

## 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, 2019 and 2018. 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 March 3, 2020. Additional information about Peyto, including the most recently filed annual information form is available at [www.sedar.com](http://www.sedar.com) and on Peyto's website at [www.peyto.com](http://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 (mcf) 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, 2019, the Company's total Proved plus Probable reserves were 4.9 trillion cubic feet equivalent (815 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.

## ANNUAL FINANCIAL INFORMATION

The following is a summary of selected financial information of the Company for the periods indicated. Reference should be made to the audited consolidated financial statements of the Company, which are available at [www.sedar.com](http://www.sedar.com).

Year Ended December 31	2019	2018	2017
(\$000 except per share amounts)			
Total revenue and realized hedging gains (losses) (before royalties) <sup>1</sup>	<b>489,822</b>	658,906	760,956
Funds from operations	<b>323,131</b>	473,740	573,721
Per share – basic and diluted	<b>1.96</b>	2.87	3.48
Earnings	<b>133,495</b>	129,110	176,575
Per share – basic and diluted	<b>0.81</b>	0.78	1.07
Capital Expenditures	<b>206,431</b>	232,363	521,210
Total assets	<b>3,597,180</b>	3,688,852	3,844,714
Total long-term debt (including current portion)	<b>1,120,000</b>	1,150,000	1,285,000
Dividends per share	<b>0.24</b>	0.72	1.32
Total payout ratio (%)	<b>76</b>	74	129

<sup>1</sup> excludes revenue from sale of third-party volumes

### 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.

## Total Payout Ratio

“Total payout ratio” is a non-GAAP measure which is calculated as the sum of dividends declared plus capital expenditures, divided by funds from operations. This ratio represents the percentage of the capital expenditures and dividends that is funded by cashflow. Management uses this measure to assess the sustainability of Peyto’s dividend and capital program.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue and realized hedging gains (losses) (net of royalties) <sup>1</sup>	<b>111,389</b>	104,504	115,289	144,987	139,308	147,190	154,932	190,854
Funds from operations	<b>75,974</b>	68,106	75,971	103,078	99,635	109,549	115,571	148,986
Per share – basic and diluted	<b>0.46</b>	0.41	0.46	0.63	0.60	0.66	0.70	0.90
Earnings	<b>3,492</b>	6,275	98,757	24,970	21,458	29,506	30,397	47,749
Per share – basic and diluted	<b>0.02</b>	0.04	0.59	0.15	0.13	0.18	0.18	0.29
Dividends	<b>9,892</b>	9,892	9,892	9,892	29,677	29,677	29,677	29,677
Per share – basic and diluted	<b>0.06</b>	0.06	0.06	0.06	0.18	0.18	0.18	0.18
Capital expenditures	<b>73,351</b>	36,574	34,112	62,395	112,215	69,716	14,978	35,454

<sup>1</sup> excludes revenue from sale of third-party volumes

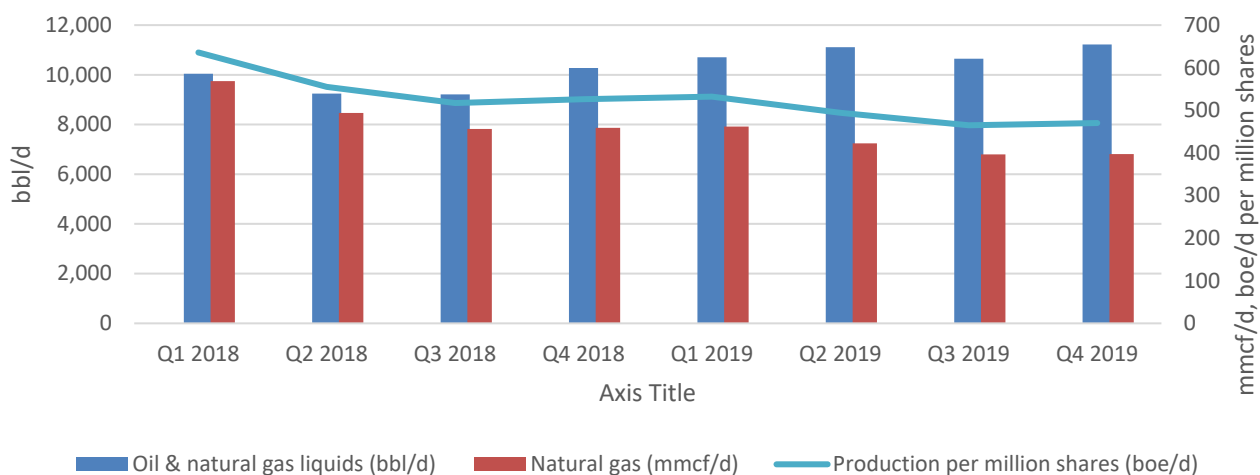
## RESULTS OF OPERATIONS

### Production

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Natural gas (mmcf/d)	<b>397.4</b>	458.8	<b>419.3</b>	493.9
Oil & natural gas liquids (bbl/d)	<b>11,221</b>	10,273	<b>10,922</b>	9,692
Barrels of oil equivalent (boe/d)	<b>77,457</b>	86,738	<b>80,802</b>	92,012
Thousand cubic feet equivalent (mmcfe/d)	<b>464.7</b>	520.4	<b>484.8</b>	552.1

Condensate and NGL production increased 9 per cent from 10,273 bbl/d in the fourth quarter of 2018 to 11,221 bbl/d in the fourth quarter of 2019, due to continued deployment of capital in Peyto’s liquids rich Cardium play. Natural gas production decreased 13 per cent to 397.4 mmcf/d as Peyto replaced declining dry gas with significantly higher liquids-rich gas. Total fourth quarter production decreased 11 per cent from 520.4 mmcfe/d to 464.7 mmcfe/d. Production for the year decreased 12 per cent from 552.1 mmcfe/d to 484.8 mmcfe/d (92,012 boe/d to 80,802 boe/d). Production decreases are attributable to Peyto’s planned reduced capital program which did not offset natural production declines.

