected to help offset weak summer spot gas prices. By replacing declining dry gas production with more liquids rich gas, Peyto will be able to increase its sales revenue on a unit of production basis while continuing to drive down total supply cost resulting in increasing cash netbacks.

Peyto's continues to pursue its long term strategy of becoming a more fully integrated energy business. Opportunities to invest in new infrastructure to extend the value chain will continue to be investigated, as will additional opportunities for market diversification for all of its produced products.

(signed) *"Darren Gee"*

Darren Gee
President and CEO
May 7, 2019

Management’s discussion and analysis

This Management's Discussion and Analysis (“MD&A”) should be read in conjunction with the audited financial statements of Peyto Exploration & Development Corp. (“Peyto” or the “Company”) for the years ended December 31, 2018 and 2017. The financial statements have been prepared in accordance with the International Accounting Standards Board’s (“IASB”) most current International Financial Reporting Standards (“IFRS” or “GAAP”) and International Accounting Standards (“IAS”).

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of May 6, 2019. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto’s website at www.peyto.com.

This MD&A contains certain forward-looking statements or information (“forward-looking statements”) as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: the impact of economic conditions in North America and globally; industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the adequacy of the Company's critical accounting estimates; the availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: expected royalty rate, earnings, cash flow and revenue fluctuations; the Company's expectation that funds generated from operations, together with credit facility borrowings, are sufficient; the expectation that the majority of the Company's capital program will involve drilling, completing and tying-in of lower risk development gas wells; the Company's risk management; and the Company's critical accounting estimates.

The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Peyto's actual financial results, performance or achievement in future periods to differ materially from those expressed in, or implied by, these forward-looking statements, including but not limited to, risks associated with: imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; changes in general global economic conditions including, without limitations, the economic conditions in North America; increased competition; the lack of availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; environmental risks; changes in laws and regulations including, without limitation, the adoption of new environmental and tax laws and regulations and changes in how they are interpreted and enforced; the results of exploration and development drilling and related activities; the ability to access sufficient capital from internal and external sources; and stock market volatility. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2018 under the heading "Risk Factors" and herein under the heading "Risk Management".

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

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

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas and oil & natural gas liquids in Alberta's deep basin. As at December 31, 2018, the Company's total Proved plus Probable reserves were 4.8 trillion cubic feet equivalent (803 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 87 per cent to natural gas and 13 per cent to oil & natural gas liquids.

The Peyto model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects.
- Build an asset base which is made up of high quality natural gas reserves.
- Over time, balance dividends paid to shareholders with earnings and cash flow, and balance funding for the capital program with cash flow, equity and available bank lines.

Operating results over the last twenty years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

	2019	2018				2017		
($000 except per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue and realized hedging gains (losses) (net of royalties)	144,987	139,308	147,190	154,932	190,854	202,566	177,061	169,911
Funds from operations	103,078	99,635	109,549	115,571	148,986	161,672	139,257	133,487
Per share – basic and diluted	0.63	0.60	0.66	0.70	0.90	0.98	0.85	0.81
Earnings	24,970	21,458	29,506	30,397	47,749	51,547	44,818	39,957
Per share – basic and diluted	0.15	0.13	0.18	0.18	0.29	0.31	0.27	0.24
Dividends	9,893	29,677	29,677	29,677	29,677	54,408	54,408	54,408
Per share – basic and diluted	0.06	0.18	0.18	0.18	0.18	0.33	0.33	0.33

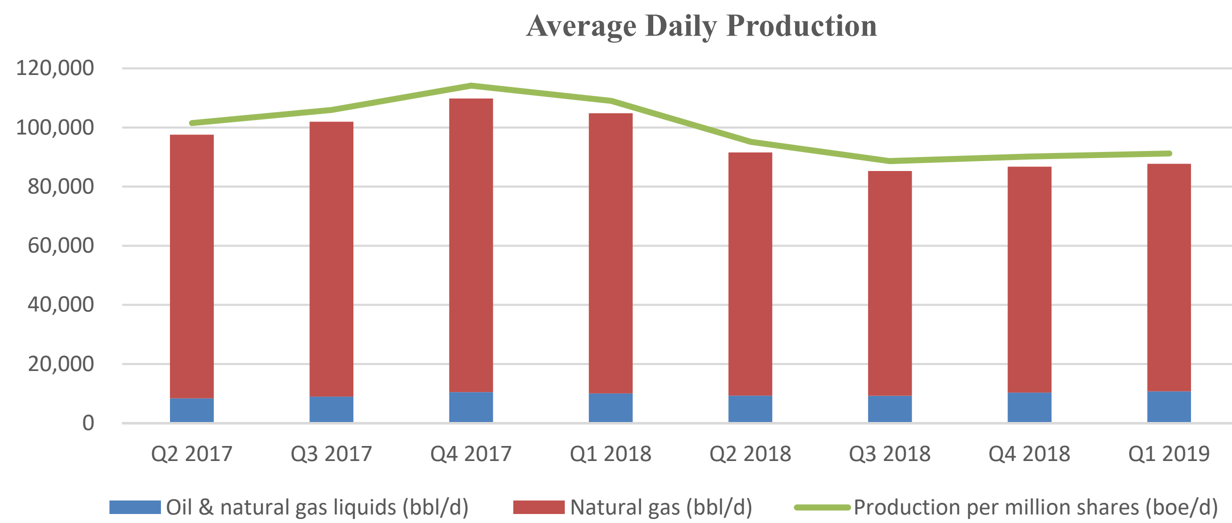
Funds from Operations
"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance-based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

RESULTS OF OPERATIONS

Production

	Three Months ended March 31	
	2019	2018
Natural gas (mmcf/d)	**462.0**	568.5
Oil & natural gas liquids (bbl/d)	**10,703**	10,043
Barrels of oil equivalent (boe/d)	**87,703**	104,793
Thousand cubic feet equivalent (mmcfe/d)	**526.2**	628.8

Condensate and NGL yields increased from 17.7 bbl/mmcf in Q1 2018 to 23.2 bbl/mmcf in Q1 2019, due to continued deployment of capital in Peyto's liquids rich Cardium play. Total liquids production of 10,703 bbl/d in Q1 2019 was up 7% year over year, despite suspended deep cut operations during February and March. Natural gas production was down 19% to 462 mmcf/d as Peyto replaced declining dry gas with significantly higher liquids-rich gas. Total Q1 2019 production of 87,703 boe/d was up slightly from Q4 2018 of 86,738 boe/d and Q3 2018 of 85,242 boe/d. Total first quarter production decreased 16 per cent from 628.8 mmcfe/d to 526.2 mmcfe/d. Production decreases are attributable to Peyto's planned reduced capital program which did not offset natural production declines.

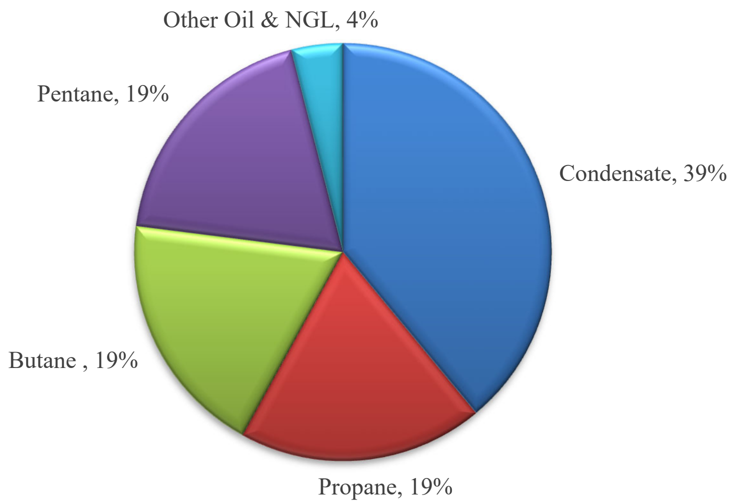


Oil & Natural Gas Liquids Production by Component

	Three Months ended March 31	
	2019	2018
Condensate (bbl/d)	**4,071**	3,869
Propane (bbl/d)	**2,035**	1,869
Butane (bbl/d)	**2,086**	2,096
Pentane (bbl/d)	**2,072**	2,077
Other Oil & NGL'sbbl/d)	**439**	132
Oil & Natural gas liquids (bbl/d)	**10,703**	10,043
Barrels per million cubic feet	**23.2**	17.7

The liquid production to sales gas ratio increased 31 per cent from 17.7 bbl/mmcf in Q1 2018 to 23.2 bbl/mmcf in Q1 2019. This increase was due to the addition of liquids rich production from new Cardium wells. During the first quarter plant operations were optimized to reject propane due to weak propane prices.

