PEYTO

Exploration & Development Corp.

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Interim Report
for the three and nine months ended September 30, 2019

HIGHLIGHTS

	Three Months Ended Sep 30		%	Nine Months Ended Sep 30		%
	2019	**2018**	Change	**2019**	**2018**	Change
Operations						
Production						
Natural gas (mcf/d)	**396,343**	456,197	*-13%*	**426,648**	505,760	*-16%*
Oil & NGLs (bbl/d)	**10,650**	9,209	*16%*	**10,821**	9,496	*14%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**460,243**	511,453	*-10%*	**491,572**	562,733	*-13%*
Barrels of oil equivalent (boe/d @ 6:1)	**76,707**	85,242	*-10%*	**81,929**	93,789	*-13%*
Production per million common shares (boe/d)*	**465**	517	*-10%*	**497**	569	*-13%*
Product prices						
Natural gas ($/mcf)	**1.84**	2.43	*-24%*	**2.07**	2.57	*-19%*
Oil & NGLs ($/bbl)	**39.65**	61.04	*-35%*	**44.87**	61.41	*-27%*
Operating expenses ($/mcfe)	**0.31**	0.31	-	**0.34**	0.30	*13%*
Transportation ($/mcfe)	**0.19**	0.19	-	**0.19**	0.17	*12%*
Field netback ($/mcfe)	**1.97**	2.63	*-25%*	**2.19**	2.74	*-20%*
General & administrative expenses ($/mcfe)	**0.05**	0.03	*67%*	**0.05**	0.05	-
Interest expense ($/mcfe)	**0.31**	0.27	*15%*	**0.30**	0.25	*20%*
Financial ($000, except per share*)						
Revenue	**105,944**	153,589	*-31%*	**373,130**	513,797	*-27%*
Royalties	**1,440**	6,399	*-77%*	**8,350**	20,822	*-60%*
Funds from operations	**68,106**	109,549	*-38%*	**247,157**	374,105	*-34%*
Funds from operations per share	**0.41**	0.66	*-38%*	**1.50**	2.27	*-34%*
Total dividends	**9,892**	29,677	*-67%*	**29,677**	89,032	*-67%*
Total dividends per share	**0.06**	0.18	*-67%*	**0.18**	0.54	*-67%*
Payout ratio	**15**	27	*-44%*	**12**	24	*-50%*
Earnings	**6,275**	29,506	*-79%*	**130,003**	78,146	*66%*
Earnings per diluted share	**0.04**	0.18	*-78%*	**0.79**	0.65	*22%*
Capital expenditures	**36,574**	69,716	*-48%*	**133,080**	120,148	*11%*
Weighted average common shares outstanding	**164,874,175**	164,874,175	-	**164,874,175**	164,874,175	-
As at September 30						
Net debt				**1,133,869**	1,167,672	*-3%*
Shareholders' equity				**1,721,158**	1,647,059	*4%*
Total assets				**3,587,612**	3,584,530	-

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

	Three Months Ended Sep 30		Nine Months Ended Sep 30	
($000 except per share)	**2019**	2018	**2019**	2018
Cash flows from operating activities	**64,913**	123,019	**241,993**	383,920
Change in non-cash working capital	**3,193**	(14,658)	**2,873**	(13,176)
Change in provision for performance based compensation	**-**	1,188	**-**	3,361
Performance based compensation	**-**	-	**2,291**	-
Funds from operations	**68,106**	109,549	**247,157**	374,105
Funds from operations per share	**0.41**	0.66	**1.50**	2.27

(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 third quarter of the 2019 fiscal year. A 64% Operating Margin(1) and a 6% Profit Margin(2) in the quarter, delivered a 4% return on capital employed (ROCE) and a 9% return on equity (ROE), on a trailing twelve month basis. Additional highlights included:

- **Condensate and C5+ production up 17%.** Condensate and Pentanes production increased from 5,175 bbl/d in Q3 2018 to 6,041 bbl/d in Q3 2019 contributing to total liquid production of 10,650 bbl/d. Total NGL yields increased from 20 bbl/mmcf to 27 bbl/mmcf over that same period due to the continued focus on Peyto's liquids rich Cardium play. Total liquids production in Q3 2019 was up 16% year over year, while natural gas production was down 13% to 396 mmcf/d. Consistent with the second quarter, periods of low or negative AECO natural gas price in the quarter, resulted in lean gas production being curtailed while liquids rich gas production remained on. Total Q3 2019 production of 76,707 boe/d was down 6% from Q2 2019 due to the restricted capital program and lean gas curtailment.

- **Funds from operations of $0.41/share.** Generated $68 million in Funds from Operations ("FFO") in Q3 2019 down from $76 million in Q2 2019 and $110 million in Q3 2018 due to lower commodity prices and lower gas production levels. FFO ($68 million) exceeded both capital expenditures ($37 million) and dividend payments ($10 million) in the quarter by $22 million, or $84 million year to date, resulting in reduced debt levels. This is the seventh quarter of reduced capital investment with cumulative free cashflow (FFO-Capex-Dividend) of $207 million during this period. At the same time, Peyto's producing reserve life, a measure of its sustainability, has increased at a rate of 25% per year while its base production decline rate has fallen.

- **Total cash costs of $0.89/Mcfe (or $0.86/Mcfe ($5.17/boe) excluding royalties).** Industry leading total cash costs, included $0.03/Mcfe royalties, $0.31/Mcfe operating costs, $0.19/Mcfe transportation, $0.05/Mcfe G&A and $0.31/Mcfe interest, which combined with a realized price of $2.50/Mcfe, resulted in a $1.61/Mcfe ($9.34/boe) cash netback, down 31% from $2.33/Mcfe in Q3 2018.

- **Capital investment of $36.6 million**. A total of 13 gross wells (10.5 net) were drilled in the third quarter, 10 gross wells (6.5 net) were completed, and 14 gross wells (10.5 net) were brought on production.

- **Earnings of $0.04/share, dividends of $0.06/share.** Earnings of $6 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 59th consecutive quarter of earnings.

Third Quarter 2019 in Review

Operations in the third quarter continued to be plagued by extremely wet surface conditions that hampered drilling rig and frac equipment movement and delayed pipeline installations. Despite these hinderances, Peyto was still able to advance its liquids rich Cardium drilling program. Well results and drilling and completion costs continued to improve throughout the quarter. Most of the activity was concentrated in the Wildhay area where Peyto has the highest condensate yields. The average Cardium well in Wildhay is recovering approximately 25,000 bbls of condensate in its first 6 months of production while costs for the total Cardium drilling program to date are 10% lower than last year, at $2.25 million per well. Natural gas prices in Alberta plunged in the quarter to some of the lowest prices in the past 30 years as restricted access to storage prevented supplies from finding a market. Despite the Company's market diversification efforts this still resulted in some of the lowest realized natural gas prices in Peyto's 20 year history. Late in the quarter, however, and with the help of the Alberta government, an industry agreement to revise NGTL service priorities during future summer periods was successfully negotiated. This had an immediate impact on AECO natural gas prices and should help prevent the recurrence of such a disconnected Alberta gas market over the next few years while NGTL continues to build out its capacity to handle basin growth. Despite the commodity price weakness in the quarter, Peyto's industry leading low costs still delivered a 68% operating margin, strong earnings and returns which reinforced the strength of the Peyto business model. To the end of Q3 2019, Peyto has accumulated over $2.6 billion in earnings on a $6.1 billion cumulative capital investment, or one of the highest ratios of profit to capital in the industry.

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

Third quarter 2019 activity was again focused almost exclusively on the Company's liquids-rich Cardium play with 11 wells drilled in the Wildhay area and one in the Sundance area. There was also one Falher well drilled in the Ansell area. The Company continues to drive down costs, as illustrated in the following table.

	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2	2019 Q3
Gross Hz Spuds	86	99	123	140	126	135	70	15	**8**	**13**
Measured Depth (m)	4,017	4,179	4,251	4,309	4,197	4,229	4,020	3,853	**3,847**	**3,755**
Drilling ($MM/well)	$2.79	$2.72	$2.66	$2.16	$1.82	$1.90	$1.71	$1.54	**$1.554**	**$1,398**
$ per meter	$694	$651	$626	$501	$433	$450	$425	$400	**$404**	**$372**
Completion ($MM/well)	$1.67	$1.63	$1.70	$1.21	$0.86	$1.00	$1.13	$1.15	**$1.123***	**$873**
Hz Length (m)	1,358	1,409	1,460	1,531	1,460	1,241	1,348	1,528	**1,578**	**1,374**
$ per Hz Length (m)	$1,231	$1,153	$1,166	$792	$587	$803	$835	$751	**$712**	**$635**
$ '000 per Stage	$257	$188	$168	$115	$79	$81	$51	$46	**$37**	**$29**

**Peyto's Montney well is excluded from drilling and completion cost comparison.*

Capital Expenditures

Peyto invested $14.4 million on drilling, $10.0 million on completions, $3.2 million on wellsite equipment and tie-ins, $7.9 million on facilities and major pipeline projects, and $1.1 million acquiring new lands and seismic, for total capital investments of $36.6 million in Q3 2019.

The $7.9 million invested in facilities and major pipeline projects included $4.0 million for final installation of a major pipeline expansion in the Wildhay area as well as $1.3 million for the expansion of liquids stabilization at the Wildhay gas plant to accommodate the additional condensate production from both Cardium and Montney drilling activity.

Commodity Prices

Average Monthly AECO natural gas price was $0.99/GJ in Q3 2019, down from $1.11/GJ in the previous quarter and from $1.28/GJ in the prior year period. Meanwhile, the average Daily AECO gas price was $0.86/GJ in Q3 2019, down from $0.98/GJ in the previous quarter, and down from $1.13/GJ in the prior year period. Historically, monthly prices have outperformed daily prices, and this was also the case in the third 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.

Peyto's natural gas sales for the quarter were split approximately 37% to Henry Hub, 14% to Eastern Canadian/US markets, 41% to AECO Monthly and 7% to AECO Daily prices. These marketing efforts resulted in AECO equivalent prices of $1.93/mcf, $1.46/mcf, $1.13/mcf and $1.08/mcf respectively after adjusting for heat content, and physical or synthetic transportation charges. Combined, these prices resulted in an average price of $1.47/mcf before hedging gains of $0.37/mcf.