### Average Daily Production

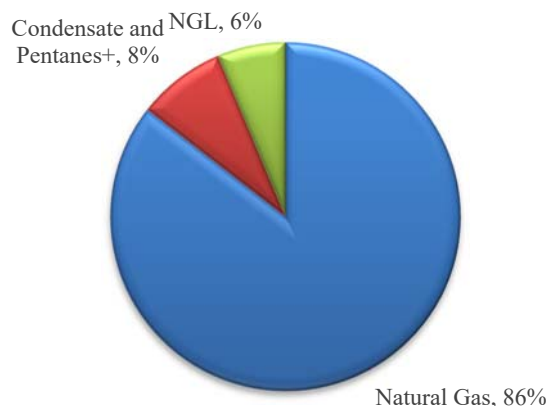


## Oil & Natural Gas Liquids Production by Component

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Oil, Condensate and Pentanes+ (bbl/d)	<b>6,533</b>	5,660	<b>6,374</b>	5,492
Other Natural gas liquids(bbl/d)	<b>4,688</b>	4,613	<b>4,548</b>	4,200
Oil & Natural gas liquids (bbl/d)	<b>11,221</b>	10,273	<b>10,922</b>	9,692
Barrels per million cubic feet	<b>28.2</b>	22.4	<b>26.0</b>	19.6

The liquid production to sales gas ratio increased 26 per cent from 22.4 bbl/mmcf in Q4 2018 to 28.2 bbl/mmcf in Q4 2019. On an annual basis, the liquid production to sales gas ratio increased 33 per cent. This increase was due to the addition of liquids rich production from new Cardium wells.

### Q4 Production by Component



### Commodity Prices

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Oil & natural gas liquids (\$/bbl)	<b>43.12</b>	42.23	<b>42.59</b>	56.38
Hedging – Oil & NGL (\$/bbl)	<b>0.73</b>	2.60	<b>2.02</b>	0.60
Oil & NGL – after hedging (\$/bbl)	<b>43.85</b>	44.83	<b>44.61</b>	56.98
Natural gas (\$/mcf)	<b>3.12</b>	2.18	<b>2.63</b>	1.70
Diversification activities (\$/mcf)	<b>(0.92)</b>	(0.09)	<b>(0.72)</b>	(0.02)
Hedging – gas (\$/mcf)	<b>(0.24)</b>	0.34	<b>0.13</b>	0.86
Natural gas – after hedging (\$/mcf)	<b>1.96</b>	2.43	<b>2.04</b>	2.54
Total Hedging (\$/mcf)	<b>(0.19)</b>	0.35	<b>0.16</b>	0.78
Total Hedging (\$/boe)	<b>(1.11)</b>	2.10	<b>0.96</b>	4.67

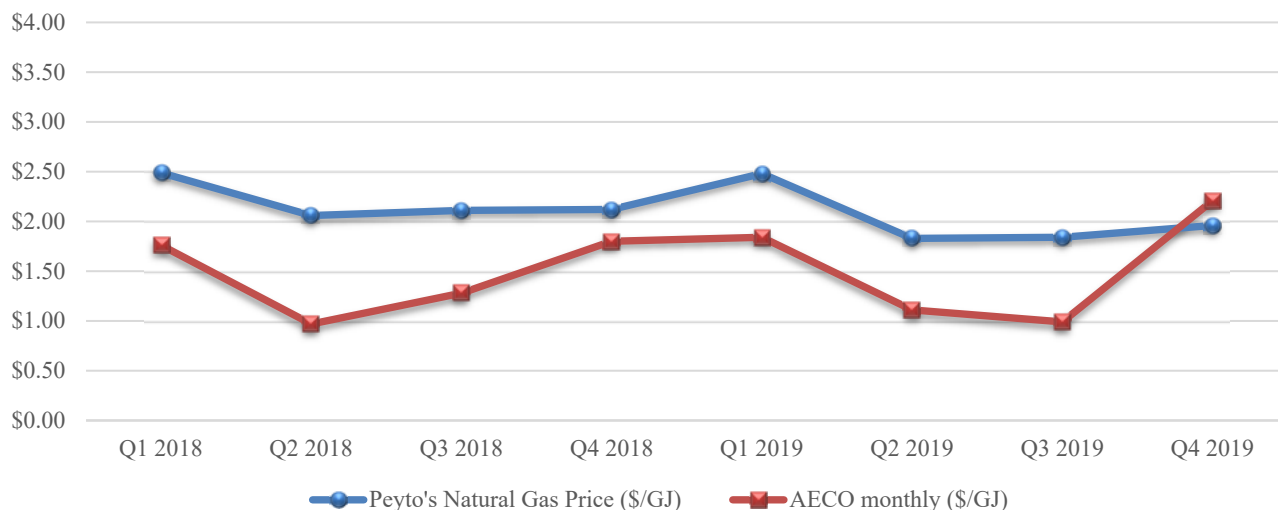
Peyto's natural gas price, before hedging and diversification activities, averaged \$3.12/mcf during the fourth quarter of 2019, an increase of 43 per cent from \$2.18/mcf for the equivalent period in 2018. Oil & natural gas liquids prices, before hedging, averaged \$43.12/bbl, an increase of 2 per cent from \$42.23/bbl a year earlier. On an annual basis, natural gas prices before hedging and diversification activities increased 55 per cent from \$1.70/mcf to \$2.63/mcf while oil and natural gas liquids decreased 24 per cent from \$56.38/bbl to \$42.59/bbl. Market diversification contracts were entered into to sell natural gas at various hubs including AECO, Dawn, Ventura, Emerson 2 and Henry Hub using both physical fixed price and basis transactions to access those locations. These contracts reduced the market price received by \$0.92/mcf for the fourth quarter of 2019 and \$0.72/mcf for the year ended 2019.