Oil & NGL Production by Component



Commodity Prices

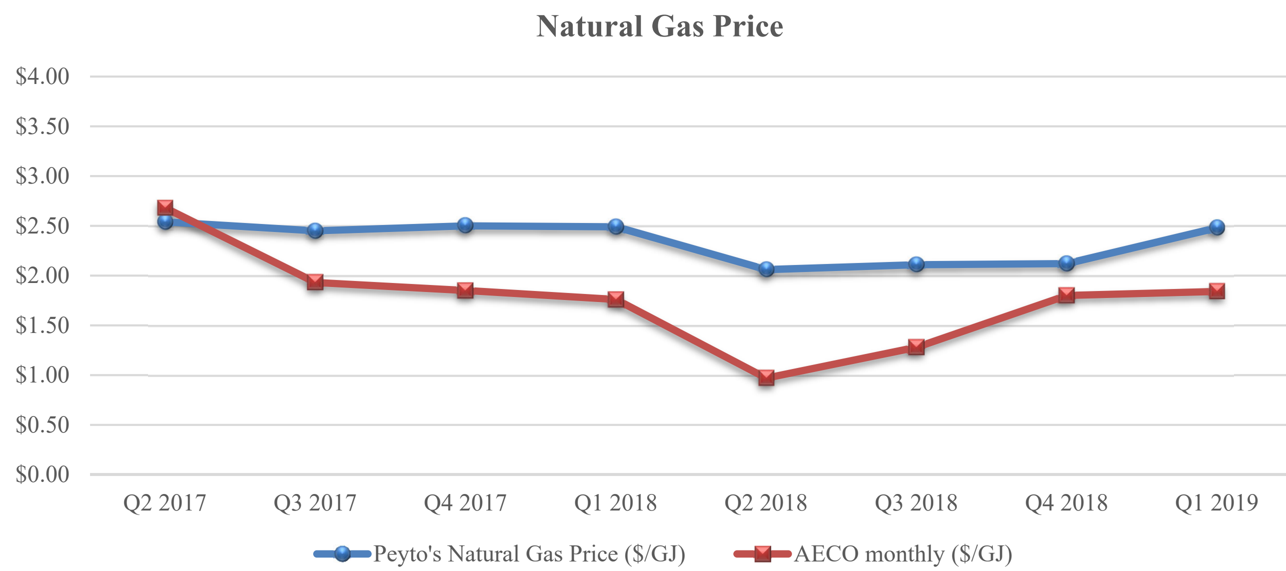
	Three Months ended March 31	
	2019	2018
Oil & natural gas liquids ($/bbl)	**46.85**	59.67
Hedging – Oil & NGL ($/bbl)	**3.52**	-
Oil & NGL – after hedging ($/bbl)	**50.37**	59.67
Natural gas ($/mcf)	**2.36**	1.98
Hedging – gas ($/mcf)	**0.12**	0.88
Natural gas – after hedging ($/mcf)	**2.48**	2.86
Total Hedging ($/mcfe)	**0.18**	0.80
Total Hedging ($/boe)	**1.08**	4.80

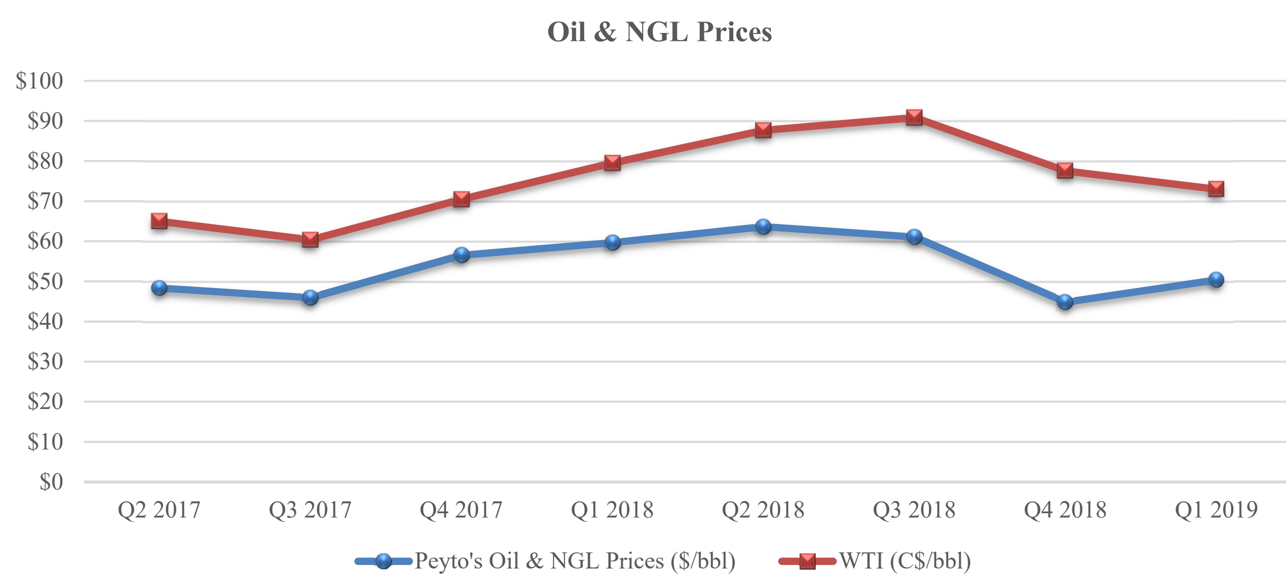
Peyto's natural gas price, before hedging, averaged $2.36/mcf during the first quarter of 2019, an increase of 19 per cent from $1.98/mcf for the equivalent period in 2018. Oil & natural gas liquids prices, before hedging, averaged $46.85/bbl, a decrease of 21 per cent from $59.67/bbl a year earlier.

Commodity Prices by Component

	Three Months ended March 31	
	2019	2018
Natural gas – after hedging ($/mcf)	**2.48**	2.86
Natural gas – after hedging ($/GJ)	**2.16**	2.49
AECO monthly ($/GJ)	**1.84**	1.76
AECO daily ($/GJ)	**2.49**	1.82
Natural gas liquids ($/bbl)		
Condensate – after hedging ($/bbl)	**71.23**	72.56
Propane ($/bbl)	**16.99**	26.04
Butane ($/bbl)	**26.69**	40.83
Pentane ($/bbl)	**64.16**	79.26
Total natural gas liquids ($/bbl)	**50.37**	59.67
Canadian WTI ($/bbl)	**72.98**	79.53

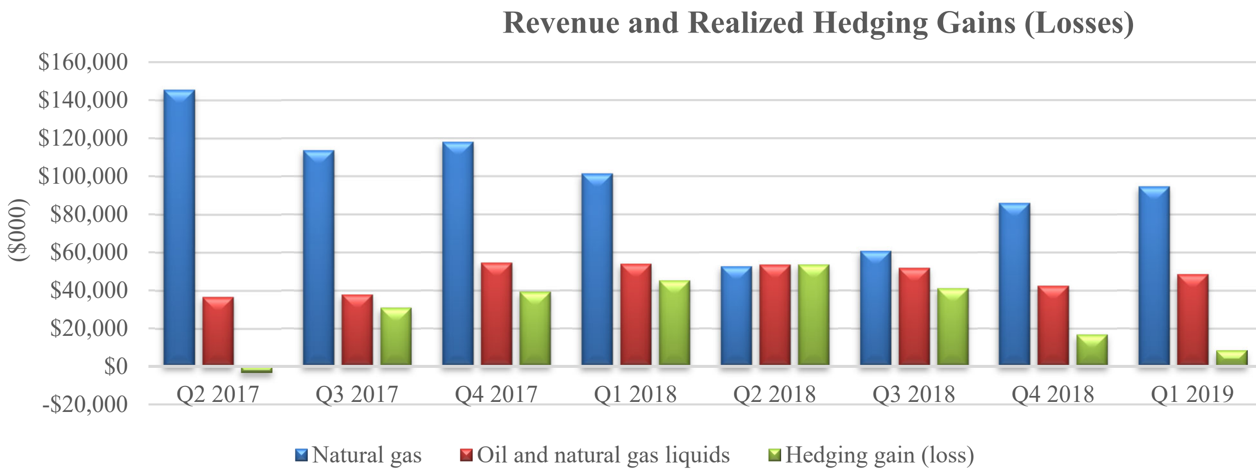
liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation and transportation.





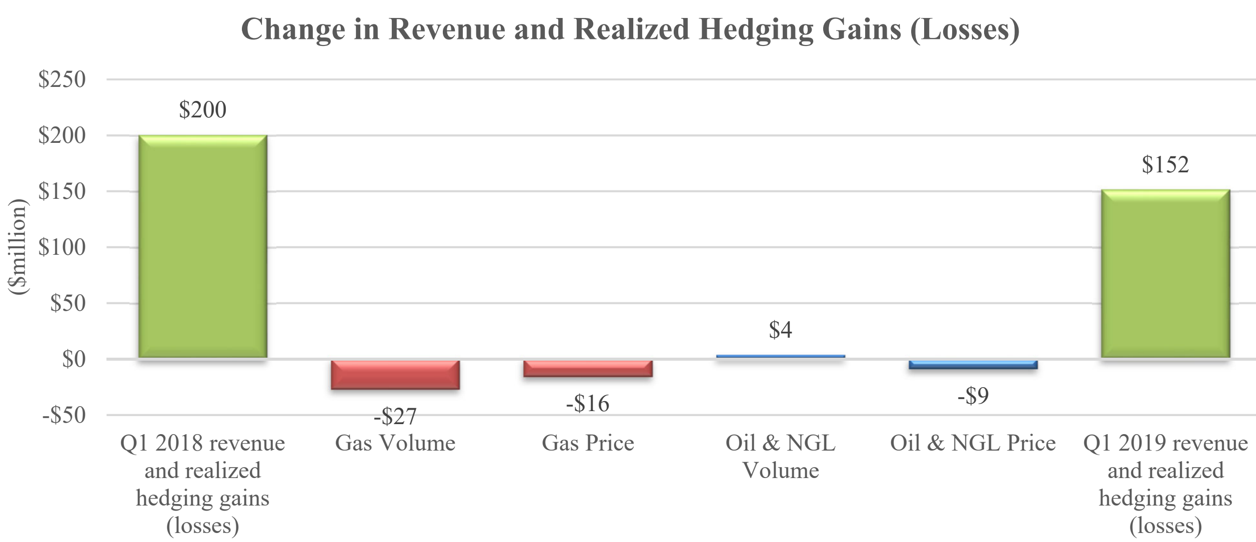
Revenue and Realized Hedging Gains

	Three Months ended March 31	
($000)	**2019**	2018
Natural gas	**94,604**	101,231
Oil & natural gas liquids	**48,520**	53,937
Hedging gain	**8,536**	45,229
	151,660	200,397



For the three months ended March 31, 2019, revenue and realized hedging gains (losses) decreased 24 per cent to $151.7 million from $200.4 million for the same period in 2018. The decrease in revenue and realized hedging gains (losses) for the quarter was a result of decreased natural gas production volumes and commodity prices partially offset by an increase in liquids production volumes, as detailed in the following table:

	Three Months ended March 31		
	2019	2018	**$million**
Total Revenue, March 31, 2018			**200.4**
Revenue change due to:			
Natural gas			
Volume (mmcf)	41,580	51,165	**(27.4)**
Price ($/mcf)	$2.48	$2.86	**(15.8)**
Oil & NGL			
Volume (mbbl)	963	904	**3.5**
Price ($/bbl)	$50.37	$59.67	**(9.0)**
Total Revenue, March 31, 2019			**151.7**

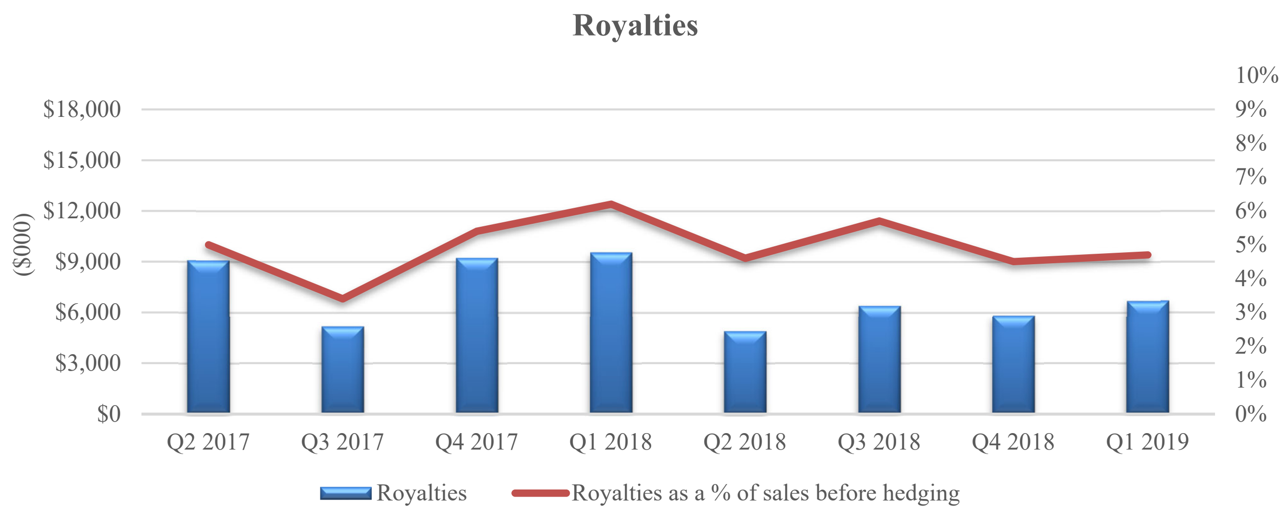


Royalties

Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is a monthly weighted average price of gas consumed in Alberta and gas exported from Alberta reduced for transportation and marketing allowances. All of Peyto's new natural gas wells qualify for the Crown incentive programs which have a 5 per cent initial royalty rate. The royalty rate expressed as a percentage of sales revenue will fluctuate from period to period due to the fact that the Alberta Reference Price can differ significantly from the commodity prices realized by Peyto and that hedging gains and losses are not subject to royalties.

	Three Months ended March 31	
	2019	2018
Royalties ($000)	**6,673**	9,543
per cent of sales before hedging	**4.7**	6.2
per cent of sales after hedging	**4.4**	4.8
$/mcfe	**0.14**	0.17
$/boe	**0.85**	1.01

For the first quarter of 2019, royalties averaged $0.14/mcfe or approximately 4.7 per cent of Peyto's total petroleum and natural gas sales excluding hedging gains.

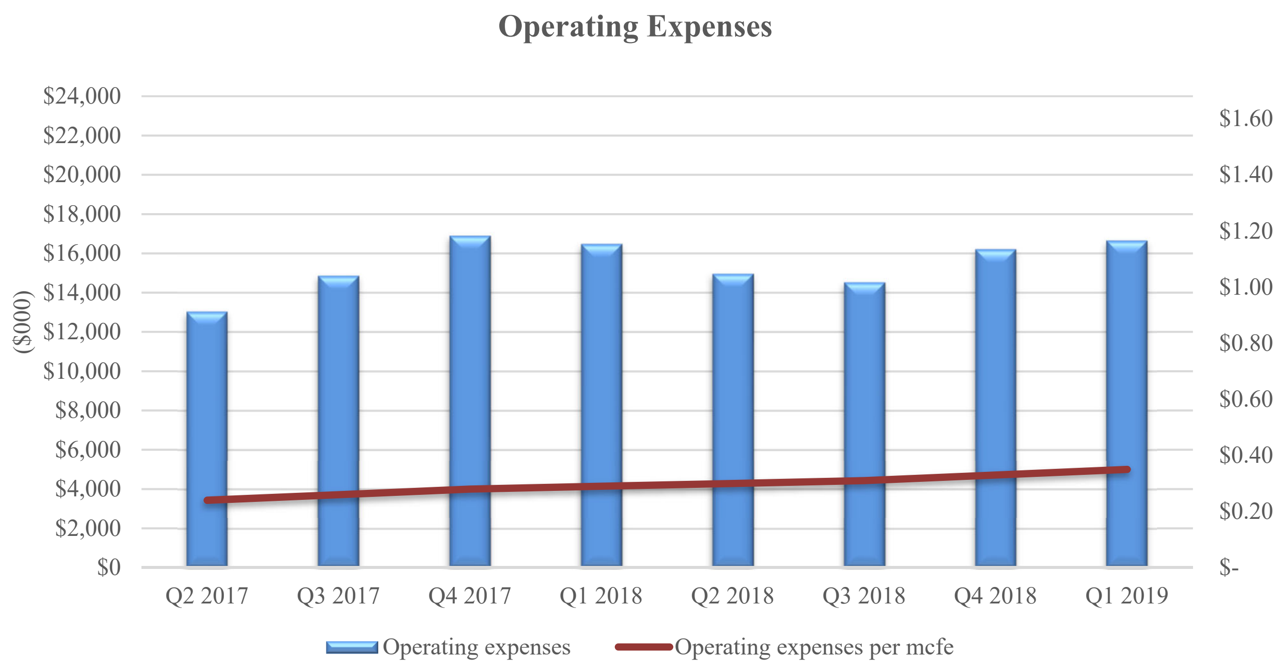


In its 20 year history, Peyto has invested over $6.0 billion in capital projects, found and developed 6.5 TCFe of natural gas reserves and paid over $865 million in royalties.

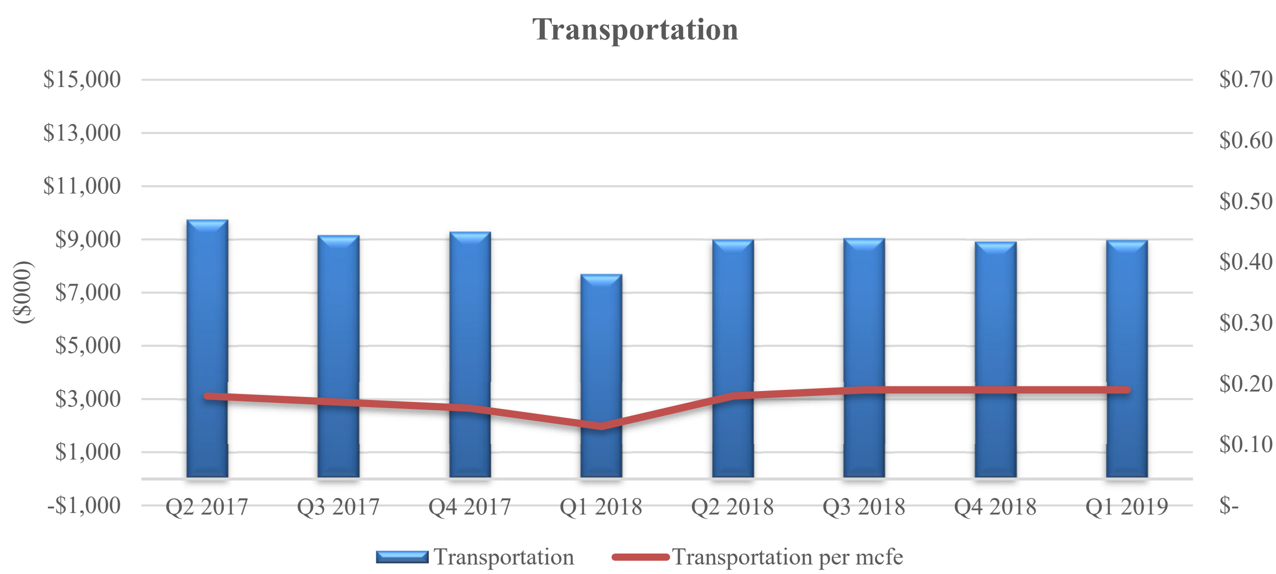
Operating Costs & Transportation
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended March 31	
	2019	2018
Operating costs ($000)	**16,625**	16,454
$/mcfe	**0.35**	0.29
$/boe	**2.11**	1.74
Transportation ($000)	**8,961**	7,686
$/mcfe	**0.19**	0.13
$/boe	**1.14**	0.81

For the first quarter, operating expenses increased 1 per cent compared to the same quarter in 2018. On a unit-of-production basis, operating costs increased 21 per cent from $0.29/mcfe to $0.35/mcfe due to lower production volumes. Approximately 30% of operating expenses are related to government fees, taxes and levies. Peyto focuses on being the industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.