In the third quarter of 2019, NGL prices, relative to natural gas prices, continued to justify the operation of Peyto's Oldman deep cut plant which extracts more propane and butane from the raw gas stream. As a result, Peyto realized a blended oil and natural gas liquids price of $39.65/bbl, which represented 53% of the $74.55/bbl average Canadian WTI price. This results from the combination of 57% of liquids comprised of condensate and pentanes and 43% comprised of propane and butane, each realizing a blended price of $67.76/bbl and $2.79/bbl, respectively.

Financial Results

Approximately 41%, or $0.87/Mcfe, of Peyto's unhedged revenue came from its associated natural gas liquids sales while 59%, or $1.26/Mcfe, came from natural gas. Natural gas and oil hedging activity contributed $0.37/Mcfe for total revenue of $2.50/Mcfe. Liquids production represented 14% of total production but 37% of unhedged revenue. Revenue from the liquids production covered all cash costs. Total cash costs, when deducted from realized revenues of $2.50/Mcfe, resulted in a cash netback of $1.61/Mcfe or a 64% operating margin. Depletion, depreciation and amortization charges of $1.37/Mcfe, along with a provision for the market-based bonus resulted in earnings of $0.15/Mcfe, or an 6% profit margin. Dividends of $0.23/Mcfe were paid to shareholders.

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	Q2	**Q3**
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	2.60	**2.50**
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	0.01	**0.03**
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	0.34	**0.31**
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	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	0.05	**0.05**
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	0.30	**0.31**
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	0.89	**0.89**
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	1.71	**1.61**
Operating Margin	78%	73%	76%	76%	74%	75%	76%	76%	74%	72%	71%	69%	68%	66%	**64%**

Natural Gas Marketing

Peyto continues to pursue a market diversification strategy for future sales of natural gas, propane, butane, pentanes and condensate. Natural gas diversification efforts have resulted in approximately 180 MMcf/d being directed to the US market in 2020, 70 MMcf/d directed to Eastern Canadian market and the remainder directed to the local market in Alberta. Beyond 2020, Peyto has secured additional access to Eastern Canadian markets.

While all liquids production is currently marketed within Alberta, the Company is considering broadening its market access as new LPG export projects come to fruition. A real time summary of Peyto's market diversification portfolio and future hedges is available on Peyto's website at: http://www.peyto.com/Files/Operations/Marketing/hedges.pdf

Activity Update

During the month of October, Peyto spud 8 gross, (7.1 net) wells and completed and brought onstream 7 gross (5.5 net) Cardium wells. Natural gas prices since the end of the quarter have been strengthening as early winter weather descends on Western Canada. The AECO spot price averaged $2.14/GJ in October, up from $0.51/GJ in September, while November prices are expected to average over $2.40/GJ. As a result, Peyto has started up 2 additional drilling rigs, one in Sundance and one in Brazeau, focused on higher deliverability Spirit River formations. These 2 additional rigs are anticipated to add significant lean gas volumes by December which will take advantage of the current improvement in natural gas prices and the strengthening winter gas price sentiment.

Also, during October a third party midstream fractionation facility in Fort Saskatchewan, Alberta experienced a failure in one of its distillation towers leading to a reduction in available capacity and an apportionment of producers' LPG supply mix to the facility. The resultant loss in production to Peyto over the month of October was approximately 1,000 boe/d. To mitigate the impact on cash flow, Peyto has shut in its Oldman deep cut plant and warmed up all Company refrigeration plants to put more of the LPG mix into the gas phase which is now benefiting from higher gas prices. The tower is being repaired and it is expected to be back online by the end of November.

2020 Budget

The recent strength in, and significantly improved outlook for, AECO natural gas prices, combined with the success of Peyto's most recent Cardium drilling program has provided the confidence to continue with Peyto's strategic three-year plan as announced in January of this year. Consistent with that plan, Peyto's Board of Directors is reviewing a go forward capital program that invests more free cashflow into resource development opportunities. While specifics of the 2020 budget are not yet finalized, a capital program of $250 to $300 million, funded entirely from free cashflow, would add 25,000-30,000 boe/d, based on historic on-stream metrics, which would more than offset the annual forecast of 23% base decline on 2019 exit production of 81,000-83,000 boe/d. The exact 2019 exit production and subsequent base decline will depend on year end tie-in timing. As always, Peyto will ensure any capital plans will be nimble with the ability to react to changes in commodity prices and the global economic environment, both of which continue to be volatile and uncertain. Peyto remains committed to pursuing only those investments that can achieve the maximum possible returns regardless of timing or production outcomes. Peyto also expects that with future commodity price strength, the Company will continue to reduce indebtedness. By pursuing a capital program that grows EBITDA rather than just reduce debt, Peyto will strengthen its balance sheet going forward.

Management Addition

Peyto is very pleased to announce that Mr. Scott Robinson, will be re-joining the Peyto management team in the role of Vice President, Business Development. Scott was previously Peyto's Chief Operating Officer before embarking on a brief period of semi-retirement. During that period Scott continued to help advance many of Peyto's new ventures including the Big Sunny storage scheme, participation in the Rockies LNG consortium, in-field fractionation and LPG export opportunities, deep cut facility projects, and natural gas power generation markets. In this new role, Scott will be leading a technical team looking at new resource development opportunities within and beyond Peyto's traditional Deep Basin core areas.

Outlook

The Canadian natural gas market has changed throughout 2019 from one of over supply and lack of take away capacity to one of undersupply and increasing take away capacity. Based on industry projections for reduced drilling activity, Peyto expects this trend will continue in 2020. When combined with a new temporary supply management program that allows gas storage to once again function effectively, the result is a domestic natural gas market that is better connected to the greater North American market. All of this has translated into higher natural gas prices going forward for Canadian natural gas producers.

While a higher commodity price has traditionally resulted in increased capital investment and greater production, there remains a liquidity issue in the industry which has reduced access to external capital, meaning capital investments will generally continue to be limited to internally generated cashflows. This discipline should prevent the industry from overwhelming demand with growth in new supply and negatively impacting the commodity price recovery.

The Canadian energy industry today has been changing its focus from one of growth to a pursuit of profit. For Peyto, no change is needed as this has been the sole focus of the Company over the past 20 years. A disciplined, counter-cyclical, profit driven strategy has motivated Peyto from day one and remains the focus today.

Peyto continues to execute on its three-year strategic plan as announced earlier this year. The reduced capital programs in 2018 and 2019 have preserved drilling inventory and reserves for the price recovery that is now underway. The plan to ramp up capital investment in 2020 and 2021 as commodity prices improve is continuing to solidify. As expected, Peyto's proved producing reserve life has continued to increase and is expected to approach 10 years by the end of 2019 as annual base production declines have fallen to almost 20% from 40% three years ago. This will provide a solid platform for growth in the future as less capital will be required to offset base declines. As always, Peyto will only invest shareholder capital if sufficient full cycle returns can be achieved.

(signed) *"Darren Gee"*

Darren Gee
President and CEO
November 6, 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 November 5, 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 tie-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 86 per cent to natural gas and 14 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-one 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)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue and realized hedging gains (losses) (net of royalties)	**104,504**	115,289	144,987	139,308	147,190	154,932	190,854	202,566
Funds from operations	**68,106**	75,971	103,078	99,635	109,549	115,571	148,986	161,672
Per share – basic and diluted	**0.41**	0.46	0.63	0.60	0.66	0.70	0.90	0.98
Earnings	**6,275**	98,757	24,970	21,458	29,506	30,397	47,749	51,547
Per share – basic and diluted	**0.04**	0.59	0.15	0.13	0.18	0.18	0.29	0.31
Dividends	**9,892**	9,892	9,892	29,677	29,677	29,677	29,677	54,408
Per share – basic and diluted	**0.06**	0.06	0.06	0.18	0.18	0.18	0.18	0.33
Capital expenditures	**36,574**	34,112	62,395	112,215	69,716	14,978	35,454	134,411

Funds from Operations

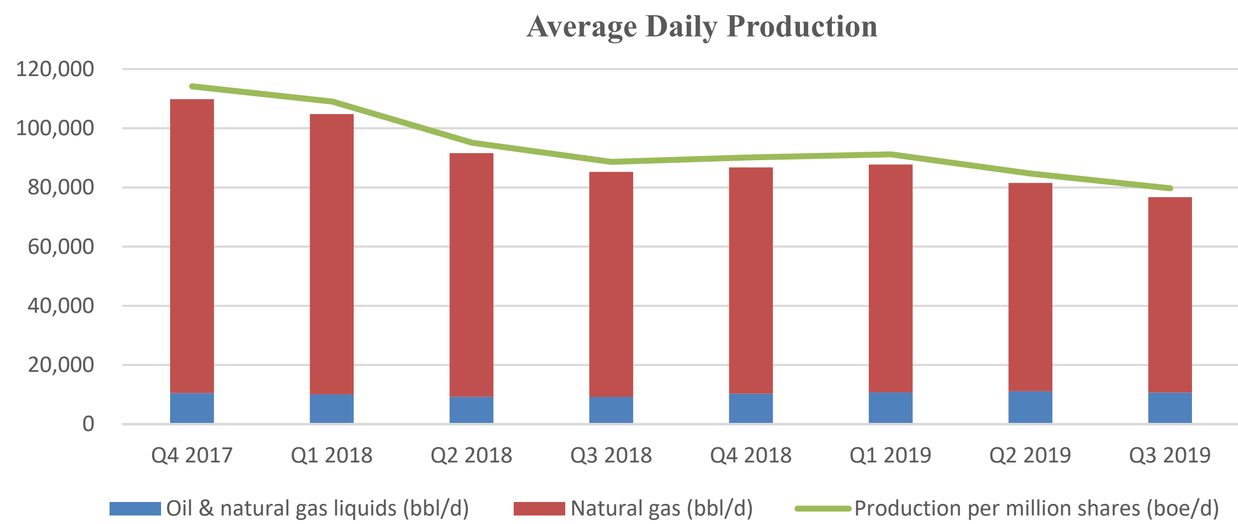
"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance-based compensation. Management considers funds from operations and per share calculations of funds from operations 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 September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Natural gas (mmcf/d)	**396.3**	456.2	**426.6**	505.8
Oil & natural gas liquids (bbl/d)	**10,650**	9,209	**10,821**	9,496
Barrels of oil equivalent (boe/d)	**76,707**	85,242	**81,929**	93,789
Thousand cubic feet equivalent (mmcfe/d)	**460.2**	511.5	**491.6**	562.7

Condensate and NGL production increased 16 per cent from 9,209 bbl/d in the third quarter of 2018 to 10,650 bbl/d in the third quarter of 2019, due to continued deployment of capital in Peyto's liquids rich Cardium play. Natural gas production decreased 13 per cent to 396.3 mmcf/d as Peyto replaced declining dry gas with significantly higher liquids-rich gas. Total third quarter production decreased 10 per cent from 511.5 mmcfe/d to 460.2 mmcfe/d. Production decreases are attributable to Peyto's reduced capital program which did not offset natural production declines.



Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Oil, Condensate and Pentanes+ (bbl/d)	**6,041**	5,175	**6,320**	5,538
Other Natural gas liquids(bbl/d)	**4,609**	4,034	**4,501**	3,958
Oil & Natural gas liquids (bbl/d)	**10,650**	9,209	**10,821**	9,496
Barrels per million cubic feet	**26.9**	20.2	**25.4**	18.8

The liquid production to sales gas ratio increased 33 per cent from 20.2 bbl/mmcf in Q3 2018 to 26.9 bbl/mmcf in Q3 2019. This increase was due to the addition of liquids rich production from new Cardium wells.

Commodity Prices

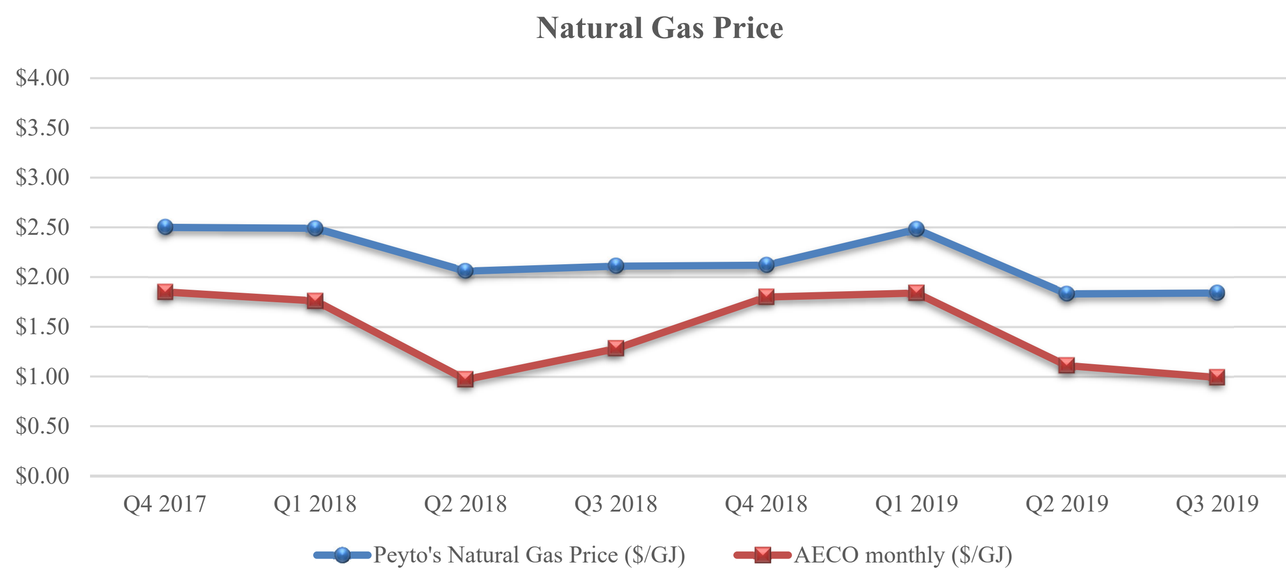
	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Oil & natural gas liquids ($/bbl)	**37.39**	61.54	**42.40**	61.54
Hedging – Oil & NGL ($/bbl)	**2.26**	(0.50)	**2.47**	(0.13)
Oil & NGL – after hedging ($/bbl)	**39.65**	61.04	**44.87**	61.41
Natural gas ($/mcf)	**1.47**	1.44	**1.82**	1.55
Hedging – gas ($/mcf)	**0.37**	0.99	**0.25**	1.02
Natural gas – after hedging ($/mcf)	**1.84**	2.43	**2.07**	2.57
Total Hedging ($/mcfe)	**0.37**	0.87	**0.27**	0.91
Total Hedging ($/boe)	**2.24**	5.24	**1.62**	5.47

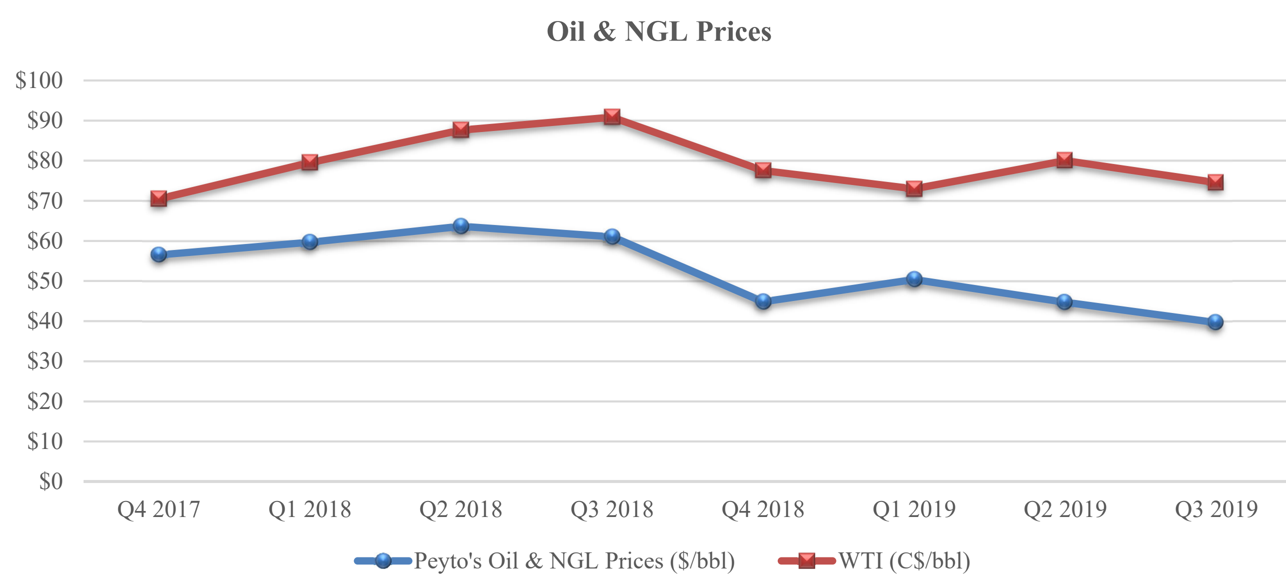
Peyto's natural gas price, before hedging, averaged $1.47/mcf during the third quarter of 2019, an increase of 2 per cent from $1.44/mcf for the equivalent period in 2018. Oil & natural gas liquids prices, before hedging, averaged $37.39/bbl, a decrease of 39 per cent from $61.54/bbl a year earlier.

Realized Commodity Prices by Component

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Natural gas, after hedging ($/mcf)	**1.84**	2.43	**2.07**	2.57
Oil, Condensate and Pentanes+, after hedging ($/bbl)	**67.76**	82.58	**70.21**	81.25
Other Natural gas liquids ($/bbl)	**2.79**	33.66	**9.72**	33.66
Total Oil and Natural gas liquids ($/bbl)	**39.65**	61.04	**44.87**	61.41

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





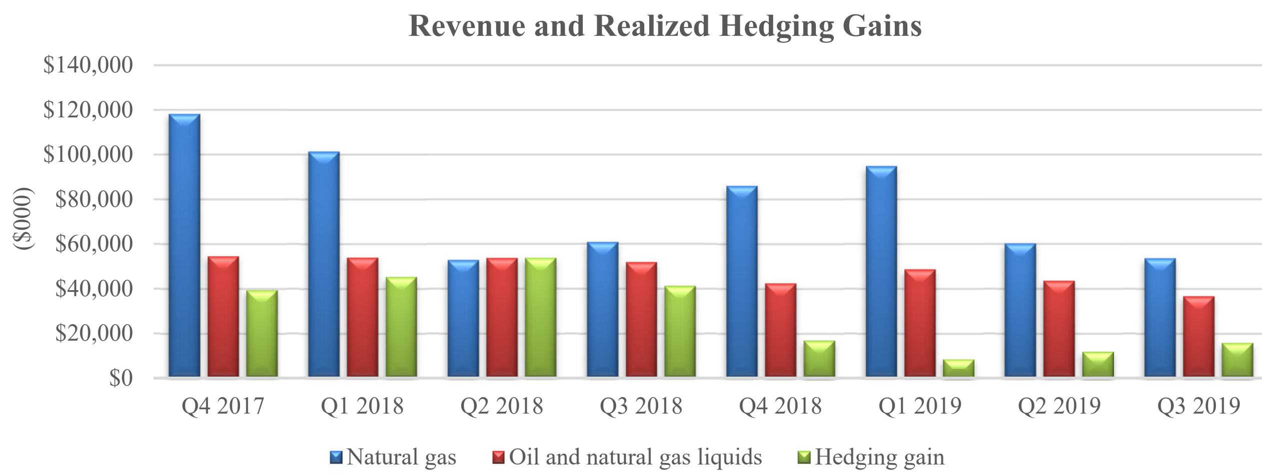
Benchmark Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
AECO 7A monthly ($/GJ)	**0.99**	1.28	**1.31**	1.34
AECO 5A daily ($/GJ)	**0.86**	1.13	**1.44**	1.40
Empress daily ($GJ)	**1.97**	2.82	**2.35**	2.61
NYMEX (US$/MMbtu)	**2.33**	2.90	**2.57**	2.91
Ventura daily (US$/MMbtu)	**2.00**	2.71	**2.44**	2.74
Dawn daily (US$/MMbtu)	**2.13**	2.91	**2.47**	2.91
Canadian WTI ($/bbl)	**74.55**	90.83	**75.85**	86.00