## Realized Commodity Prices by Component

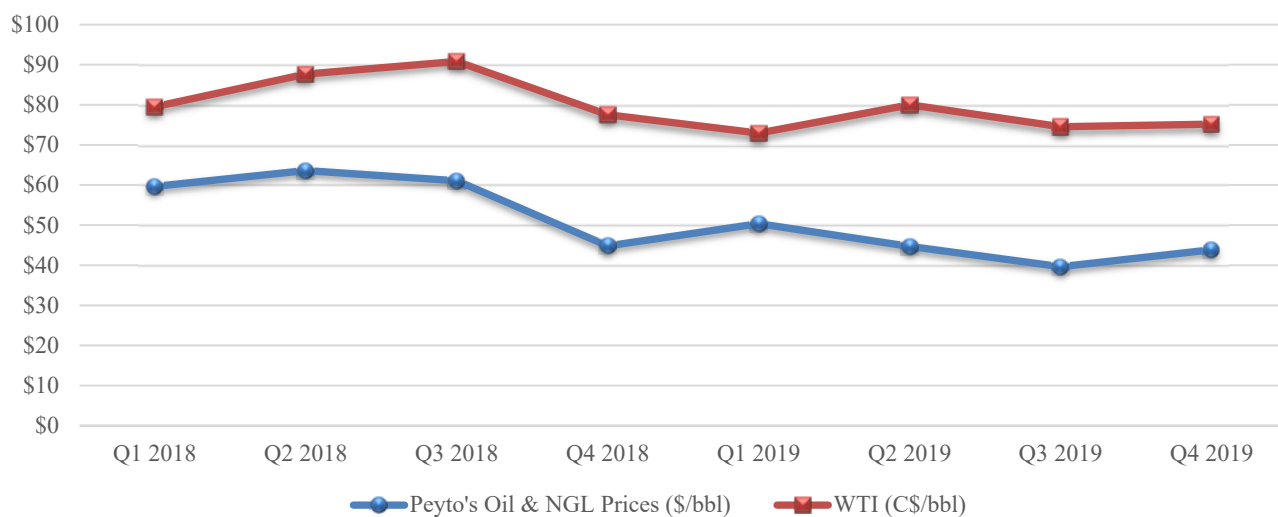
	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Natural gas, after hedging (\$/mcf)	1.96	2.43	2.04	2.54
Oil, Condensate and Pentanes+, after hedging (\$/bbl)	66.39	59.40	69.22	75.46
Other Natural gas liquids (\$/bbl)	12.45	25.37	10.43	31.43
Total Oil and Natural gas liquids (\$/bbl)	43.85	44.83	44.61	56.98

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

### Natural Gas Price



### Oil & NGL Prices



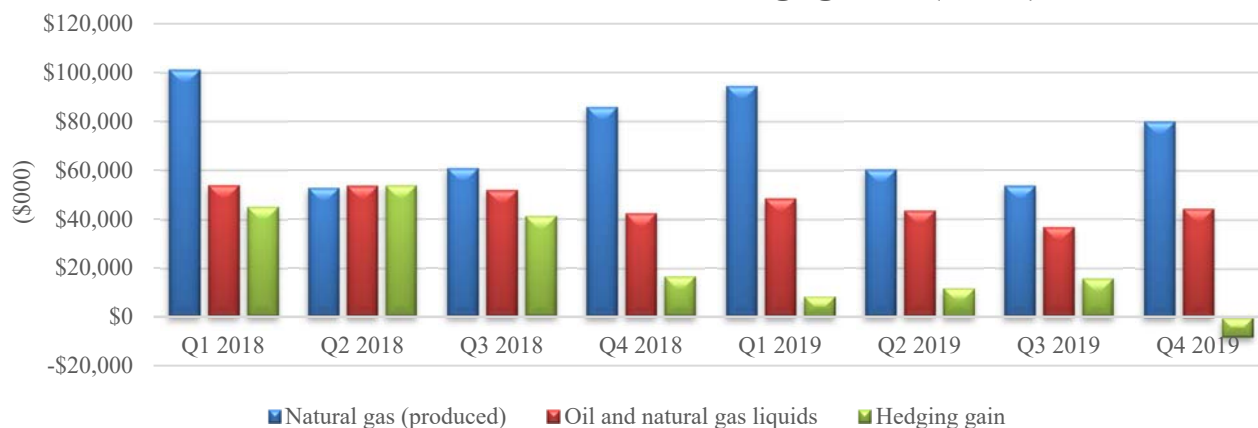
## Benchmark Commodity Prices

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
AECO 7A monthly (\$/GJ)	2.21	1.80	1.54	1.45
AECO 5A daily (\$/GJ)	2.35	1.48	1.67	1.42
Empress daily (\$/GJ)	2.59	4.06	2.43	2.93
NYMEX (US\$/MMbtu)	2.41	3.74	2.53	3.07
Ventura daily (US\$/MMbtu)	2.64	4.18	2.47	3.06
Dawn daily (US\$/MMbtu)	2.42	3.91	2.44	3.10
Canadian WTI (\$/bbl)	75.18	77.54	75.68	83.89
Conway C3 (US\$/bbl)	19.73	28.96	19.91	30.31

### Revenue from Produced Volumes and Realized Hedging Gains (Losses)

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Natural gas (produced)	<b>80,085</b>	85,955	<b>288,380</b>	300,590
Oil & natural gas liquids	<b>44,518</b>	42,370	<b>173,168</b>	201,556
Hedging gain (loss)	<b>(7,912)</b>	16,784	<b>28,274</b>	156,760
	<b>116,691</b>	145,109	<b>489,822</b>	658,906