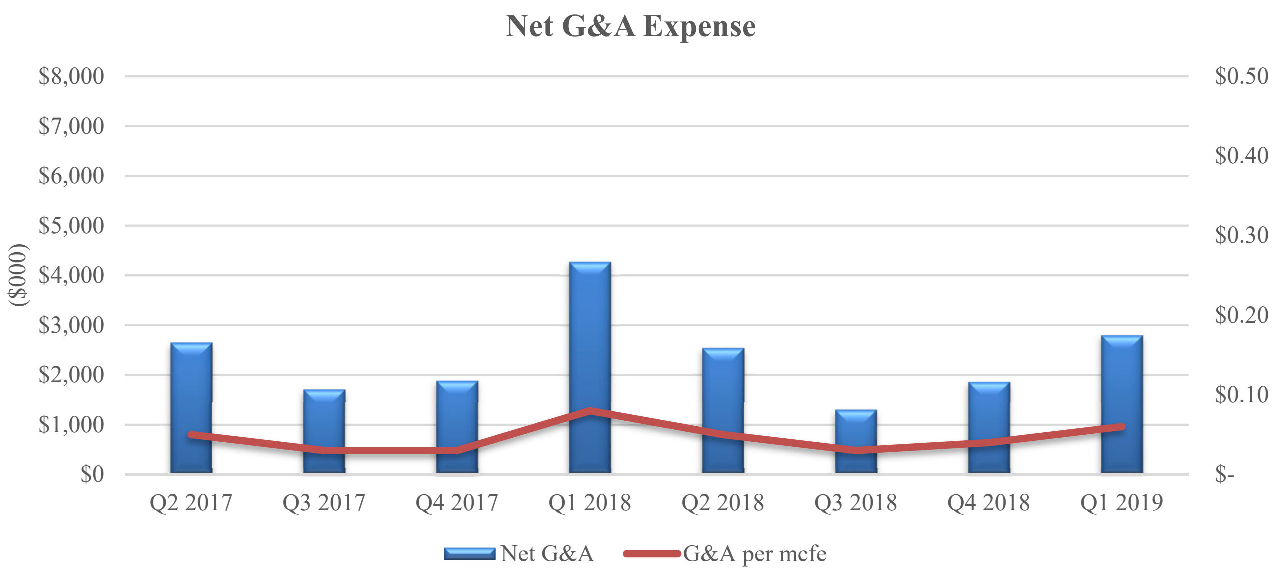
Transportation expenses increased 46 per cent on a unit-of production basis from $0.13/mcfe in the first quarter 2018 to $0.19/mcfe in the first quarter 2019 due to the incremental cost of unutilized firm transportation.



General and Administrative Expenses

	Three Months ended March 31	
	2019	2018
G&A expenses ($000)	**4,526**	4,985
Overhead recoveries ($000)	**(1,731)**	(717)
Net G&A expenses ($000)	**2,795**	4,268
$/mcfe	**0.06**	0.08
$/boe	**0.35**	0.45

For the first quarter, general and administrative expenses before overhead recoveries was $4.5 million compared to $5.0 million for the same quarter of 2018. General and administrative expenses averaged $0.10/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.06/mcfe in the first quarter of 2019 ($0.09/mcfe before overhead recoveries of $0.01/mcfe for net general and administrative expenses of $0.08/mcfe in the first quarter of 2018).



Performance Based Compensation

The Company awards performance based compensation to employees and key consultants annually. The performance based compensation is comprised of market and reserve value based components.

The reserve value based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. An estimate of reserve additions is made quarterly and is used to calculate an accrued reserve value based expense for the period. This methodology can generate interim results which vary significantly from the final compensation paid. Compensation expense of $Nil was recorded for the first quarter of 2019.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

Based on the weighted average trading price of the common shares for the period ended March 31, 2019, compensation costs related to 2.5 million non-vested rights (1.5% of the total number of common shares outstanding), with an average grant price of $7.23, are $0.6 million for the first quarter of 2019. Peyto records a non-cash provision for future compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 10 of the condensed financial statements for the more details). This methodology can generate interim results which vary significantly from the final compensation paid. The cumulative provision totals $0.6 million ($0.2 million current liability and $0.4 million long term liability.

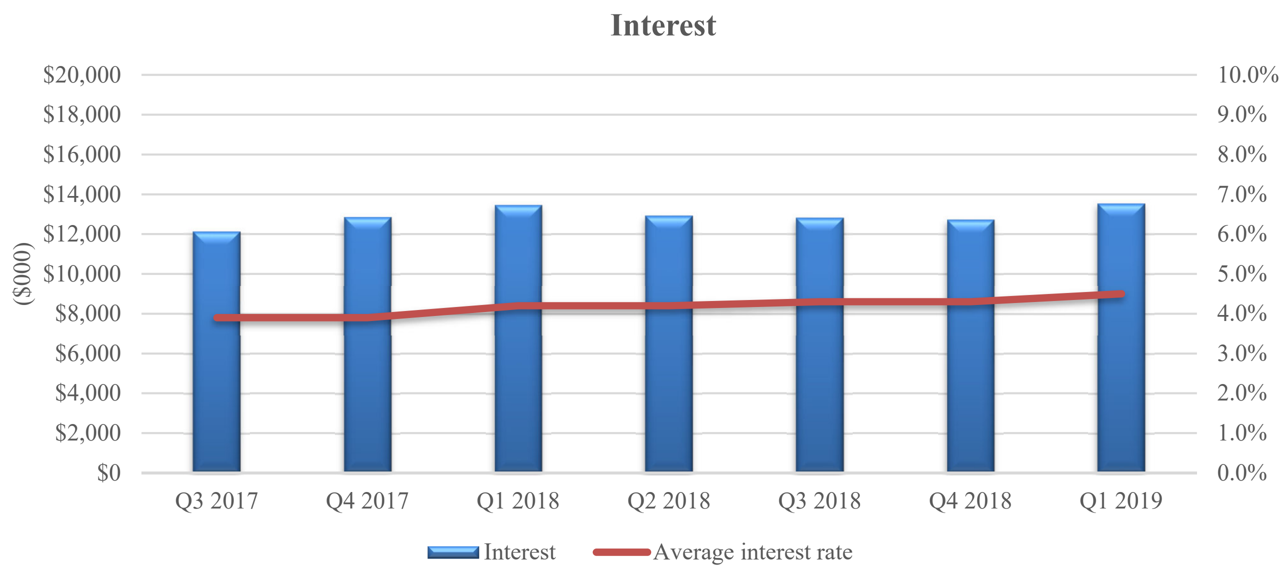
Rights Outstanding Under Market Based Compensation Plan

Valuation and Vesting Date	Number of Rights	Average Grant Price
December 31, 2019	825,000	$ 7.23
December 31, 2020	825,000	$ 7.23
December 31, 2021	825,000	$ 7.23

Interest Expense

	Three Months ended March 31	
	2019	2018
Interest expense ($000)	**13,527**	13,460
$/mcfe	**0.28**	0.24
$/boe	**1.71**	1.43
Average interest rate	**4.5%**	4.2%

First quarter 2019 interest expense was $13.5 million or $0.28/mcfe compared to $13.5 million or $0.24/mcfe for the first quarter 2018. The average interest rate for the first quarter of 2019 increased to 4.5 per cent from 4.2 per cent in the first quarter of 2018 due to Bank of Canada interest rate increases.



Netbacks

	Three Months ended March 31	
($/mcfe)	**2019**	2018
Gross Sale Price	**3.02**	2.74
Hedging gain (loss)	**0.18**	0.80
Net Sale Price	**3.20**	3.54
Less: Royalties	**0.14**	0.17
Operating costs	**0.35**	0.29
Transportation	**0.19**	0.13
Field netback	**2.52**	2.95
General and administrative	**0.06**	0.08
Interest on long-term debt	**0.28**	0.24
Cash netback ($/mcfe)	**2.18**	2.63
Cash netback ($/boe)	**13.06**	15.80

Netbacks are a non-GAAP measure that represent the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices.

Depletion, Depreciation and Amortization

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2019 first quarter provision for depletion, depreciation and amortization totaled $65.2 million ($1.38/mcfe) compared to $81.6 million ($1.44/mcfe) in the first quarter 2018. As finding and development costs decrease, associated depletion and depreciation costs also decrease.

Income Taxes

The current provision for deferred income tax expense is $9.2 million compared to $17.6 million in the first quarter of 2018. The corporate income tax rate in Alberta remained unchanged at 27 per cent. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	March 31, 2019	December 31, 2018	Annual deductibility
Canadian Oil and Gas Property Expense	189.8	191.7	10% declining balance
Canadian Development Expense	686.8	698.1	30% declining balance
Canadian Exploration Expense	69.9	89.2	100%
Undepreciated Capital Cost	315.9	322.5	Primarily 25% declining balance
Other	20.1	21.5	Various, 7% to 20% declining balance
Total Federal Tax Pools	**1,282.5**	1,323.0	
Additional Alberta Tax Pools	46.3	46.3	Primarily 100%

MARKETING

Commodity Price Risk Management

Financial Derivative Instruments

The Company is a party to certain derivative financial instruments, including fixed price contracts. The Company enters into these forward contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. In order to minimize counterparty risk, these marketing contracts are executed with financial institutions which are members of Peyto's banking syndicate. During the first quarter of 2019, a realized hedging gain of $8.5 million was recorded as compared to a $45.2 million gain for the equivalent period in 2018. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
January 1, 2018 to December 31, 2020	Fixed Price	20,000	$2.02
April 1, 2018 to March 31, 2020	Fixed Price	10,000	$1.44
November 1, 2018 to March 31, 2020	Fixed Price	5,000	$1.57
April 1, 2019 to October 31, 2019	Fixed Price	50,000	$1.37
April 1, 2019 to March 31, 2020	Fixed Price	80,000	$1.76
November 1, 2019 to March 31, 2020	Fixed Price	60,000	$2.00
April 1, 2020 to October 31, 2020	Fixed Price	15,000	$1.30
April 1, 2020 to March 31, 2021	Fixed Price	10,000	$1.65
April 1, 2021 to October 31, 2021	Fixed Price	10,000	$1.56

Natural Gas Period Hedged -Daily Index	Type	Daily Volume (GJ)	Average Price (AECO CAD/GJ)
April 1, 2019 to October 31, 2019	Fixed Price	30,000	$1.27
November 1, 2019 to March 31, 2020	Fixed Price	10,000	$1.97

Crude Oil Period Hedged	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
July 1, 2018 to June 30, 2019	Fixed Price	400	$86.75
August 1, 2018 to July 31, 2019	Fixed Price	600	$84.92
September 1, 2018 to August 31, 2019	Fixed Price	400	$85.97
October 1, 2018 to September 30, 2019	Fixed Price	500	$85.92
November 1, 2018 to October 31, 2019	Fixed Price	500	$89.34
December 1, 2018 to November 30, 2019	Fixed Price	300	$90.17

As at March 31, 2019, Peyto had committed to the future sale of 93,360,000 gigajoules (GJ) of natural gas at an average price of $1.67 per GJ or $1.92 per mcf and 445,500 barrels of crude at $87.39 per bbl. Had these contracts closed on March 31, 2019, Peyto would have realized a net gain in the amount of $23.3 million.