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

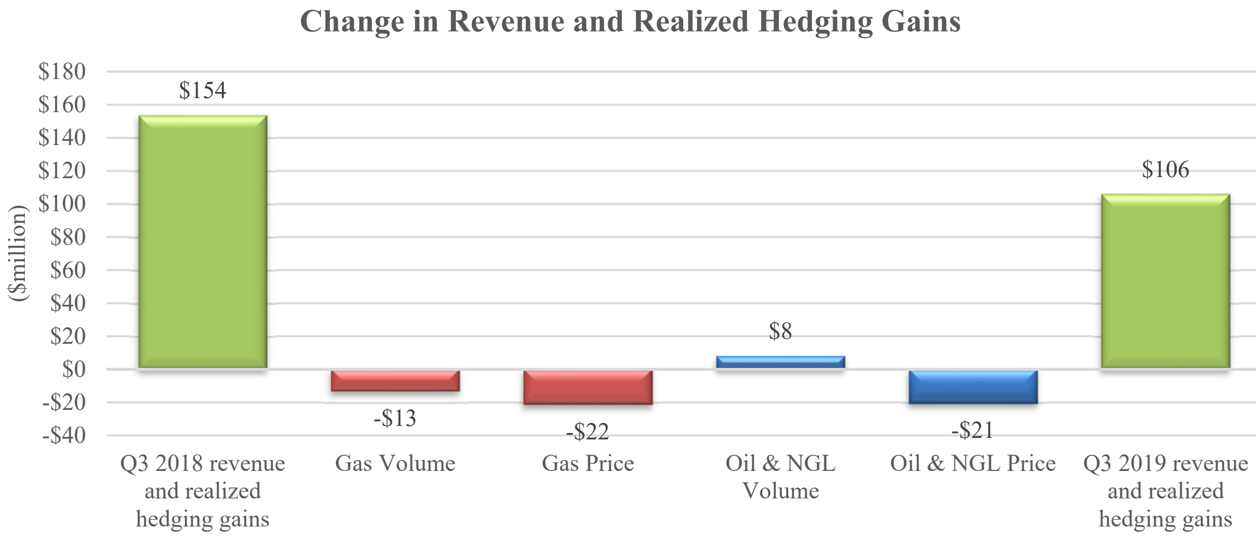
Revenue and Realized Hedging Gains

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2019**	2018	**2019**	2018
Natural gas	**53,528**	60,740	**208,296**	214,634
Oil & natural gas liquids	**36,634**	51,718	**128,649**	159,186
Hedging gain	**15,782**	41,131	**36,185**	139,977
	105,944	153,589	**373,130**	513,797



For the three months ended September 30, 2019, revenue and realized hedging gains decreased 31 per cent to $105.9 million from $153.6 million for the same period in 2018. The decrease in revenue and realized hedging gains 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 September 30			Nine Months ended September 30		
	2019	2018	**$million**	2019	2018	**$million**
Total Revenue, September 30, 2018			**153.6**			**513.8**
Revenue change due to:						
Natural gas						
Volume (mmcf)	36.464	41.970	**(13.4)**	116,475	138,072	**(55.5)**
Price ($/mcf)	$1.84	$2.43	**(21.5)**	$2.07	$2.57	**(58.3)**
Oil & NGL						
Volume (mbbl)	980	847	**8.1**	2,954	2,592	**22.1**
Price ($/bbl)	$39.65	$61.04	**(20.9)**	$44.87	$61.41	**(49.0)**
Total Revenue, September 30, 2019			**105.9**			**373.1**

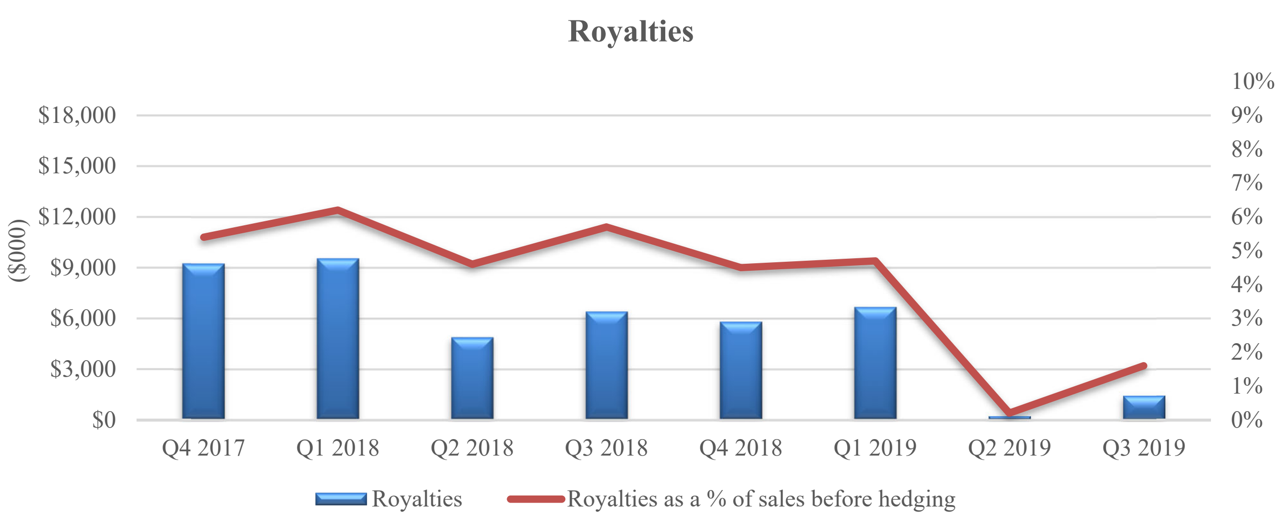


Royalties

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 September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Royalties ($000)	**1,440**	6,399	**8,350**	20,822
per cent of sales before hedging	**1.6**	5.7	**2.5**	5.6
per cent of sales after hedging	**1.4**	4.2	**2.3**	4.1
$/mcfe	**0.03**	0.14	**0.06**	0.14
$/boe	**0.20**	0.82	**0.37**	0.81

For the third quarter of 2019, royalties averaged $0.03/mcfe or approximately 1.6 per cent of Peyto's total petroleum and natural gas sales excluding hedging gains. Royalties include the impact of gas cost allowance ("GCA") which is a reduction of royalties payable to the Alberta Provincial Government (the "Crown") to recognize capital and operating expenditures incurred in the gathering and processing of the Crown's share of natural gas production. For the nine months ended September 30, 2019, Peyto received GCA credits that resulted in a recovery of royalties paid. This lowered royalties for the year to date from approximately 5 per cent of sales excluding hedging gains to1.6 per cent of sales excluding hedging gains.



In its 21 year history, Peyto has invested over $6.1 billion in capital projects, found and developed 6.5 TCFe of natural gas reserves and paid over $866 million in royalties.

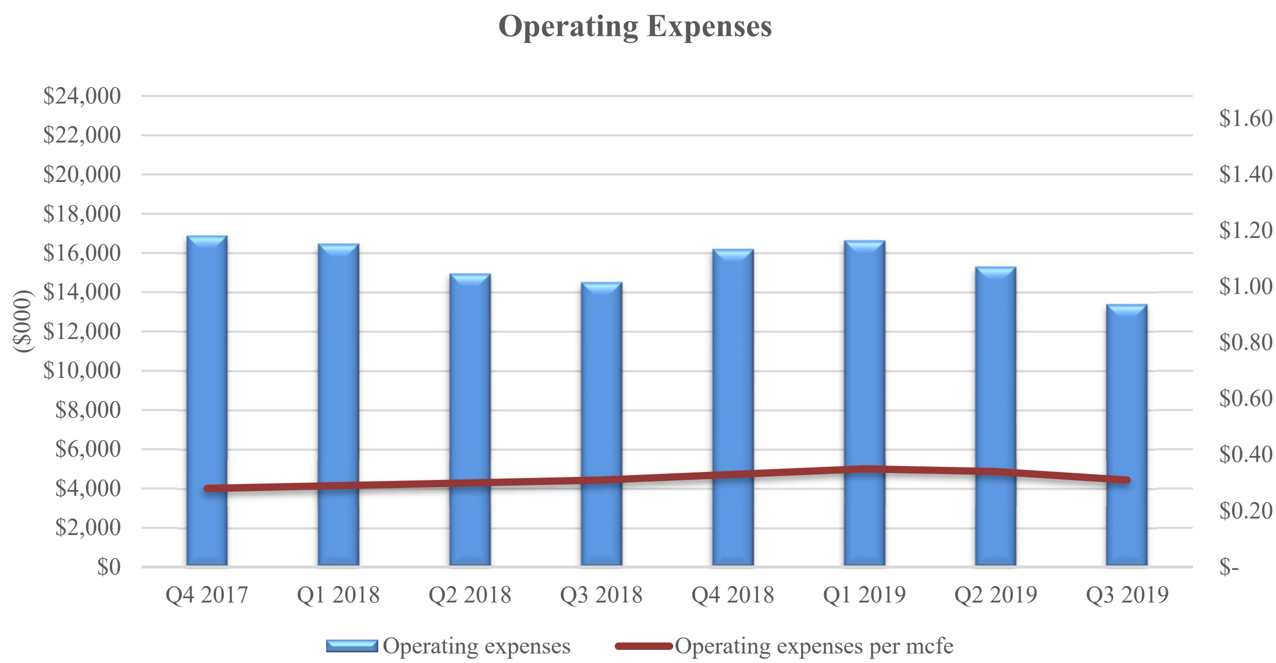
Operating Costs & Transportation

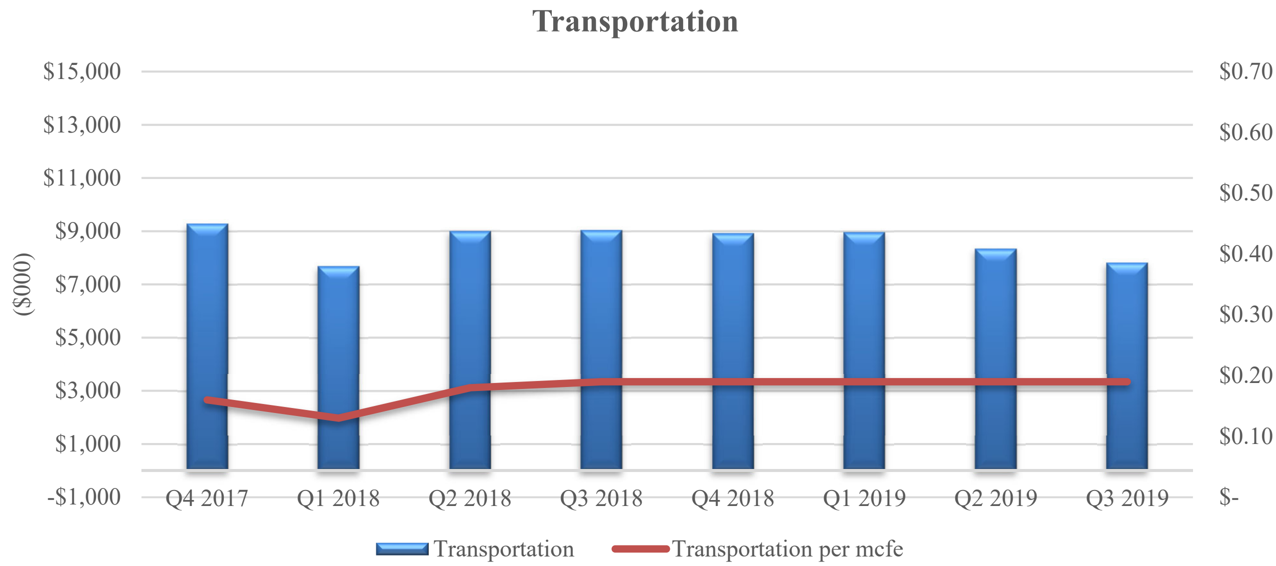
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Operating costs ($000)	**13,383**	14,503	**45,307**	45,896
$/mcfe	**0.31**	0.31	**0.34**	0.30
$/boe	**1.90**	1.85	**2.03**	1.79
Transportation ($000)	**7,815**	9,036	**25,109**	25,712
$/mcfe	**0.19**	0.19	**0.19**	0.17
$/boe	**1.11**	1.15	**1.12**	1.00