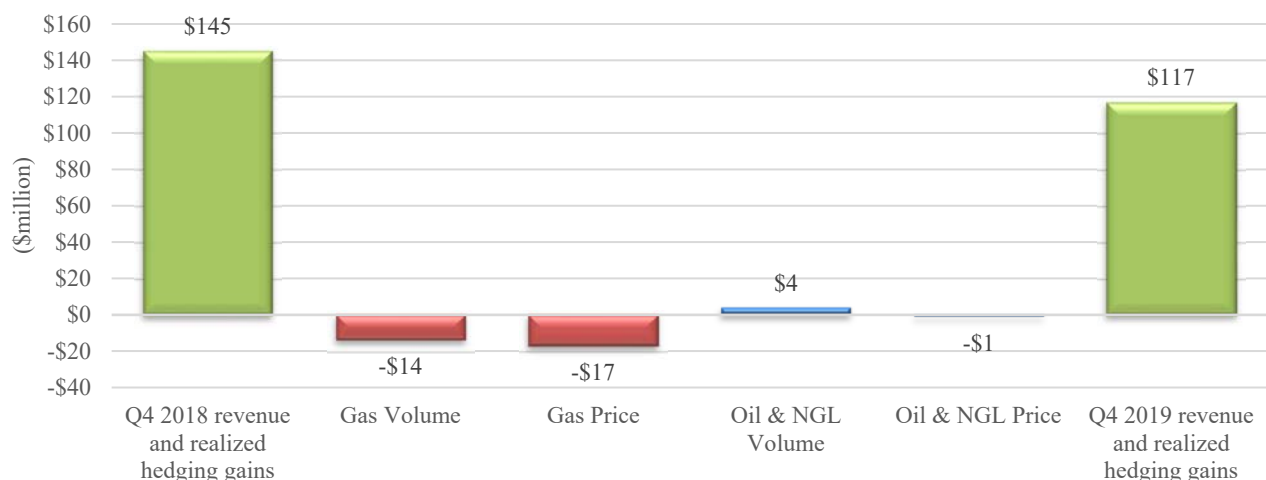
### Revenue and Realized Hedging Gains (Losses)



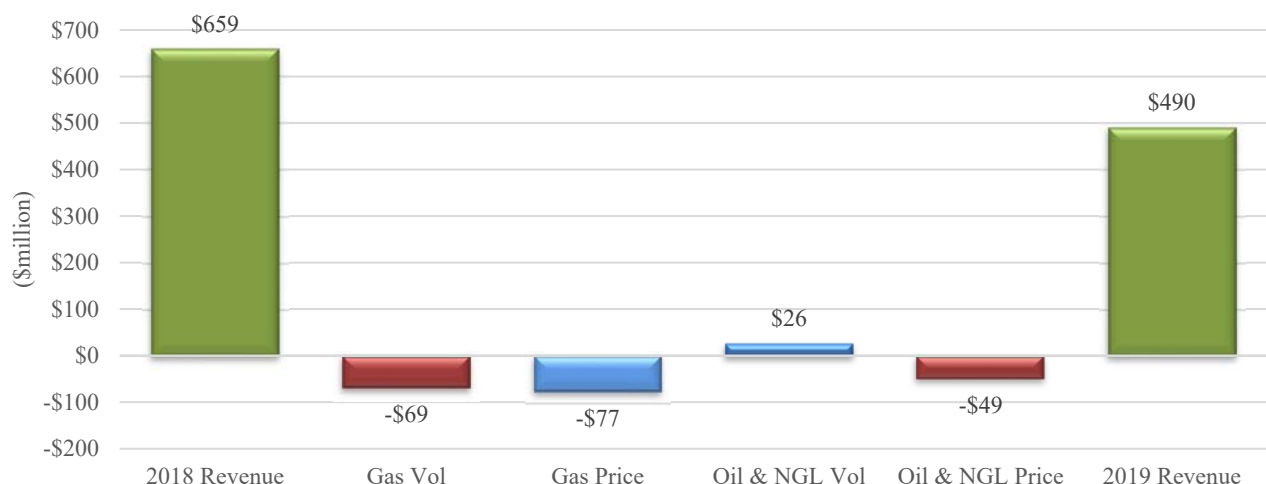
For the three months ended December 31, 2019, revenue and realized hedging gains (losses) from the sale of produced volumes decreased 20 per cent to \$116.7 million from \$145.1 million for the same period in 2018. On an annual basis, revenue decreased 26 per cent from \$658.9 million in 2018 to \$489.8 million in 2019. The decrease in revenue and realized hedging gains (losses) from the sale of produced volumes for the quarter was a result of decreased natural gas production volumes and decreased commodity prices partially offset by an increase in liquid production, as detailed in the following table:

	Three Months ended December 31			Twelve Months ended December 31		
	2019	2018	\$million	2019	2018	\$million
Total Revenue, December 31, 2018			<b>145</b>			<b>659</b>
Revenue change due to:						
<b>Natural gas</b>						
Volume (mmcf)	36,563	42,209	<b>(14)</b>	153,038	180,281	<b>(69)</b>
Price (\$/mcf)	\$1.96	\$2.43	<b>(17)</b>	\$2.04	\$2.54	<b>(77)</b>
<b>Oil &amp; NGL</b>						
Volume (mdbl)	1,032	945	<b>4</b>	3,986	3,537	<b>26</b>
Price (\$/bbl)	\$43.85	\$44.83	<b>(1)</b>	\$44.61	\$56.98	<b>(49)</b>
Total Revenue, December 31, 2019			<b>117</b>			<b>490</b>

### Q4 Change in Revenue and Realized Hedging Gains



### 2019 Change in Revenue and Realized Hedging Gains



### 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 December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Royalties (\$000)	<b>5,303</b>	5,801	<b>13,653</b>	26,622
per cent of sales before hedging	<b>4.2</b>	4.5	<b>2.9</b>	5.3
per cent of sales after hedging	<b>4.5</b>	4.0	<b>2.8</b>	4.0
\$/mcf	<b>0.12</b>	0.12	<b>0.08</b>	0.13
\$/boe	<b>0.74</b>	0.73	<b>0.46</b>	0.79

For the fourth quarter of 2019, royalties averaged \$0.12/mcfe or approximately 4.2 per cent of Peyto's total petroleum and natural gas sales excluding hedging gains (losses). On an annual basis, royalties averaged \$0.08/mcfe or 2.9 per cent of sales excluding hedging gains (losses) due to a significant annual GCA adjustment received in the second quarter to 2019. 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.