Physical Volume Contracts

The Company is a party to certain physical delivery contracts. The Company enters into these contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. A summary of contracts outstanding at March 31, 2019 are as follows:

Natural Gas - Fixed Price	Daily Volume (mmbtu)	Average Price (USD/mmbtu)	Average Price (CAD/mmbtu)*
April 1, 2019 to October 31, 2019	180,000	$1.35	$1.80
November 1, 2019 to March 31, 2020	50,000	$1.81	$2.42

*USD/CAD exchange rate at March 31, 2019 =1.3363

Natural Gas - Henry Hub/AECO Basis	Daily Volume (mmbtu)	Fixed Basis (USD/mmbtu)	Fixed Basis (CAD/mmbtu)
November 1, 2019 to March 31, 2020	117,500	$1.32	$1.76
April 1, 2020 to October 31, 2020	247,500	$1.43	$1.91
November 1, 2020 to March 31, 2021	182,500	$1.32	$1.76
April 1, 2021 to October 31, 2021	247,500	$1.43	$1.91
November 1, 2021 to March 31, 2022	87,500	$1.41	$1.88
April 1, 2022 to October 31, 2022	132,500	$1.41	$1.88

*USD/CAD exchange rate at March 31, 2019 =1.3363

Natural Gas - Henry Hub/Empress Basis	Daily Volume (mmbtu)	Average Price (USD/mmbtu)	Average Price (CAD/mmbtu)*
November 1, 2021 to October 31, 2024	27,500	$0.90	$1.20

*USD/CAD exchange rate at March 31, 2019 =1.3363

Natural Gas - Export	Daily Volume (mmbtu)	Market
April 1, 2019 to October 31, 2019	15,000	Emerson
April 1, 2019 to October 31, 2019	25,000	Dawn
November 1, 2019 to October 31, 2021	40,000	Emerson
November 1, 2019 to March 31, 2027	20,000	Ventura
November 1, 2021 to March 31, 2023	110,000	Emerson

Subsequent to March 31, 2019 Peyto entered into the following contracts:

Natural Gas - Henry Hub/AECO Basis	Daily Volume (mmbtu)	Average Price (USD/mmbtu)	Average Price (CAD/mmbtu)*
November 1, 2020 to October 31, 2024	5,000	$1.25	$1.67

*USD/CAD exchange rate at March 31, 2019 =1.3363

Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management

The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of a commodity hedging strategy that is conducted in a Canadian dollar currency. Over the long term, the Canadian dollar tends to rise as commodity prices rise. There is a similar correlation between oil and gas prices. Currently Peyto has not entered into any agreements to further manage its currency risks.

Interest Rate Risk Management

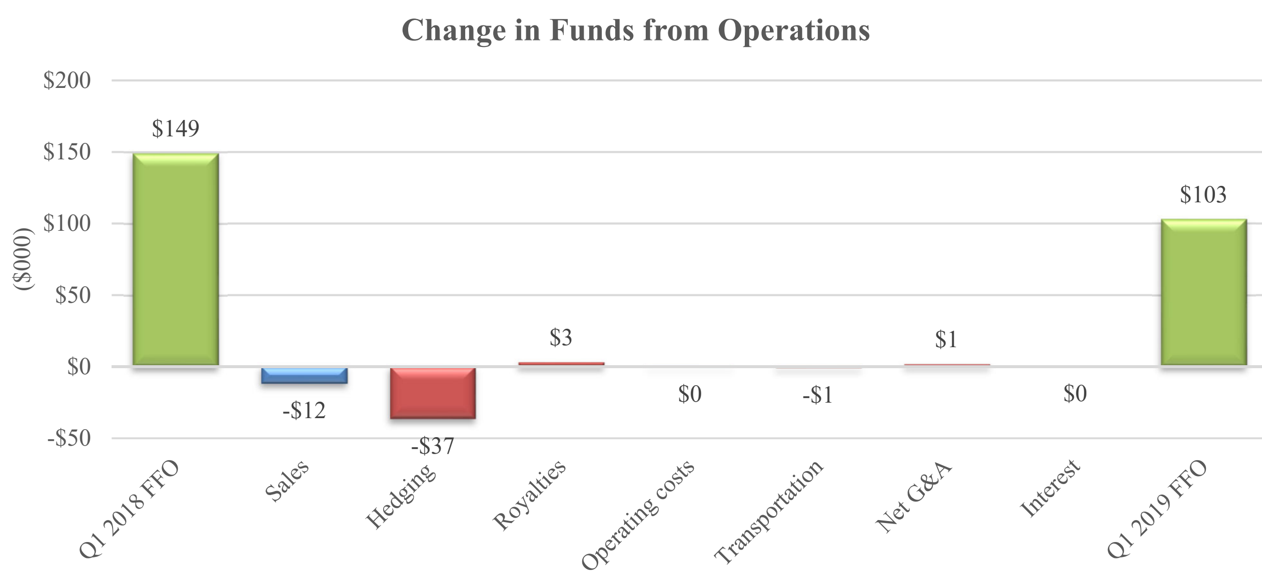
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At March 31 2019, the increase or decrease in earnings for each 100 bps (1 per cent) change in interest rate paid on the outstanding revolving demand loan amounts to approximately $1.4 million per quarter. Average debt outstanding for the quarter was $1.2 billion (including $620 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations is reconciled to cash flows from operating activities below:

	Three months ended March 31	
($000)	**2019**	2018
Cash flows from operating activities	**91,511**	143,995
Change in non-cash working capital	**9,061**	3,913
Change in provision for performance based compensation	**215**	1,078
Performance based compensation	**2,291**	-
Funds from operations	**103,078**	148,986
Funds from operations per share	**0.63**	0.90

For the first quarter ended March 31, 2019, funds from operations totaled $103.1 million or $0.63 per share, compared to $149.0 million or $0.90 per share during the same quarter in 2018. The decrease in funds from operation on a quarterly was due to a decrease in production volumes and commodity prices.



Peyto's policy is to balance dividends to shareholders with earnings and cash flow, and to balance funding for the capital program with cash flow, equity and available bank lines. Earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

Current and Long-Term Debt

($000)	**March 31, 2019**	December 31, 2018
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	620,000	520,000
Bank credit facility	570,000	530,000
Balance, end of the period	**1,190,000**	1,150,000

The Company has a syndicated $1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2022. The bank facility is made up of a $40 million working capital sub-tranche and a $1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 25 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 125 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 25 to 63 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt plus bank overdraft and letters of credit not to exceed 3.25 times trailing twelve-month net income before non-cash items, interest and income taxes (covenant amended on March 1, 2019 from 3.0 times to 3.25 times to be consistent with industry peers);

  as at March 31, 2019 – 2.58:1.0

- 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;

  as at March 31, 2019 – 2.58:1.0

- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;

  as at March 31, 2019 – 8.8 times

- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 55% of shareholders' equity and long-term debt and subordinated debt plus bank overdraft and letters of credit.

  as at March 31, 2019 – 42%

Peyto is in compliance with all financial covenants and has no subordinated debt as at March 31, 2019.

Outstanding unsecured senior notes are as follows:

Senior Unsecured Notes	**Date Issued**	**Rate**	**Maturity Date**
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$50 million	September 6, 2012	4.88%	September 6, 2022
$100 million	October 24, 2016	3.70%	October 24, 2023
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	January 3, 2019	4.39%	January 3, 2026
$100 million	January 2, 2018	3.95%	January 2, 2028

Peyto's total borrowing capacity after the issuance of the senior, unsecured notes on January 2, 2019 is $1.92 billion of which the credit facility is $1.3 billion.