For the third quarter, operating expenses decreased 8 per cent compared to the same quarter in 2018. On a unit-of-production basis, operating costs were $0.31/mcfe unchanged from the same quarter in 2018. 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 were unchanged on a unit-of production basis at $0.19/mcfe in the third quarter 2019.

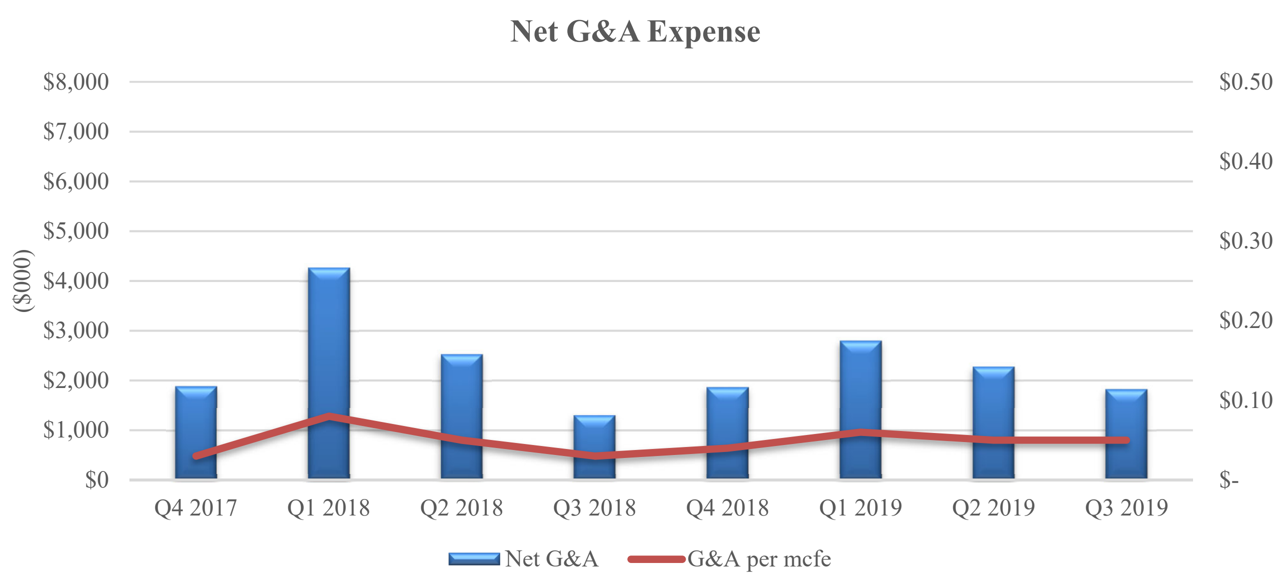




General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
G&A expenses ($000)	**3,672**	4,010	**12,179**	12,845
Overhead recoveries ($000)	**(1,854)**	(2,714)	**(5,290)**	(4,752)
Net G&A expenses ($000)	**1,818**	1,296	**6,889**	8,093
$/mcfe	**0.05**	0.03	**0.05**	0.05
$/boe	**0.26**	0.17	**0.31**	0.32

For the third quarter, general and administrative expenses before overhead recoveries were $3.8 million compared to $4.0 million for the same quarter of 2018. General and administrative expenses averaged $0.09/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.05/mcfe in the third quarter of 2019 ($0.09/mcfe before overhead recoveries of $0.06/mcfe for net general and administrative expenses of $0.03/mcfe in the third 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 stock options, rights issued under the market based bonus plan, 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 third quarter of 2019.

Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out by the issuance of equity. This compensation component has been replaced on a going forward basis by the recently adopted stock option plan.

In 2019, the Company adopted a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. Stock options are to be granted periodically with a three year vesting period. At the vesting, recipients have thirty days to exercise options after which any unexercised options are cancelled.

Based on the weighted average trading price of the common shares for the period ended September 30, 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 third quarter of 2019, and 4.9 million non-vested stock options (1.5% of the total number of common shares outstanding), with an average grant price of $4.40 are $0.7 million for the third quarter of 2019. Peyto records a non-cash provision for compensation expense over the life of the rights calculated using a Black-Scholes valuation model (refer to Note 11 of the condensed financial statements for the more details). These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

Rights Outstanding Under Market Based Bonus Plan

Valuation and Vesting Date	Rights Granted	Rights Forfeited	Rights Outstanding	Average Grant Price
December 31, 2019	825,000	42,767	782,233	$ 7.23
December 31, 2020	825,000	42,767	782,233	$ 7.23
December 31, 2021	825,000	42,767	782,233	$ 7.23

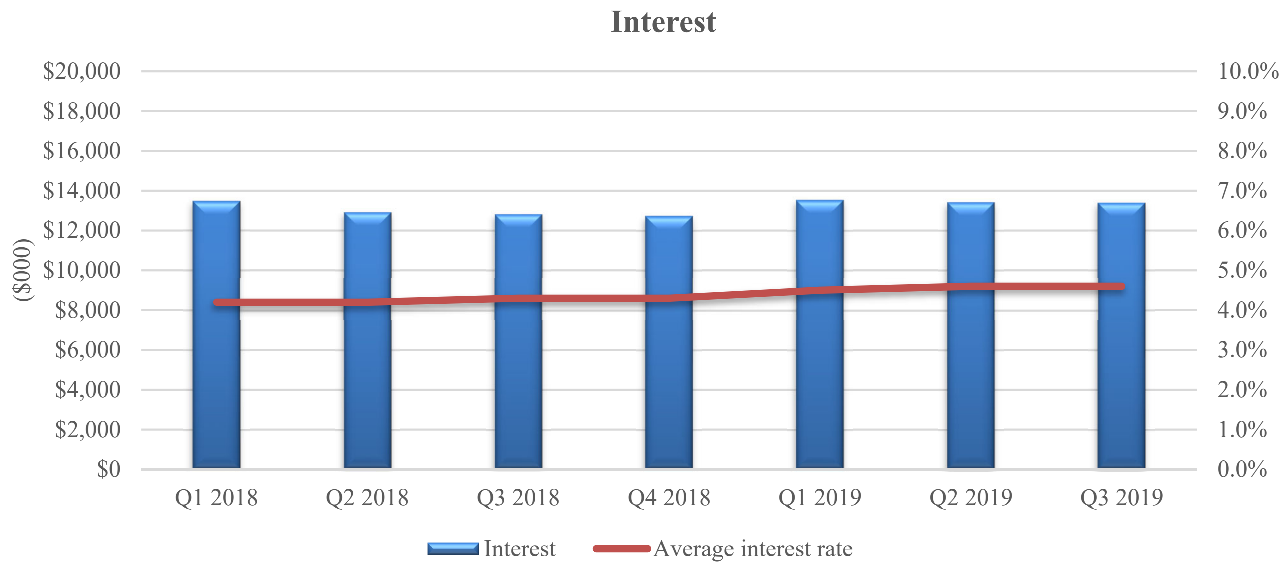
Stock Options Plan

Valuation and Vesting Date	Stock Options Granted	Stock Options Forfeited	Options Outstanding	Average Grant Price
May 15, 2020	825,000	29,733	795,267	$ 5.72
May 15, 2021	825,000	29,733	795,267	$ 5.72
May 15, 2022	825,000	29,733	795,267	$ 5.72
August 15, 2020	864,167	25,000	839,167	$ 3.18
August 15, 2021	864,167	25,000	839,167	$ 3.18
August 15, 2022	864,167	25,000	839,167	$ 3.18

Interest Expense

	Three Months ended September 30		Nine Months ended Septmber 30	
	2019	2018	**2019**	2018
Interest expense ($000)	**13,382**	12,806	**40,318**	39,168
$/mcfe	**0.31**	0.27	**0.30**	0.25
$/boe	**1.90**	1.63	**1.80**	1.53
Average interest rate	**4.6%**	4.3%	**4.6%**	4.2%

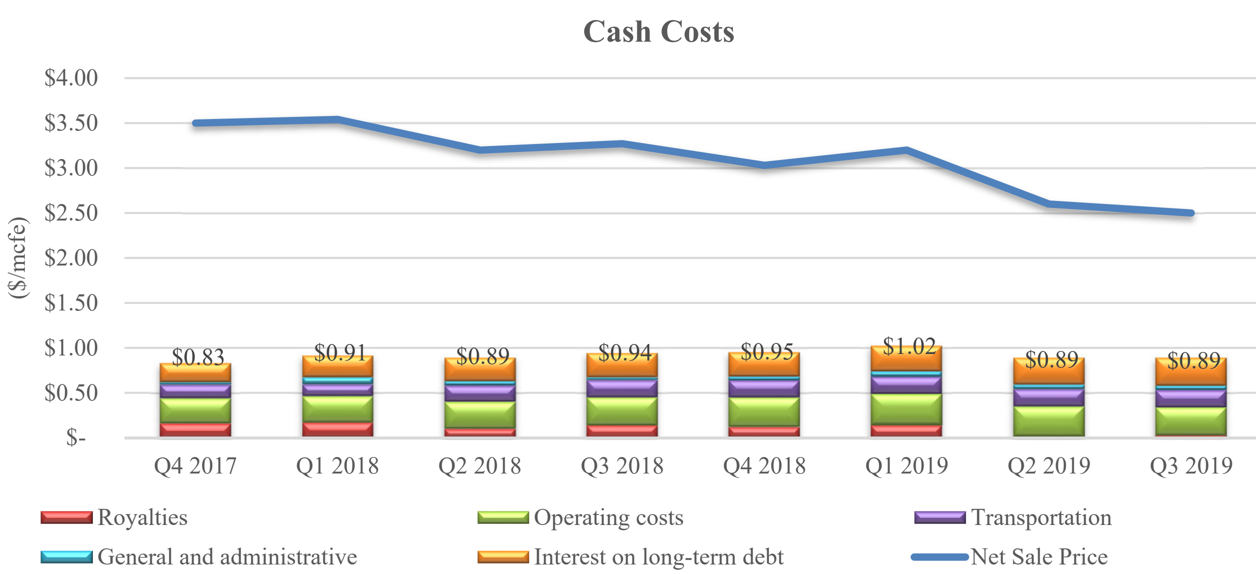
Third quarter 2019 interest expense was $13.4 million or $0.31/mcfe compared to $12.8 million or $0.27/mcfe for the third quarter 2018. The average interest rate for the third quarter of 2019 increased to 4.6 per cent from 4.3 per cent in the third quarter of 2018 due to Bank of Canada interest rate increases.