### Royalties



In its 21 year history, Peyto has invested over \$6.1 billion in capital projects, found and developed 4.9 TCFe of natural gas reserves and paid over \$872 million in royalties.

### Operating Costs & Transportation

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

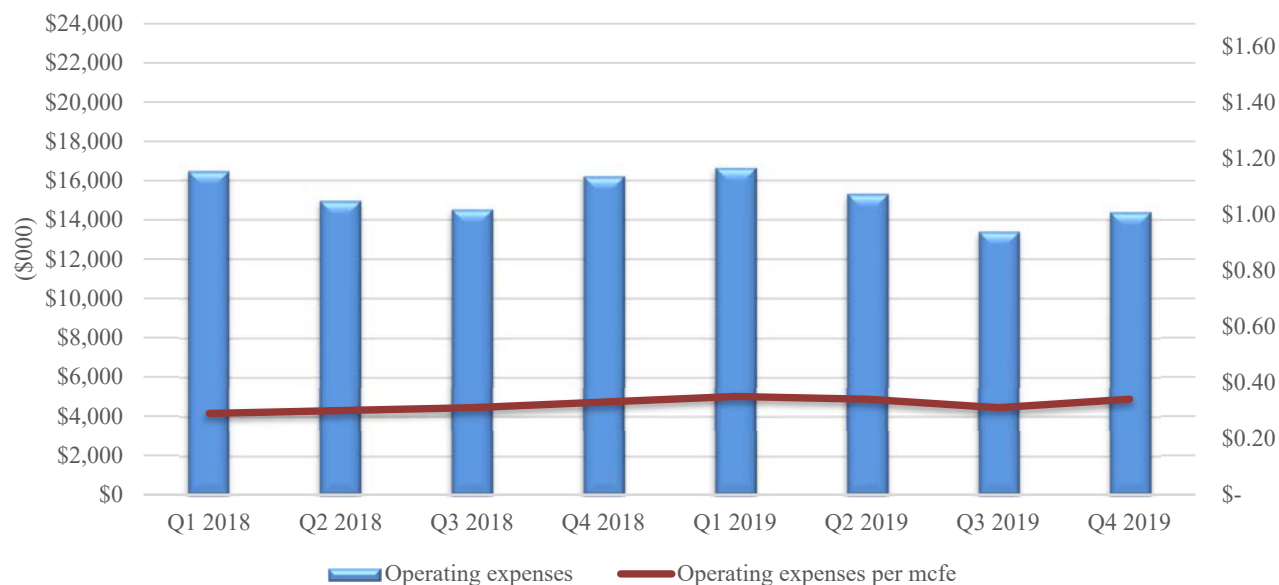
	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Operating costs (\$000)	<b>14,367</b>	16,189	<b>59,674</b>	62,085
\$/mcf	<b>0.34</b>	0.33	<b>0.34</b>	0.31
\$/boe	<b>2.02</b>	2.03	<b>2.02</b>	1.85
Transportation (\$000)	<b>8,058</b>	8,912	<b>33,168</b>	34,623
\$/mcf	<b>0.19</b>	0.19	<b>0.19</b>	0.17
\$/boe	<b>1.13</b>	1.12	<b>1.12</b>	1.03

For the fourth quarter, operating expenses decreased 11 per cent compared to the same quarter in 2018. On a unit-of-production basis, operating costs were \$0.34/mcfe, an increase of 3% from the same quarter in 2018. On an annual basis, operating costs per mcfe increased 10 per cent from \$0.31/mcfe to \$0.34/mcfe. The decrease was due to a decrease in production volumes. Peyto focuses on being an industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.

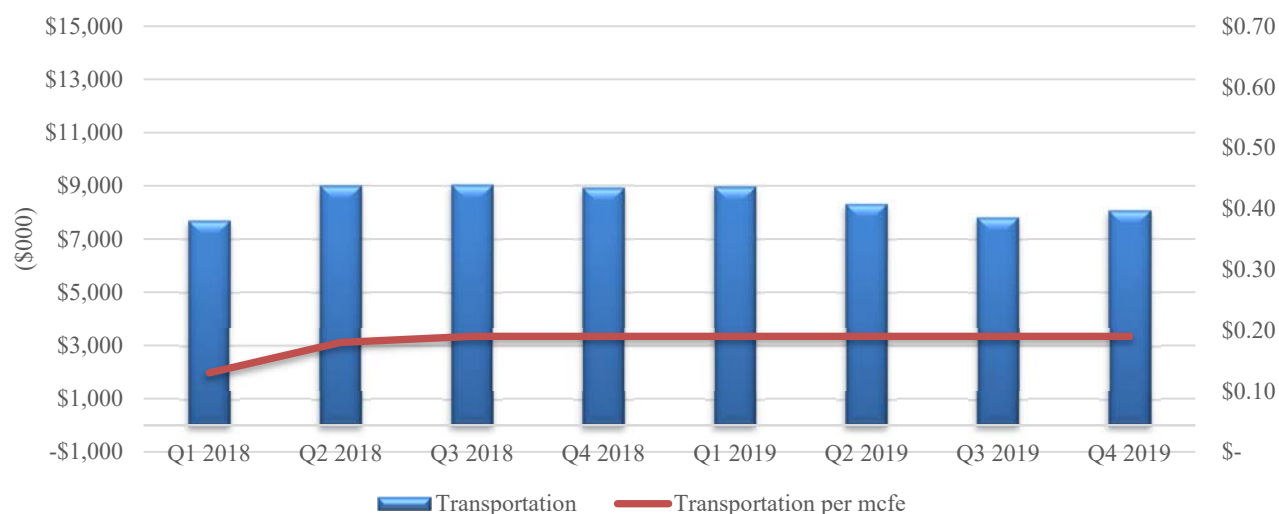
Transportation expenses on a unit-of production basis were unchanged at \$0.19/mcfe in the fourth quarter 2019. On an annual basis, transportation expenses increased 12 per cent on a unit-of production basis from \$0.17/mcfe in 2018 to \$0.19/mcfe in 2019 due to the incremental cost of unutilized firm transportation.