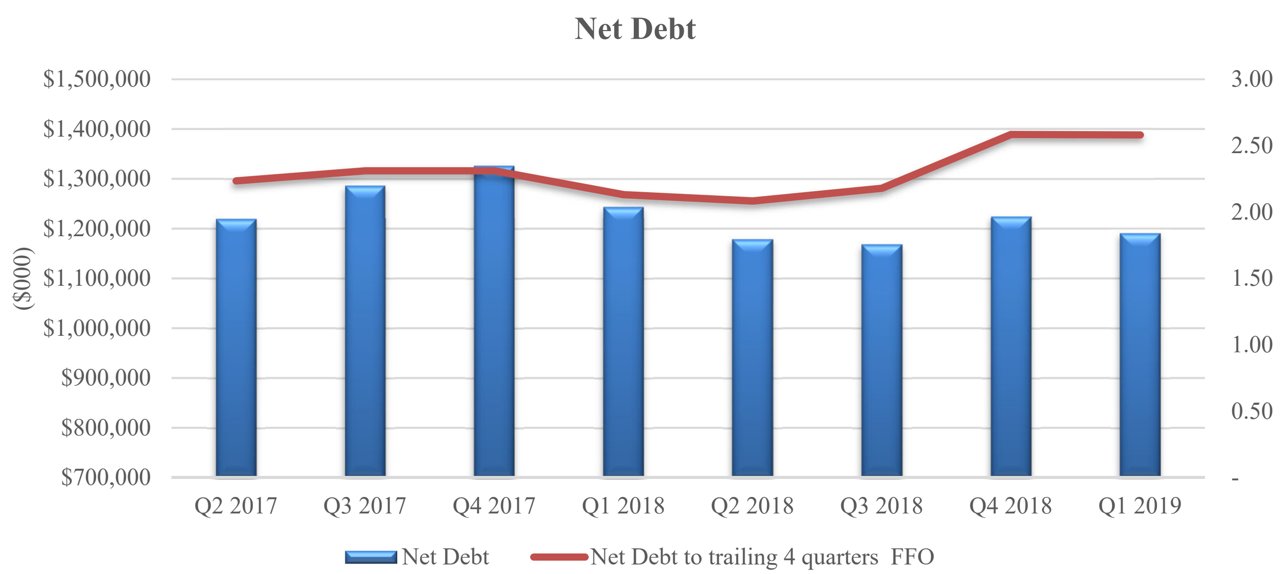
Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of approximately $150 to $200 million for 2019. The total amount of capital invested in 2019 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long-term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance-based compensation. It is used by management to analyze the financial position and leverage of the Company. Net debt is reconciled below to long-term debt which is the most directly comparable GAAP measure:

($000)	**As at March 31, 2019**	As at December 31, 2018	As at March 31, 2018
Bank credit facility - drawn	**570,000**	530,000	650,000
Senior unsecured notes	**620,000**	620,000	620,000
Current assets	**(95,075)**	(135,231)	(211,161)
Current liabilities	**77,105**	143,884	77,119
Financial derivative instruments	**18,035**	65,769	117,577
Current portion of lease obligation	**(1,040)**	-	-
Provision for future performance-based compensation	**(215)**	-	(10,244)
Net debt	**1,188,810**	1,224,422	1,243,291

Net debt has decreased 4 per cent from $1.24 billion at March 31, 2018 to $1.19 billion at March 31, 2019.



Capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount ($000)**
Balance, December 31, 2018	**164,874,175**	**1,649,537**
Common shares issued	-	-
Common share issuance costs, (net of tax)	-	-
Balance, March 31, 2019	**164,874,175**	**1,649,537**

Capital Expenditures

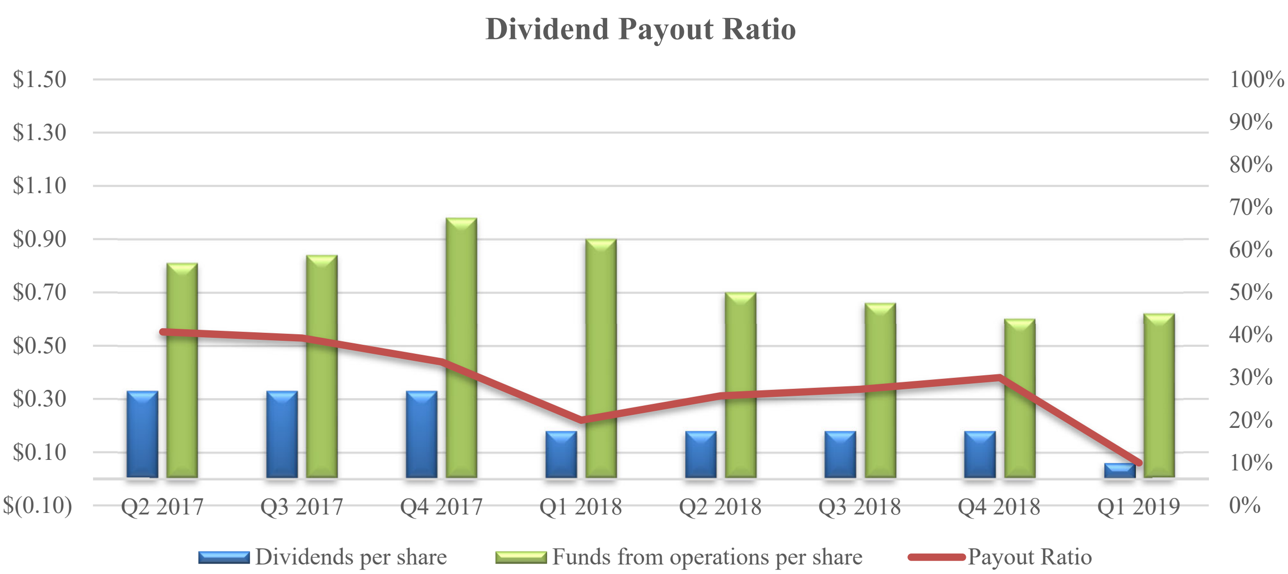
Net capital expenditures for the first quarter of 2019 totaled $62.4 million. Exploration and development related activity represented $44.4 million (71 per cent), while expenditures on facilities, gathering systems and equipment totaled $14.0 million (23 per cent) and land, seismic, and acquisitions totaled $4.0 million (6 per cent). The following table summarizes capital expenditures for the period:

	Three Months ended March 31	
($000)	**2019**	2018
Land	**1,928**	650
Seismic	**1,063**	182
Drilling	**24,155**	14,236
Completions	**20,187**	16,901
Equipping & Tie-ins	**5,157**	3,818
Facilities & Pipelines	**8,855**	3,669
Acquisitions	**1,050**	-
Dispositions	**-**	(4,002)
Total Capital Expenditures	**62,395**	35,454

Dividends

	Three Months ended March 31	
	2019	2018
Funds from operations ($000)	**103,078**	148,986
Total dividends ($000)	**9,893**	29,677
Total dividends per common share ($)	**0.06**	0.18
Payout ratio (%)	**10**	20

Peyto's policy is to balance dividends to shareholders with earnings and cash flow; and funding for the capital program with cash flow, equity and available bank lines. The Board of Directors is prepared to adjust the payout ratio levels (dividends declared divided by funds from operations) to achieve the desired dividends while maintaining an appropriate capital structure.



Contractual Obligations

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at March 31, 2019:

($000)	2019	2020	2021	2022	2023	Thereafter
Interest payments [1]	23,840	26,035	20,635	20,635	16,300	35,140
Transportation commitments	37,930	44,326	36,779	43,212	28,272	250,214
Operating lease	1,680	2,240	2,240	2,315	2,315	6,946
Methanol	2,040	-	-	-	-	-
Total	65,490	72,601	59,654	66,162	46,887	292,300

(1) Fixed interest payments on senior unsecured notes

RELATED PARTY TRANSACTIONS

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

Expense ($000)		Accounts Payable ($000)	
Three Months ended March 31		As at March 31	
2019	2018	**2019**	2018
231.0	118.0	**150.4**	118.0

RISK MANAGEMENT

Investors who purchase shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is dependent on current Alberta, Henry Hub and Dawn market prices and Canadian/US currency exchange rates. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

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

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

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

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

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

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended March 31, 2019 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

CRITICAL ACCOUNTING ESTIMATES

Reserve Estimates

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2018 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

Depletion and Depreciation Estimate
All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis.

Impairment of Long-Lived Assets
Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

Decommissioning Provision
The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Future Market Performance Based Compensation
The provision for future market based compensation is estimated based on current market conditions, distribution history and on the assumption that all outstanding rights will be paid out according to the vesting schedule. The conditions at the time of vesting could vary significantly from the current conditions and may have a material effect on the calculation.

Reserve Value Performance Based Compensation
The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2019. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes
The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Accounting Changes
Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

ADDITIONAL INFORMATION

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR at www.sedar.com and www.peyto.com.

Quarterly information

	2019	2018			
	Q1	Q4	Q3	Q2	Q1
Operations					
Production					
Natural gas (mcf/d)	462,003	458,792	456,197	493,821	568,496
Oil & NGLs (bbl/d)	10,703	10,273	9,209	9,243	10,043
Barrels of oil equivalent (boe/d @ 6:1)	87,703	86,738	85,242	91,547	104,793
Thousand cubic feet equivalent (mcfe/d @ 6:1)	526,220	520,430	511,453	549,281	628,755
Liquid to gas ratio (bbl per mmcf)	23.2	22.4	20.2	18.7	17.7
Average product prices					
Natural gas ($/mcf)	2.48	2.43	2.43	2.37	2.86
Oil & natural gas liquids ($/bbl)	50.37	44.83	61.04	63.64	59.67
$/MCFE					
Average sale price ($/mcfe)	3.20	3.03	3.27	3.20	3.54
Average royalties paid ($/mcfe)	0.14	0.12	0.14	0.10	0.17
Average operating expenses ($/mcfe)	0.35	0.33	0.31	0.30	0.29
Average transportation costs ($/mcfe)	0.19	0.19	0.19	0.18	0.13
Field netback ($/mcfe)	2.52	2.39	2.63	2.62	2.95
General & administrative expense ($/mcfe)	0.06	0.04	0.03	0.05	0.08
Interest expense ($/mcfe)	0.28	0.27	0.27	0.26	0.24
Cash netback ($/mcfe)	2.18	2.08	2.33	2.31	2.63
Financial ($000 except per share)					
Revenue and realized hedging gains (losses)	151,660	145,109	153,589	159,811	200,397
Royalties	6,673	5,801	6,399	4,879	9,543
Funds from operations	103,078	99,635	109,549	115,571	148,986
Funds from operations per share	0.63	0.60	0.66	0.70	0.90
Total dividends	9,893	29,677	29,677	29,677	29,677
Total dividends per share	0.06	0.18	0.18	0.18	0.18
Payout ratio	10%	30%	27%	26%	20%
Earnings	24,970	21,458	29,506	30,397	47,749
Earnings per share	0.15	0.13	0.18	0.18	0.29
Capital expenditures	62,395	112,215	69,716	14,978	35,454
Weighted average shares outstanding	164,874,175	164,874,175	164,874,175	164,874,175	164,874,175

Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	March 31 2019	December 31 2018
Assets		
Current assets		
Accounts receivable (*Note 9)*	68,108	60,130
Derivative financial instruments *(Note 11)*	18,035	65,769
Prepaid expenses	8,932	9,332
	95,075	135,231
Long-term derivative financial instruments *(Note 11)*	5,220	12,993
Property, plant and equipment, net *(Note 4)*	3,553,744	3,540,628
	3,558,964	3,553,621
	3,654,039	3,688,852
Liabilities		
Current liabilities		
Bank overdraft	246	19,281
Accounts payable and accrued liabilities	72,307	114,711
Dividends payable *(Note 8)*	3,297	9,892
Provision for future performance-based compensation *(Note 10)*	215	-
Current portion of lease obligation *(Note 7)*	1,040	-
Current portion of long-term debt *(Note 5)*	-	100,000
	77,105	243,884
Long-term debt *(Note 5)*	1,190,000	1,050,000
Provision for future performance-based compensation *(Note 10)*	400	-
Decommissioning provision *(Note 6)*	169,084	153,855
Lease obligation *(Note 7)*	8,474	-
Deferred income taxes	554,900	560,651
	1,922,858	1,764,506
Equity		
Share capital *(Note 8)*	1,649,537	1,649,537
Retained earnings (deficit)	(15,726)	(29,860)
Accumulated other comprehensive income *(Note 8)*	20,265	60,785
	1,654,076	1,680,462
	3,654,039	3,688,852

See accompanying notes to the financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2019	**2018**
Revenues		
Natural gas and natural gas liquid sales (*Note 9)*	143,124	155,168
Royalties	(6,673)	(9,543)
Natural gas and natural gas liquid sales, net of royalties	**136,451**	145,625
Risk management contracts		
Realized gain on risk management contracts *(Note 11)*	8,536	45,229
	144,987	190,854
Expenses		
Operating	16,625	16,454
Transportation	8,961	7,686
General and administrative	2,795	4,268
Market and reserves-based bonus *(Note 10)*	2,291	-
Future performance-based compensation *(Note 10)*	616	1,193
Interest	13,527	13,460
Accretion of decommissioning provision (*Note 6)*	734	804
Depletion and depreciation *(Note 4)*	65,232	81,579
	110,781	125,444
Earnings before taxes	**34,206**	65,410
Income tax		
Deferred income tax expense	9,236	17,661
Earnings for the period	**24,970**	47,749
Earnings per share *(Note 8)*		
Basic and diluted	**$0.15**	$0.29

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31	
	2019	**2018**
Earnings for the period	**24,970**	47,749
Other comprehensive income		
Change in unrealized (loss) gain on cash flow hedges	(46,970)	23,422
Deferred income tax recovery	14,986	5,888
Realized (gain) on cash flow hedges	(8,536)	(45,229)
Comprehensive (loss) income	**(15,550)**	31,830

Peyto Exploration & Development Corp.
Condensed Statement of Changes in Equity *(unaudited)*
(Amount in $ thousands)

	Three months ended March 31 2019	2018
Share capital, beginning of period	**1,649,537**	1,649,537
Common shares issued by private placement	-	-
Common shares issuance costs (net of tax)	-	-
Share capital, end of period	**1,649,537**	1,649,537

Retained earnings (deficit), beginning of period	(29,860)	(40,261)
Impact of change in accounting policy (*Note 3*)	(943)	-
Earnings for the period	24,970	47,749
Dividends *(Note 8)*	(9,893)	(29,677)
Retained earnings (deficit), end of period	**(15,726)**	(22,189)

Accumulated other comprehensive income, beginning of period	**60,785**	113,702
Other comprehensive (loss)	(40,520)	(15,919)
Accumulated other comprehensive income, end of period	**20,265**	97,783

Total equity	**1,654,076**	1,725,131

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended March 31 2019	2018
Cash provided by (used in) operating activities		
Earnings	24,970	47,749
Items not requiring cash:		
Deferred income tax	9,236	17,661
Depletion and depreciation	65,232	81,579
Accretion of decommissioning provision	734	804
Long term portion of future performance-based compensation	400	115
Change in non-cash working capital related to operating activities	(9,061)	(3,913)
	91,511	143,995
Financing activities		
Bank overdraft	(19,034)	-
Cash dividends paid	(16,488)	(37,921)
Lease interest *(Note 7)*	83	-
Principal repayment of lease *(Note 7)*	(339)	-
Issuance of senior note	100,000	100,000
Repayment of senior note	(100,000)	-
Increase (decrease) in bank debt	40,000	(115,000)
	4,222	(52,921)
Investing activities		
Additions to property, plant and equipment	(62,395)	(35,454)
Change in prepaid capital	6,611	295
Change in non-cash working capital relating to investing activities	(39,949)	(61,567)
	(95,733)	(96,726)
Net (decrease) in cash	-	(5,652)
Cash, beginning of period	**-**	5,652
Cash, end of period	**-**	-

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

Cash interest paid	**12,948**	11,044
Cash taxes paid	**-**	-

1. Nature of operations

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

These condensed financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 6, 2019.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2018 and 2017.

Significant Accounting Policies

(a) Significant Accounting Judgments Estimates and Assumptions

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

Except for the impact of adoption of new accounting standards as discussed in Note 3 below, all accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2018 and 2017.

3. Changes in Accounting Policies

IFRS 16 "Leases"

On January 1, 2019, Peyto adopted IFRS 16 "Leases" as issued by IASB. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset ("ROU Asset") and lease obligation to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's balance sheet, income statement, statement of comprehensive income, statements of changes in equity and statement of cash flows have not been restated. The following table detailed the impact of the adoption of IFRS 16 on the Company's balance sheet, as at January 1, 2019:

	Impact on Balance Sheet Item	000's
ROU Asset	Increase	8,070
Current portion of lease obligation	Increase	(1,032)
Long -term portion of lease obligation	Increase	(8,738)
Other liabilities	Decrease	757
Retained earnings	Increase	943

The adoption of IFRS 16 included the following elections:

- Peyto elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- Peyto has elected to apply the practical expedient and not to apply the recognition requirements of IFRS 16, Leases, to short-term leases in arrangements where it is the lessee;
- Peyto has elected to account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value;
- Initial measurements of the ROU assets have excluded initial direct costs where applicable;
- Peyto elected to use hindsight in determining lease term;
- At January 1, 2019, Peyto recognized its ROU asset for the lease of its head office space having measured it as if IFRS 16 had been applied since inception, using the incremental borrowing rate at January 1, 2019. This resulted in the recognition of a ROU asset that is not equal to its corresponding lease obligation on transition.

As a result of this adoption, Peyto has revised the description of its accounting policy for leases as follows:

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease obligation, Depreciation is recognized on the right-of-use asset over the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses. The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

• Incremental borrowing rate: The Incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

• Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Refer to Note 7 for additional disclosures required under IFRS 16.

4. Property, plant and equipment, net

Cost	
At December 31, 2018	**5,691,372**
Additions	62,395
ROU asset	8,070
Decommissioning provision additions	14,494
Prepaid capital	(6,611)
At March 31, 2019	**5,769,720**
Accumulated depletion and depreciation	
At December 31, 2018	**(2,150,744)**
Depletion and depreciation	**(65,232)**
At March 31, 2019	**(2,215,976)**
Carrying amount at December 31, 2018	3,540,628
Carrying amount at March 31, 2019	**3,553,744**

During the period ended March 31, 2019, Peyto capitalized $0.6 million (2017 - $0.6 million) of general and administrative expense directly attributable to production and development activities.

5. Current and Long-term debt

	March 31, 2019	December 31, 2018
Bank credit facility	570,000	530,000
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	620,000	520,000
Balance, end of the period	**1,190,000**	1,150,000

The Company has a syndicated $1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2022. The bank facility is made up of a $40 million working capital sub-tranche and a $1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 25 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 125 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 25 to 63 basis points.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt plus bank overdraft and letters of credit not to exceed 3.25 times trailing twelve-month net income before non-cash items, interest and income taxes;
- 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;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 55% of shareholders' equity and long-term debt and subordinated debt plus bank overdraft and letters of credit.

Outstanding senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$50 million	September 6, 2012	4.88%	September 6, 2022
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	October 24, 2016	3.70%	October 24, 2023
$100 million	January 2, 2018	3.95%	January 2, 2028
$100 million	January 3, 2019	4.39%	January 3, 2026

On January 2, 2018, the Company closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of a private placement, pursuant to a note purchase agreement and a note purchase and private shelf agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.95% and mature on January 2, 2028. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay a portion of Peyto's outstanding bank debt.

On January 3, 2019, the Company closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of a private placement, pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 4.39% and mature on January 3, 2026. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay the senior notes of Peyto which matured on January 3, 2019.

Peyto is in compliance with all financial covenants at March 31, 2019.

Total interest expense for the period ended March 31, 2019 was $13.5 million (2018 - $13.4 million) and the average borrowing rate for the period was 4.5% (2018 – 4.2%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2018	**153,855**
New or increased provisions	1,460
Accretion of decommissioning provision	734
Change in discount rate and estimates	13,035
Balance, March 31, 2019	**169,084**
Current	-
Non-current	169,084

Peyto has estimated the net present value of its total decommissioning provision to be $169.0 million as at March 31, 2019 ($153.9 million at December 31, 2018) based on a total future undiscounted liability of $304.43 million ($301.8 million at December 31, 2018). At March 31, 2019 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2023 to 2069. At March 31, 2019 the Bank of Canada's long-term bond rate of 1.90 per cent (2.18 per cent at December 31, 2018) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2018) were used to calculate the present value of the decommissioning provision.