Netbacks

	Three Months ended September 30		Nine Months ended September 30	
($/mcfe)	**2019**	2018	**2019**	2018
Gross Sale Price	**2.13**	2.40	**2.51**	2.44
Hedging gain	**0.37**	0.87	**0.27**	0.91
Net Sale Price	**2.50**	3.27	**2.78**	3.35
Less: Royalties	**0.03**	0.14	**0.06**	0.14
Operating costs	**0.31**	0.31	**0.34**	0.30
Transportation	**0.19**	0.19	**0.19**	0.17
Field netback	**1.97**	2.63	**2.19**	2.74
General and administrative	**0.05**	0.03	**0.05**	0.05
Interest on long-term debt	**0.31**	0.27	**0.30**	0.25
Cash netback ($/mcfe)	**1.61**	2.33	**1.84**	2.44
Cash netback ($/boe)	**9.65**	13.97	**11.05**	14.61

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 third quarter provision for depletion, depreciation and amortization totaled $58.0 million ($1.37/mcfe) compared to $67.1 million ($1.43/mcfe) in the third 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 $1.9 million compared to an expense of $10.9 million in the third quarter of 2018. Corporate income tax rates in Alberta were reduced from 12 per cent to 8 percent by 2023. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	September 30, 2019	December 31, 2018	Annual deductibility
Canadian Oil and Gas Property Expense	193.3	191.7	10% declining balance
Canadian Development Expense	775.9	698.1	30% declining balance
Canadian Exploration Expense	100.1	89.2	100%
Undepreciated Capital Cost	343.3	322.5	Primarily 25% declining balance
Other	26.2	21.5	Various, 7% to 20% declining balance
Total Federal Tax Pools	**1,438.8**	1,323.0	
Additional Alberta Tax Pools	45.0	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 third quarter of 2019, a realized hedging gain of $15.8 million was recorded as compared to a $41.1 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	$1.92

Crude Oil Period Hedged	Type	Daily Volume (bbl)	Average Price (WTI CAD/bbl)
November 1, 2018 to October 31, 2019	Fixed Price	500	$89.34
December 1, 2018 to November 30, 2019	Fixed Price	300	$90.17
August 1, 2019 to December 31, 2019	Fixed Price	300	$60.15

As at September 30, 2019, Peyto had committed to the future sale of 53,100,000 gigajoules (GJ) of natural gas at an average price of $1.75 per GJ or $2.02per mcf and 64,400 barrels of crude at $85.52 per bbl. Had these contracts closed on September 30, 2019, Peyto would have realized a loss in the amount of $5.0 million.

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.

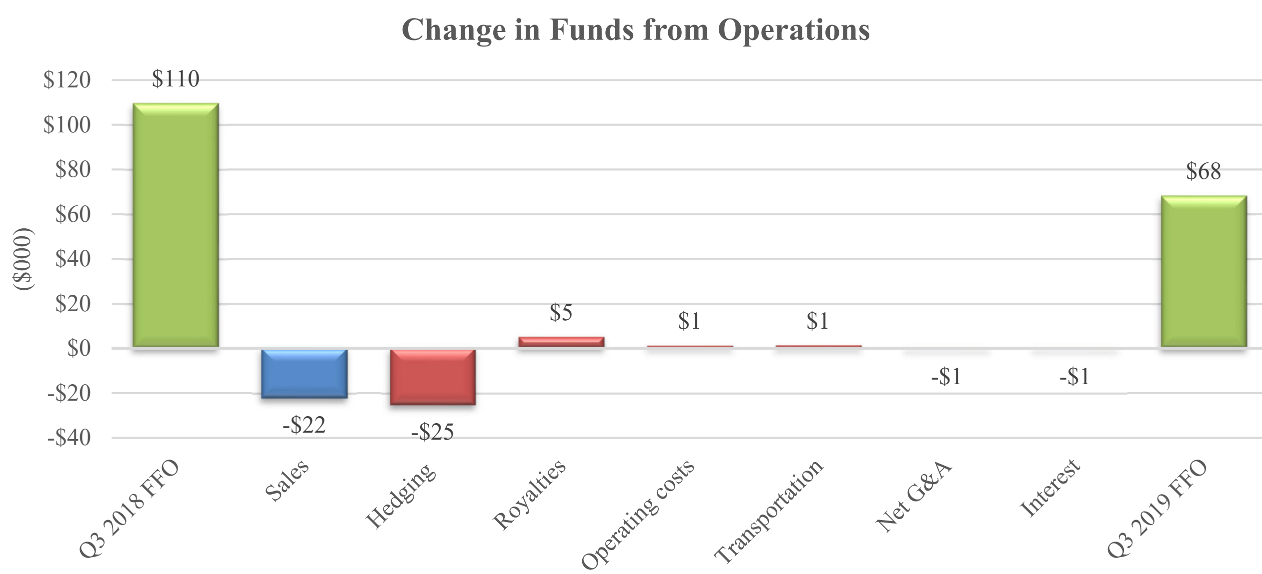
Interest Rate Risk Management
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At September 30, 2019, the increase 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 $1.3 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 September 30		Nine Months ended September 30	
($000)	**2019**	2018	**2019**	2018
Cash flows from operating activities	**64,913**	123,019	**241,993**	383,920
Change in non-cash working capital	**3,193**	(14,658)	**2,873**	(13,176)
Change in provision for performance based compensation	**-**	1,188	**-**	3,361
Performance based compensation	**-**	-	**2,291**	-
Funds from operations	**68,106**	109,549	**247,157**	374,105
Funds from operations per share	**0.41**	0.66	**1.50**	2.27

For the third quarter ended September 30, 2019, funds from operations totaled $68.1 million or $0.41 per share, compared to $109.5 million or $0.66 per share during the same quarter in 2018. The decrease in funds from operation was due to a decrease in production volumes, realized hedging gains 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)	**September 30, 2019**	December 31, 2018
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	620,000	520,000
Bank credit facility	510,000	530,000
Balance, end of the period	**1,130,000**	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 entered into with respect to the Senior Notes (discussed below):

- 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;

  as at September 30, 2019 – 2.96:1.0

- 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 September 30, 2019 – 2.96:1.0

- 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 September 30, 2019 – 7.2 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 September 30, 2019 – 40%

Peyto is in compliance with all financial covenants and has no subordinated debt or letters of credit as at September 30, 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 2, 2018	3.95%	January 2, 2028
$100 million	January 3, 2019	4.39%	January 3, 2026

On October 25, 2019, the Company voluntarily repaid the $120 million senior unsecured notes due December 4, 2020. The funds were repaid from the unsecured revolving credit facility.

Peyto's total borrowing capacity is $1.92 billion of which the credit facility is $1.3 billion ($1.8 billion after the repayment of the December 4, 2020 senior unsecured notes of $120 million).

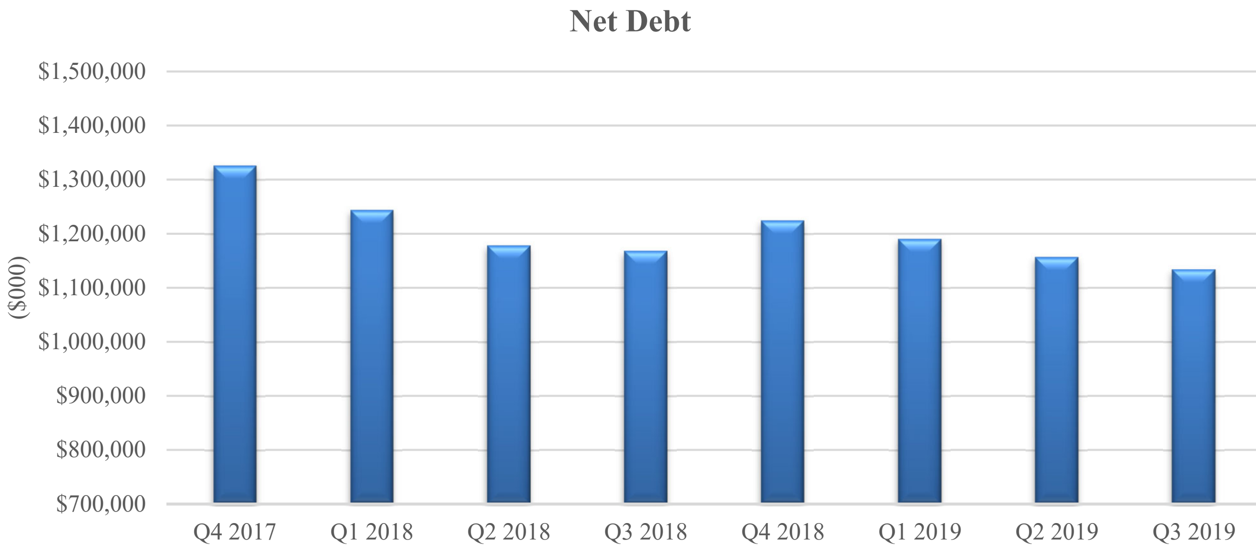
Peyto believes funds generated from operations, together with borrowings under the credit facility will be sufficient to maintain dividends, finance current operations, and fund the planned capital expenditure program of approximately $150 to $200 million for 2019. The total amount of capital invested 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 September 30, 2019**	As at December 31, 2018	As at September 30, 2018
Bank credit facility - drawn	**510,000**	530,000	540,000
Senior unsecured notes	**620,000**	620,000	620,000
Current assets	**(62,734)**	(135,231)	(96,577)
Current liabilities	**72,329**	143,884	99,051
Financial derivative instruments	**(4,667)**	65,769	17,726
Current portion of lease obligation	**(1,059)**	-	-
Provision for future performance-based compensation	**-**	-	(12,528)
Net debt	**1,133,869**	1,224,422	1,167,672