## Operating Expenses



## Transportation

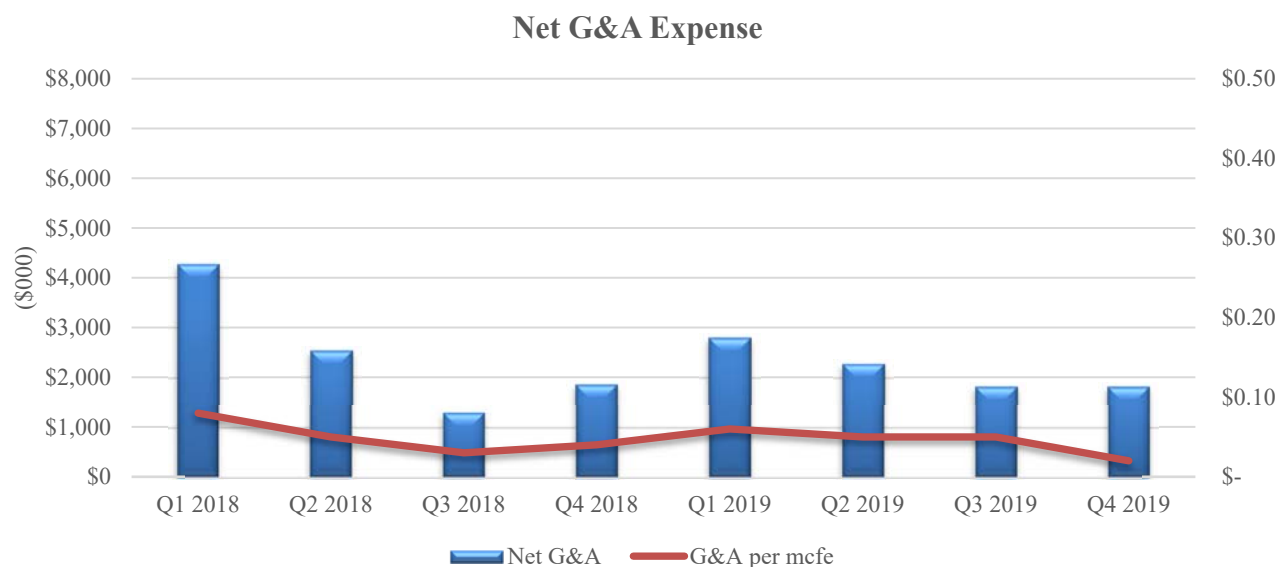


### General and Administrative Expenses

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
G&A expenses (\$000)	3,751	4,591	15,930	17,436
Overhead recoveries (\$000)	(2,757)	(2,734)	(8,047)	(7,486)
Net G&A expenses (\$000)	994	1,857	7,883	9,950
\$/mcf	0.02	0.04	0.04	0.05
\$/boe	0.14	0.23	0.27	0.29

For the fourth quarter, general and administrative expenses before overhead recoveries was \$3.8 million compared to \$4.6 million for the same quarter of 2018. On an annual basis, general and administrative expenses before overhead recoveries were \$15.9 million compared to \$17.4 million in 2018. The reduction on a quarterly and annual basis was due primarily to the adoption of IFRS 16 – Leases. General and administrative expenses averaged \$0.09/mcf before overhead recoveries of \$0.07/mcf for net general and administrative expenses of \$0.02/mcf in the fourth quarter of 2019 (\$0.10/mcf before overhead recoveries of \$0.06/mcf for net general and administrative expenses of \$0.04/mcf in the fourth quarter of 2018).

Peyto capitalizes general and administrative costs and market and reserves based compensation related to the execution of its capital program. Most these costs are related to the execution of Peyto's capital program. In 2019, Peyto capitalized \$6.7 million of expenses directly attributable to exploration and development activities compared to \$7.0 million in 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%. Compensation expense of \$Nil was recorded for the fourth 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 December 31, 2019, compensation costs related to 1.6 million non-vested rights (1% of the total number of common shares outstanding), with an average grant price of \$7.23 are \$0.6 million for the fourth quarter of 2019, and 7.6 million non-vested stock options (5% of the total number of common shares outstanding), with an average grant price of \$3.93 are \$1.0 million for the fourth 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 12 of the consolidate financial statements for 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, 2020	825,000	49,066	775,934	\$ 7.23
December 31, 2021	825,000	49,067	775,933	\$ 7.23