7. Leases

The ROU asset and lease obligation recognized at January 1, 2019 relates to the Company's head office lease in Calgary.

Right of use Asset

Balance as at January 1, 2019	**8,070**
Depreciation	(252)
Balance at March 31, 2019	**7,818**

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

Lease Obligation

Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements [(1)]	11,204
Discounted using the incremental borrowing rate at January 1, 2019	(1,434)
Present value of lease payments at January 1, 2019	**9,770**

Current portion of lease obligation at January 1, 2019	**1,032**
Non -Current portion of lease obligation at January 1, 2019	**8,738**

[(1)] This amount represents the fixed portion of the office lease. The commitment for the variable lease payment at December 31, 2018 is $7.1 million. The incremental borrowing rate used to determine the lease obligation is 3.5%.

Lease obligation at January 1, 2019	**9,770**
Lease interest expense	83
Principal repayment of lease	(339)
Lease obligation at March 31, 2019	**9,514**

Current portion of lease obligation at March 31, 2019	**1,040**
Non -current portion of lease obligation at March 31, 2019	**8,474**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million for the three months ended March 31, 2019. The variable lease payments are recognized through general and administration expense.

During the period ended March 31, 2019, $4.2 million was capitalized in relation to short-term leases.

The following future commitments associated with its lease obligation:

	As at March 31, 2019
Less than 1 year	1,015
1-3 years	4,137
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	2,857
Total lease payment	10,866
Amount representing interest	(1,352)
Present value of lease payments	9,514
Current portion of lease obligation	1,040
Non -current portion of lease obligation	8,474

8. 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, 2018	**164,874,175**	**1,649,537**
Common shares issued by private placement	-	-
Common share issuance costs, (net of tax)	-	-
Balance, March 31, 2019	**164,874,175**	**1,649,537**

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

	Three Months ended March 31,	
	2019	2018
Weighted average common shares basic and diluted	**164,874,175**	164,874,175

Dividends
During the period ended March 31, 2019, Peyto declared and paid dividends of $0.06 per common share or $0.02 per common share per month, totaling $9.9 million (2018 - $0.18 or $0.06 per common share per month, $29.7 million).

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

Accumulated hedging gains and losses
Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement. Further information on these contracts is set out in Note 11.

9. Revenue and receivables

	Three Months ended March 31,	
	2019	2018
Natural Gas Sales	**94,604**	101,230
Natural Gas Liquid sales	**48,520**	53,938
Natural gas and natural gas liquid sales	**143,124**	155,168

	March 31, 2019	December 31, 2018
Accounts receivable from customers	**59,051**	52,759
Accounts receivable from realized risk management contracts	**458**	1,979
Accounts receivable from joint venture partners and other	**8,599**	5,392
Account Receivable	**68,108**	60,130

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.

10. Future performance-based compensation

Peyto awards performance-based compensation to employees annually. The performance-based compensation is comprised of reserve and market value-based components.

Reserve based component
The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%.

Market based component
Under the market-based component, rights with a three-year vesting period are allocated to employees. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

The fair values were calculated using a Black-Scholes valuation model. The principal inputs to the option valuation model were:

	March 31, 2019	March 31, 2018
Share price	$7.23	$10.80- $33.80
Exercise price (net of dividends)	$7.17	$14.40- 22.77
Expected volatility	39.60%	37.09%
Option life	0.75 year	0.75 year
Risk-free interest rate	1.6%	1.8%

11. Financial instruments and Capital management

Financial instrument classification and measurement
Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at March 31, 2019.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2018.

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

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

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

Fair values of financial assets and liabilities
The Company's financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance-based compensation and long-term debt. At March 31, 2019 cash and financial derivative instruments are carried at fair value. Accounts receivable, current liabilities and provision for future performance-based compensation approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management

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

Following is a summary of all risk management contracts in place as at March 31, 2019:

Natural Gas **Period Hedged- Monthly Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD)**
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	$2.00/GJ to $2.04/GJ
April 1, 2018 to March 31, 2020	Fixed Price	10,000 GJ	$1.43/GJ to $1.44/GJ
November 1, 2018 to March 31, 2020	Fixed Price	5,000 GJ	$1.57/GJ
April 1, 2019 to October 31, 2019	Fixed Price	50,000 GJ	$1.29/GJ to $1.45/GJ
April 1, 2019 to March 31, 2020	Fixed Price	80,000 GJ	$1.45/GJ to $2.50/GJ
November 1, 2019 to March 31, 2020	Fixed Price	60,000 GJ	$1.92/GJ to $2.07/GJ
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.30/GJ
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	$1.64/GJ to $1.65/GJ
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	$1.48/GJ to $1.64/GJ

Natural Gas **Period Hedged – Daily Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD)**
April 1, 2019 to October 31, 2019	Fixed Price	30,000 GJ	$1.20/GJ to $1.33/GJ
November 1, 2019 to March 31, 2020	Fixed Price	10,000 GJ	$1.845/GJ to $1.99/GJ

Crude Oil **Period Hedged**	**Type**	**Daily Volume**	**Price** **(WTI CAD)**
July 1, 2018 to June 30, 2019	Fixed Price	400 bbl	$85.34/bbl to $88.05/bbl
August 1, 2018 to July 31, 2019	Fixed Price	600 bbl	$81.90/bbl to $89.25/bbl
September 1, 2018 to August 31, 2019	Fixed Price	400 bbl	$85.00/bbl to $87.66/bbl
October 1, 2018 to September 30, 2019	Fixed Price	500 bbl	$85.00/bbl to $87.05/bbl
November 1, 2018 to October 31, 2019	Fixed Price	500 bbl	$87.25/bbl to $92.00/bbl
December 1, 2018 to November 30, 2019	Fixed Price	300 bbl	$88.00/bbl to $94.15/bbl

As at March 31, 2019, Peyto had committed to the future sale of 93,360,000, gigajoules (GJ) of natural gas at an average price of $1.67 per GJ or $1.92 per mcf. Had these contracts been closed on March 31, 2019, Peyto would have realized a gain in the amount of $23.2 million. If the AECO gas price on March 31, 2019 were to increase by $0.10/GJ, the unrealized gain would increase by approximately $9.4 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Physical volume contracts

The Company is a party to certain physical delivery contracts. The Company enters into these contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. A summary of contracts outstanding at March 31, 2019 are as follows:

Natural Gas - Fixed Price	**Daily Volume** **(mmbtu)**	**Average Price** **(USD/mmbtu)**	**Average Price** **(CAD/mmbtu)***
April 1, 2019 to October 31, 2019	180,000	$1.35	$1.80
November 1, 2019 to March 31, 2020	50,000	$1.81	$2.42

*USD/CAD exchange rate at March 31, 2019 =1.3363

Natural Gas - Henry Hub/AECO Basis	Daily Volume (mmbtu)	Fixed Basis (USD/mmbtu)	Fixed Basis (CAD/mmbtu)
November 1, 2019 to March 31, 2020	117,500	$1.32	$1.76
April 1, 2020 to October 31, 2020	247,500	$1.43	$1.91
November 1, 2020 to March 31, 2021	182,500	$1.32	$1.76
April 1, 2021 to October 31, 2021	247,500	$1.43	$1.91
November 1, 2021 to March 31, 2022	87,500	$1.41	$1.88
April 1, 2022 to October 31, 2022	132,500	$1.41	$1.88

*USD/CAD exchange rate at March 31, 2019=1.3363

Natural Gas - Henry Hub/Empress Basis	Daily Volume (mmbtu)	Average Price (USD/mmbtu)	Average Price (CAD/mmbtu) *
November 1, 2021 to October 31, 2024	27,500	$0.90	$1.20

*USD/CAD exchange rate at March 31, 2019 =1.3363

Natural Gas - Export	Daily Volume (mmbtu)	Market
April 1, 2019 to October 31, 2019	15,000	Emerson
April 1, 2019 to October 31, 2019	25,000	Dawn
November 1, 2019 to October 31, 2021	40,000	Emerson
November 1, 2019 to March 31, 2027	20,000	Ventura
November 1, 2021 to March 31, 2023	110,000	Emerson

Subsequent to March 31, 2019 Peyto entered into the following contracts:

Natural Gas - Henry Hub/AECO Basis	Daily Volume (mmbtu)	Average Price (USD/mmbtu)	Average Price (CAD/mmbtu)*
November 1, 2020 to October 31, 2024	5,000	$1.25	$1.67

*USD/CAD exchange rate at March 31, 2019 =1.3363

12. Related party transactions

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

Expense		Accounts Payable	
Three Months ended March 31		As at March 31	
2019	2018	**2019**	2018
231.0	118.0	**150.4**	118.0

13. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2019.

	2019	2020	2021	2022	2023	Thereafter
Interest payments [1]	23,840	26,035	20,635	20,635	16,300	35,140
Transportation commitments	37,930	44,326	36,779	43,212	28,272	250,214
Operating leases	1,680	2,240	2,240	2,315	2,315	6,946
Other	2,040	-	-	-	-	-
Total	65,490	72,601	59,654	66,162	46,887	292,300

(1) Fixed interest payments on senior unsecured notes

Officers

Darren Gee
President and CEO

Kathy Turgeon
Vice President, Finance and CFO

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Engineering and COO

Stephen Chetner
Corporate Secretary

Directors
Don Gray, Chairman
Stephen Chetner
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Kathy Turgeon

Auditors
Deloitte LLP

Solicitors
Burnet, Duckworth & Palmer LLP

Bankers
Bank of Montreal
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
The Bank of Nova Scotia
MUFG Bank, Ltd., Canada Branch
National Bank of Canada
Wells Fargo Bank, N.A., Canadian Branch
Canadian Western Bank
ATB Financial

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
Toronto Stock Exchange