Net debt has decreased 3 per cent from $1.17 billion at September 30, 2018 to $1.13 billion at September 30, 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)	-	**(168)**
Balance, September 30, 2019	**164,874,175**	**1,649,369**

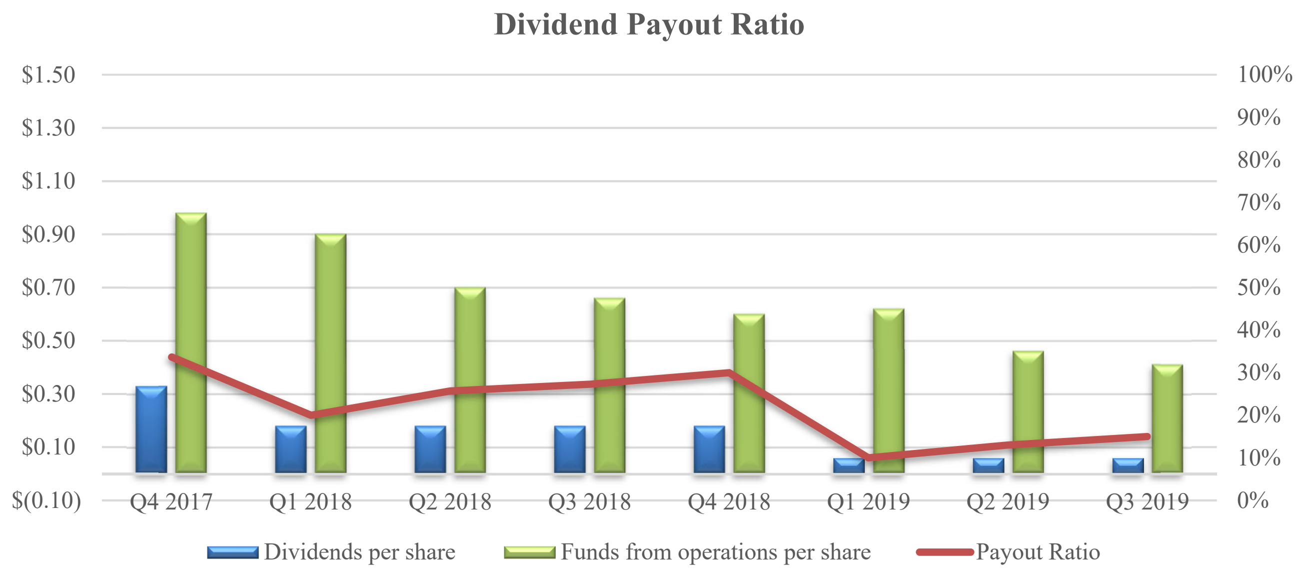
Capital Expenditures
Net capital expenditures for the third quarter of 2019 totaled $36.6 million. Exploration and development related activity represented $24.5 million (67 per cent), while expenditures on facilities, gathering systems and equipment totaled $11.0 million (30 per cent) and land, seismic, and acquisitions totaled $1.1 million (3 per cent). The following table summarizes capital expenditures for the period:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2019**	2018	**2019**	2018
Land	**80**	2,497	**2,531**	3,185
Seismic	**945**	2,268	**2,988**	3,216
Drilling	**14,424**	37,013	**49,728**	58,227
Completions	**10,086**	17,535	**43,847**	35,905
Equipping & Tie-ins	**3,157**	5,559	**11,188**	10,049
Facilities & Pipelines	**7,861**	4,879	**21,742**	13,603
Acquisitions	**21**	-	**1,071**	-
Dispositions	**-**	(35)	**(15)**	(4,037)
Total Capital Expenditures	**36,574**	69,716	**133,080**	120,148

Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Funds from operations ($000)	**68,106**	109,549	**247,157**	374,105
Total dividends ($000)	**9,892**	29,677	**29,677**	89,032
Total dividends per common share ($)	**0.06**	0.18	**0.18**	0.54
Payout ratio (%)	**15**	27	**12**	24

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 September 30, 2019:

($000)	2019	2020	2021	2022	2023	Thereafter
Interest payments [1]	6,680	26,035	20,635	20,635	16,300	32,945
Transportation commitments	7,861	31,970	42,590	69,699	52,535	443,797
Operating lease	537	2,147	2,147	2,222	2,222	6,665
Methanol	2,130	-	-	-	-	-
Total	17,208	60,152	65,372	92,556	71,057	483,407

(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:

($000)	Expense			Accounts Payable	
Three Months ended September 30		Nine Months ended September 30		As at September 30	
2019	2018	**2019**	2018	**2019**	2018
2.7	155.6	**226.7**	432.8	**150.6**	387.9

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 September 30, 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	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	396,343	422,320	462,003	458,792	456,197
Oil & NGLs (bbl/d)	10,650	11,110	10,703	10,273	9,209
Barrels of oil equivalent (boe/d @ 6:1)	76,707	81,496	87,703	86,738	85,242
Thousand cubic feet equivalent (mcfe/d @ 6:1)	460,243	488,977	526,220	520,430	511,453
Liquid to gas ratio (bbl per mmcf)	26.9	26.3	23.2	22.4	20.2
Average product prices					
Natural gas ($/mcf)	1.84	1.83	2.48	2.43	2.43
Oil & natural gas liquids ($/bbl)	39.65	44.70	50.37	44.83	61.04
$/mcfe					
Average sale price ($/mcfe)	2.50	2.60	3.20	3.03	3.27
Average royalties paid ($/mcfe)	0.03	0.01	0.14	0.12	0.14
Average operating expenses ($/mcfe)	0.31	0.34	0.35	0.33	0.31
Average transportation costs ($/mcfe)	0.19	0.19	0.19	0.19	0.19
Field netback ($/mcfe)	1.97	2.06	2.52	2.39	2.63
General & administrative expense ($/mcfe)	0.05	0.05	0.06	0.04	0.03
Interest expense ($/mcfe)	0.31	0.30	0.28	0.27	0.27
Cash netback ($/mcfe)	1.61	1.71	2.18	2.08	2.33
Financial ($000 except per share)					
Revenue and realized hedging gains (losses)	105,944	115,526	151,660	145,109	153,589
Royalties	1,440	237	6,673	5,801	6,399
Funds from operations	68,106	75,971	103,078	99,635	109,549
Funds from operations per share	0.41	0.46	0.63	0.60	0.66
Total dividends	9,892	9,892	9,892	29,677	29,677
Total dividends per share	0.06	0.06	0.06	0.18	0.18
Payout ratio	15%	13%	10%	30%	27%
Earnings	6,275	98,757	24,970	21,458	29,506
Earnings per share	0.04	0.59	0.15	0.13	0.18
Capital expenditures	36,574	34,112	62,395	112,215	69,716
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)

	September 30 2019	December 31 2018
Assets		
Current assets		
Cash	592	-
Accounts receivable (*Note 9)*	50,299	60,130
Derivative financial instruments *(Note 12)*	-	65,769
Prepaid expenses	11,843	9,332
	62,734	135,231
Long-term derivative financial instruments *(Note 12)*	-	12,993
Property, plant and equipment, net *(Note 4)*	3,524,878	3,540,628
	3,524,878	3,553,621
	3,587,612	3,688,852
Liabilities		
Current liabilities		
Bank overdraft	-	19,281
Accounts payable and accrued liabilities	63,306	114,711
Dividends payable *(Note 8)*	3,297	9,892
Current portion of lease obligation *(Note 7)*	1,059	-
Derivative financial instruments *(Note 12)*	4,667	-
Current portion of long-term debt *(Note 5)*	-	100,000
	72,329	243,884
Long-term debt *(Note 5)*	1,130,000	1,050,000
Long-term derivative financial instruments (Note 12)	338	-
Decommissioning provision (Note 6)	191,392	153,855
Lease obligation *(Note 7)*	7,940	-
Deferred income taxes	464,455	560,651
	1,794,125	1,764,506
Equity		
Share capital *(Note 8)*	1,649,369	1,649,537
Contributed surplus (*Note 11)*	2,814	-
Retained earnings (deficit)	69,522	(29,860)
Accumulated other comprehensive income *(Note 8)*	(547)	60,785
	1,721,158	1,680,462
	3,587,612	3,688,852

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Revenue				
Natural gas and natural gas liquid sales (*Note 9)*	90,162	112,458	336,945	373,820
Royalties	(1,440)	(6,399)	(8,350)	(20,822)
Natural gas and natural gas liquid sales, net of royalties	88,722	106,059	328,595	352,998
Risk management contracts				
Realized gain on risk management contracts *(Note 12)*	15,782	41,131	36,185	139,977
	104,504	147,190	**364,780**	492,975
Expenses				
Operating	13,383	14,503	45,307	45,896
Transportation	7,815	9,036	25,109	25,712
General and administrative	1,818	1,296	6,889	8,093
Market and reserves-based bonus *(Note 10)*	-	-	2,291	-
Future performance-based compensation *(Note 10)*	-	1,198	-	3,464
Stock based compensation *(Note 11)*	1,304	-	2,814	-
Interest *(Note 5)*	13,382	12,806	40,318	39,168
Accretion of decommissioning provision (*Note 6)*	599	880	1,988	2,481
Depletion and depreciation *(Note 4)*	58,053	67,052	183,766	220,692
	96,354	106,771	**308,482**	345,506
Earnings before taxes	**8,150**	40,419	**56,298**	147,469
Income tax				
Deferred income tax expense (recovery)	1,875	10,913	(73,705)	39,817
Earnings for the period	**6,275**	29,506	**130,003**	107,652
Earnings per share (Note 8)				
Basic and diluted	**$0.04**	$0.18	**$0.79**	$0.65