## Stock Options Plan

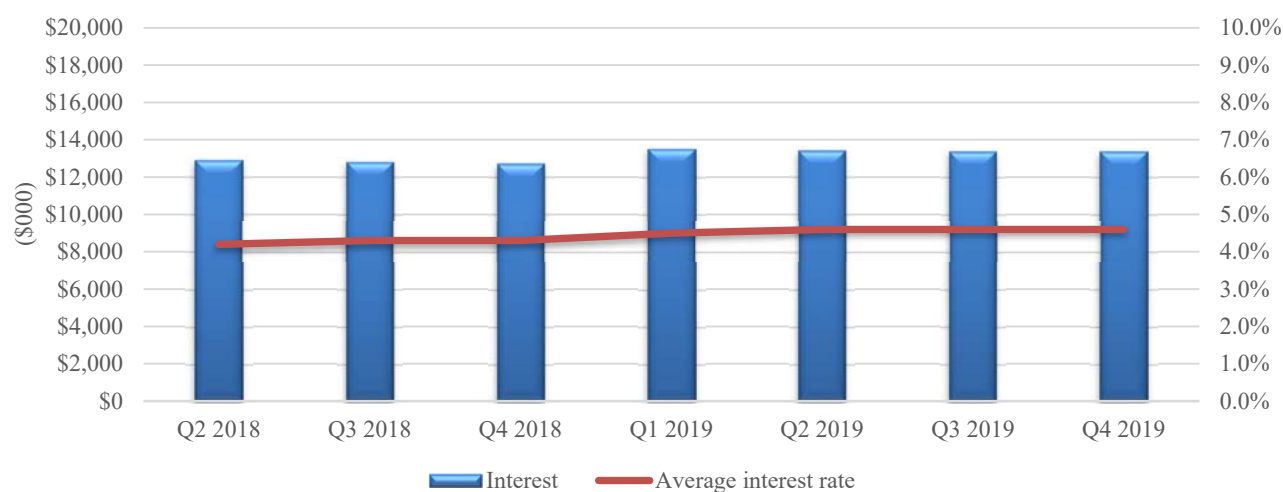
Valuation and Vesting Date	Stock Options Granted	Stock Options Forfeited	Options Outstanding	Average Grant Price
May 15, 2020	825,000	29,733	795,267	\$ 5.72
May 15, 2021	825,000	29,733	795,267	\$ 5.72
May 15, 2022	825,000	29,733	795,267	\$ 5.72
August 15, 2020	864,167	25,000	839,167	\$ 3.18
August 15, 2021	864,167	25,000	839,167	\$ 3.18
August 15, 2022	864,167	25,000	839,167	\$ 3.18
November 15, 2020	889,633	-	889,633	\$ 3.07
November 15, 2021	889,633	-	889,633	\$ 3.07
November 15, 2022	889,633	-	889,633	\$ 3.07

## Interest Expense

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Interest expense (\$000)	<b>13,236</b>	12,717	<b>53,553</b>	51,886
\$/mcf	<b>0.31</b>	0.27	<b>0.30</b>	0.26
\$/boe	<b>1.86</b>	1.59	<b>1.82</b>	1.55
Average interest rate	<b>4.5%</b>	4.4%	<b>4.6%</b>	4.3%

Fourth quarter 2019 interest expense was \$13.3 million or \$0.31/mcf compared to \$12.7 million or \$0.27/mcf for the fourth quarter 2018. For the year ended December 31, 2019, interest expense was \$53.6 million compared to \$51.9 million for 2018. The average interest rate 2019 was 4.6 per cent compared to 4.3 per cent in 2018.

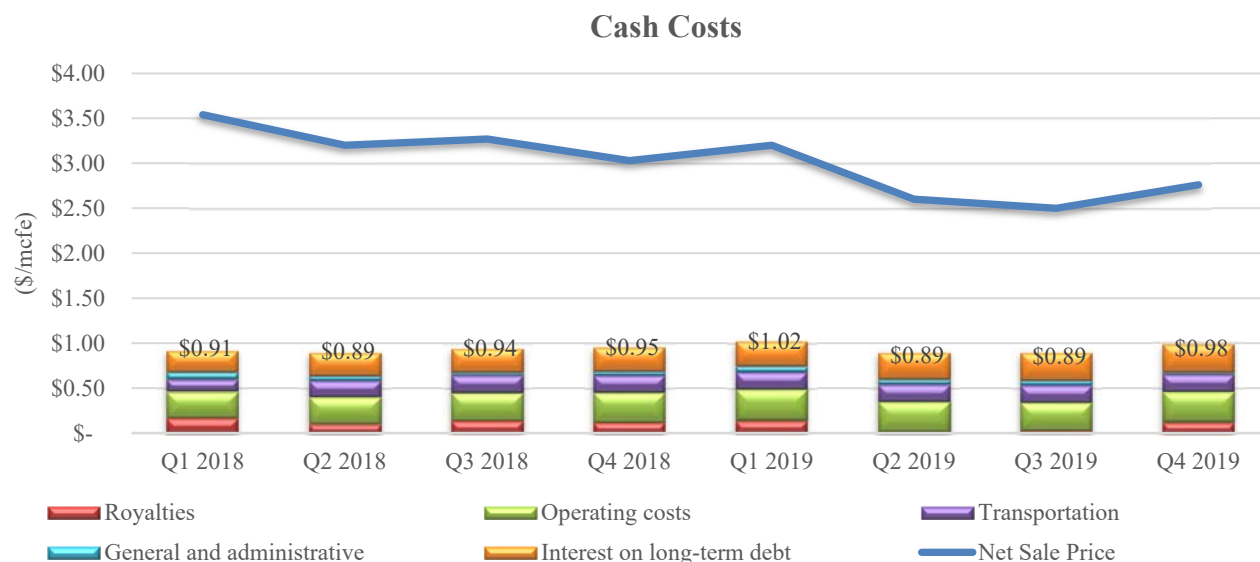
## Interest



## Netbacks

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
(\$/mcf)				
Gross Sale Price	<b>2.95</b>	2.68	<b>2.62</b>	2.49
Hedging gain (loss)	<b>(0.19)</b>	0.35	<b>0.16</b>	0.78
Net Sale Price	<b>2.76</b>	3.03	<b>2.78</b>	3.27
Less: Royalties	<b>0.12</b>	0.12	<b>0.08</b>	0.13
Operating costs	<b>0.34</b>	0.33	<b>0.34</b>	0.31
Transportation	<b>0.19</b>	0.19	<b>0.19</b>	0.17
Field netback	<b>2.11</b>	2.39	<b>2.17</b>	2.66
General and administrative	<b>0.02</b>	0.04	<b>0.04</b>	0.05
Interest on long-term debt	<b>0.31</b>	0.27	<b>0.30</b>	0.26
Cash netback (\$/mcf)	<b>1.78</b>	2.08	<b>1.83</b>	2.35
Cash netback (\$/boe)	<b>10.66</b>	12.49	<b>10.96</b>	14.11

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 fourth quarter provision for depletion, depreciation and amortization totaled \$59.8 million (\$1.39/mcfe) compared to \$66.2 million (\$1.38/mcfe) in the fourth quarter 2018. On a unit-of-production basis, depletion and depreciation costs averaged \$1.37/mcfe in 2019 compared to \$1.42/mcfe in 2018.