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Comprehensive Income (Loss) *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Earnings for the period	**6,275**	29,506	**130,003**	107,652
Other comprehensive income				
Change in unrealized (loss) gain on cash flow hedges	(12,262)	8,508	(47,581)	10,472
Deferred tax recovery	7,572	8,808	22,434	34,966
Realized (gain) on cash flow hedges	(15,782)	(41,131)	(36,185)	(139,977)
Comprehensive (loss) income	**(14,197)**	5,691	**68,671**	13,113

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30	
	2019	**2018**
Share capital, beginning of period	**1,649,537**	1,649,537
Stock option issuance costs (net of tax)	(168)	-
Share capital, end of period	**1,649,369**	1,649,537

Contributed surplus, beginning of period	-	-
Stock based compensation expense	2,814	-
Contributed surplus, end of period	**2,814**	-

Retained earnings (deficit), beginning of period	**(30,804)**	(40,261)
Earnings for the period	130,003	107,652
Dividends *(Note 8)*	(29,677)	(89,032)
Retained earnings (deficit), end of period	**69,522**	(21,641)

Accumulated other comprehensive income, beginning of period	**60,785**	113,702
Other comprehensive loss	(61,332)	(94,539)
Accumulated other comprehensive (loss) income, end of period	**(547)**	19,163

Total equity	**1,721,158**	1,647,059

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Cash provided by (used in) operating activities				
Earnings	6,275	29,506	130,003	107,652
Items not requiring cash:				
Deferred income tax (recovery)	1,875	10,913	(73,705)	39,817
Depletion and depreciation	58,053	67,052	183,766	220,692
Accretion of decommissioning provision	599	880	1,988	2,481
Stock based compensation	1,304	-	2,814	-
Long term portion of future performance based compensation	-	10	-	102
Change in non-cash working capital related to operating activities	(3,193)	14,658	(2,873)	13,176
	64,913	123,019	**241,993**	383,920
Financing activities				
Bank overdraft	-	-	(19,281)	-
Stock option issuance costs	-	-	(225)	-
Cash dividends paid	(9,892)	(29,677)	(36,273)	(97,276)
Lease interest *(Note 7)*	80	-	244	-
Principal repayment of lease *(Note 7)*	(338)	-	(1,015)	-
Issuance of senior notes	-	-	100,000	100,000
Repayment of senior notes	-	-	(100,000)	-
Decrease in bank debt	(20,000)	(50,000)	(20,000)	(225,000)
	(30,150)	(79,677)	**(76,550)**	(222,276)
Investing activities				
Additions to property, plant and equipment	(36,574)	(69,716)	(133,080)	(120,148)
Change in prepaid capital	1,313	466	8,684	(5,157)
Change in non-cash working capital relating to investing activities	428	25,776	(40,455)	(40,993)
	(34,833)	(43,474)	**(164,851)**	(166,298)
Net decrease in cash	**(70)**	(132)	**592**	(4,654)
Cash, beginning of period	**662**	1,130	**-**	5,652
Cash, end of period	**592**	998	**592**	998

The following amounts are included in cash flows from operating activities:				
Cash interest paid	**14,101**	10,143	**40,160**	35,855
Cash taxes paid	**-**	-	**-**	-

See accompanying notes to the financial statements

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 financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 5, 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.

IFRS 2 "Share based payments"

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

4. Property, plant and equipment, net

Cost	
At December 31, 2018	**5,691,372**
Additions	133,080
ROU asset	8,070
Decommissioning provision additions	35,549
Prepaid capital	(8,685)
At September 30, 2019	**5,859,388**
Accumulated depletion and depreciation	
At December 31, 2018	**(2,150,744)**
Depletion and depreciation	(183,766)
At September 30, 2019	**(2,334,510)**
Carrying amount at December 31, 2018	3,540,628
Carrying amount at September 30, 2019	**3,524,878**

During the three- and nine-month periods ended September 30, 2019, Peyto capitalized $0.4 million and $2.5 million (2018 - $1.0 million and $1.9 million) of general and administrative expense directly attributable to exploration and development activities.

5. Long-term debt

	September 30, 2019	December 31, 2018
Bank credit facility	510,000	530,000
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	620,000	520,000
Balance, end of the period	**1,130,000**	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 (discussed below):

- 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.

Peyto is in compliance with all financial covenants at September 30, 2019.

Outstanding 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 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.

On October 25, 2019, the Company voluntarily repaid the $120 million senior unsecured notes due December 4, 2020. The funds were repaid from the unsecured revolving credit facility.

Total interest expense for the three- and nine-month periods ended September 30, 2019 was $13.4 million and $40.3 million (2018 - $12.8 million and $39.2 million) and the average borrowing rate for the period was 4.6% and 4.6% (2018– 4.3% and 4.2%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2018	**153,855**
New or increased provisions	3,390
Accretion of decommissioning provision	1,988
Change in discount rate and estimates	32,159
Balance, September 30, 2019	**191,392**
Current	-
Non-current	191,392

Peyto has estimated the net present value of its total decommissioning provision to be $191.4 million as at September 30, 2019 ($153.9 million at December 31, 2018) based on a total future undiscounted liability of $307.6 million ($301.8 million at December 31, 2018). At September 30, 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. The Bank of Canada's long-term bond rate of 1.53 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	(757)
Balance at September 30, 2019	**7,313**

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	244
Principal repayment of lease	(1,015)
Lease obligation at September 30, 2019	**8,999**

Current portion of lease obligation at September 30, 2019	**1,059**
Non-current portion of lease obligation at September 30, 2019	**7,940**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million and $0.6 million for the three and nine months ended September 30, 2019. The variable lease payments are recognized through general and administration expense.

During the period ended September 30, 2019, $9.8 million was capitalized in relation to short-term leases.

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

	As at September 30, 2019
Less than 1 year	338
1-3 years	4,137
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	2,857
Total lease payment	10,189
Amount representing interest	(1,190)
Present value of lease payments	8,999
Current portion of lease obligation	1,059
Non-current portion of lease obligation	7,940

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	-	-
Stock option issuance costs (net of tax)	-	(168)
Balance, September 30, 2019	**164,874,175**	**1,649,369**

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

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Weighted average common shares basic and diluted	**164,874,175**	164,874,175	**164,874,175**	164,874,175

Dividends
During the three- and nine-month periods ended September 30, 2019, Peyto declared and paid dividends of $0.06 and $0.18 per common share, totaling $9.9 million and $29.7 million respectively (2018 - $0.18 and $0.54, totaling $29.7 million and $89.0 million respectively).

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

Accumulated hedging gains
Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement with gains and losses being recognized as a component of net revenue. Further information on these contracts is set out in Note 12.

9. Revenue and receivables

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Natural Gas Sales	53,528	60,740	208,296	214,633
Natural Gas Liquid sales	36,634	51,718	128,649	159,187
Natural gas and natural gas liquid sales	**90,162**	112,458	**336,945**	373,820

	September 30, 2019	December 31, 2018
Accounts receivable from customers	36,115	52,759
Accounts receivable from realized risk management contracts	4,146	1,979
Accounts receivable from joint venture partners and other	10,038	5,392
	50,299	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. Performance-based compensation

Reserve based component
The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, 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%. For nine months ended September 30, 2019, $2.3 million was expensed.

Future market-based component
All liabilities related to future market-based compensation have been settled in cash in January of 2019.

11. Stock based compensation

In 2019, the Company adopted a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. In addition, the shareholders of the Company approved the issuance of commons shares to fulfill the Company's obligation under previously granted rights pursuant to its market-based bonus plan, as a transition between the market-based bonus and the newly adopted stock option plan. The stock option plan will replace the market-based bonus plan on a go forward basis. These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

The following tables summarize the rights outstanding under the market-based bonus plan at September 30, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Rights under market-based bonus plan granted	2,475,000	7.23
Forfeited	(147,200)	(7.23)
Balance, September 30, 2019	**2,327,800**	**7.23**

The Company estimates the fair value of rights under the market-based bonus plan using the Black-Scholes pricing model. During the nine months ended September 30, 2019 the fair value per right was $2.10. The following tables summarizes the assumptions used in the Black-Scholes model:

	September 30, 2019
Share price	$7.23
Exercise price (net of dividends)	$7.17
Expected volatility	39.60%
Average life	2 year
Risk-free interest rate	1.85%
Forfeiture rate	0.17%

The rights granted under the 2019 market-based bonus plan vest one-third on each of December 31, 2019, 2020 and 2021.

The following tables summarize the stock options outstanding at September 30, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Stock options granted	5,067,501	4.42
Forfeited	(164,200)	5.10
Balance, September 30, 2019	**4,903,301**	**4.40**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the nine months ended September 30, 2019 the weighted-average fair value per option was $1.32. The following tables summarize the assumptions used in the Black-Scholes model:

	September 30, 2019
Share price	$4.42
Exercise price	$4.66
Expected volatility	44.47%
Average option life	2 year
Risk-free interest rate	1.42%
Forfeiture rate	0.17%

Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

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

		Weighted Average Exercise price $	Weighted Average Remaining Contractual life- Years
Rights under market-based bonus plan	2,327,800	7.23	2.25
Stock options	4,903,301	4.40	1.32

At September 30, 2019, no stock options are exercisable

12. Financial instruments

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 September 30, 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 value drivers are observable in active markets.

- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or 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 September 30, 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 September 30, 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)
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
August 1, 2019 to December 31, 2019	Fixed Price	300 bbl	$60.00/bbl to $60.25/bbl

As at September 30, 2019, Peyto had committed to the future sale of 53,100,000 gigajoules (GJ) of natural gas at an average price of $1.75 per GJ or $2.02 per mcf and 64,400 barrels of crude at $85.52 per bbl. Had these contracts been closed on September 30, 2019, Peyto would have realized a loss in the amount of $5.0 million. If the AECO gas price on September 30, 2019 were to increase by $0.10/GJ, the unrealized loss would increase by approximately $5.3 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

13. Related party transactions

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

Expense				Accounts Payable	
Three Months ended September 30		Nine Months ended September 30		As at September 30	
2019	2018	**2019**	2018	**2019**	2018
2.7	155.6	**226.7**	432.8	**150.6**	387.9

14. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at September 30, 2019:

	2019	2020	2021	2022	2023	Thereafter
Interest payments [1]	6,680	26,035	20,635	20,635	16,300	32,945
Transportation commitments	7,861	31,970	42,590	69,699	52,535	443,797
Operating leases	537	2,147	2,147	2,222	2,222	6,665
Methanol	2,130	-	-	-	-	-
Total	17,208	60,152	65,372	92,556	71,057	483,407

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
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