### Income Taxes

The current provision for deferred income tax expense is \$10.1 million compared to an expense of \$10.9 million in the fourth quarter of 2019. For the year ended December 31, 2019 a deferred income tax recovery of \$63.6 million was recorded. 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.

<b>Income Tax Pool type (\$ millions)</b>	<b>December 31, 2019</b>	December 31, 2018	<b>Annual deductibility</b>
Canadian Oil and Gas Property Expense	175.5	191.7	10% declining balance
Canadian Development Expense	589.6	698.1	30% declining balance
Canadian Exploration Expense	98.0	89.2	100%
Undepreciated Capital Cost	296.6	322.5	Primarily 25% declining balance
Tax Losses Carried Forward	48.5	-	100%
Other	1.9	21.5	20% declining balance
<b>Total Federal Tax Pools</b>	<b>1,210.1</b>	<b>1,323.0</b>	
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 fourth quarter of 2019, a realized hedging loss of \$7.9 million was recorded as compared to a \$16.8 million gain for the equivalent period in 2018. A summary of contracts outstanding in respect of the hedging activities are as follows:

<b>Natural Gas Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume (GJ)</b>	<b>Average Price (AECO CAD/GJ)</b>
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 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	35,000	\$1.52
April 1, 2020 to March 31, 2021	Fixed Price	10,000	\$1.65
April 1, 2021 to October 31, 2021	Fixed Price	20,000	\$1.63

<b>Natural Gas Period Hedged -Daily Index</b>	<b>Type</b>	<b>Daily Volume (GJ)</b>	<b>Average Price (AECO CAD/GJ)</b>
November 1, 2019 to March 31, 2020	Fixed Price	10,000	\$1.92

<b>Crude Oil Period Hedged</b>	<b>Type</b>	<b>Daily Volume (bbl)</b>	<b>Average Price (WTI USD/bbl)</b>
January 1, 2020 to March 31, 2020	Fixed Price	1,500	\$59.23
January 1, 2020 to June 30, 2020	Fixed Price	250	\$60.00

As at December 31, 2019, Peyto had committed to the future sale of 39,735,000 gigajoules (GJ) of natural gas at an average price of \$1.75 per GJ or \$2.01 per mcf and 182,000 barrels of crude at \$59.42 USD per bbl. Had these contracts closed on December 31, 2019, Peyto would have realized a loss in the amount of \$6.1 million.

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

<b>Natural Gas Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume (GJ)</b>	<b>Average Price (AECO CAD/GJ)</b>
April 1, 2020 to October 31, 2020	Fixed Price	20,000	\$1.69
April 1, 2021 to October 31, 2021	Fixed Price	15,000	\$1.67

<b>Natural Gas Period Hedged -Daily Index</b>	<b>Type</b>	<b>Daily Volume (GJ)</b>	<b>Average Price (AECO CAD/GJ)</b>
April 1, 2020 to October 31, 2020	Fixed Price	5,000	\$1.64
April 1, 2021 to October 31, 2021	Fixed Price	5,000	\$1.64

<b>Crude Oil Period Hedged</b>	<b>Type</b>	<b>Daily Volume (bbl)</b>	<b>Average Price (WTI USD/bbl)</b>
April 1, 2020 to June 30, 2020	Fixed Price	250	\$61.00

#### **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 and cash flow. 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 primarily conducted in 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 December 31,

2019, the increase or decrease in earnings for each 100 bps (1 per cent) change in interest rate paid on the outstanding revolving demand loan amounts to approximately \$1.3 million per quarter. Average debt outstanding for the quarter was \$1.2 billion (including \$415 million fixed rate debt).

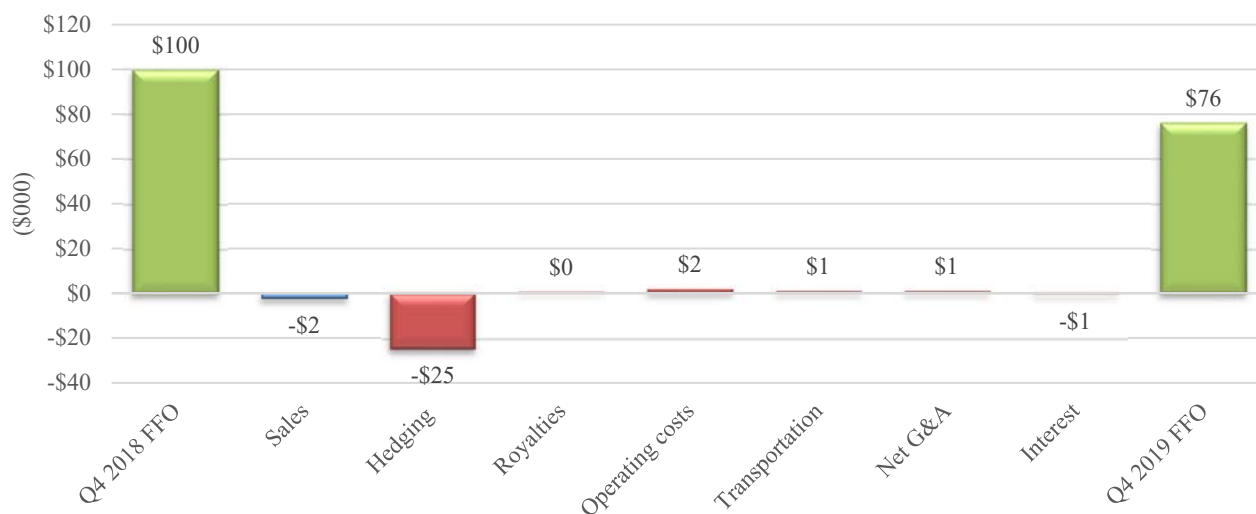
## LIQUIDITY AND CAPITAL RESOURCES

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

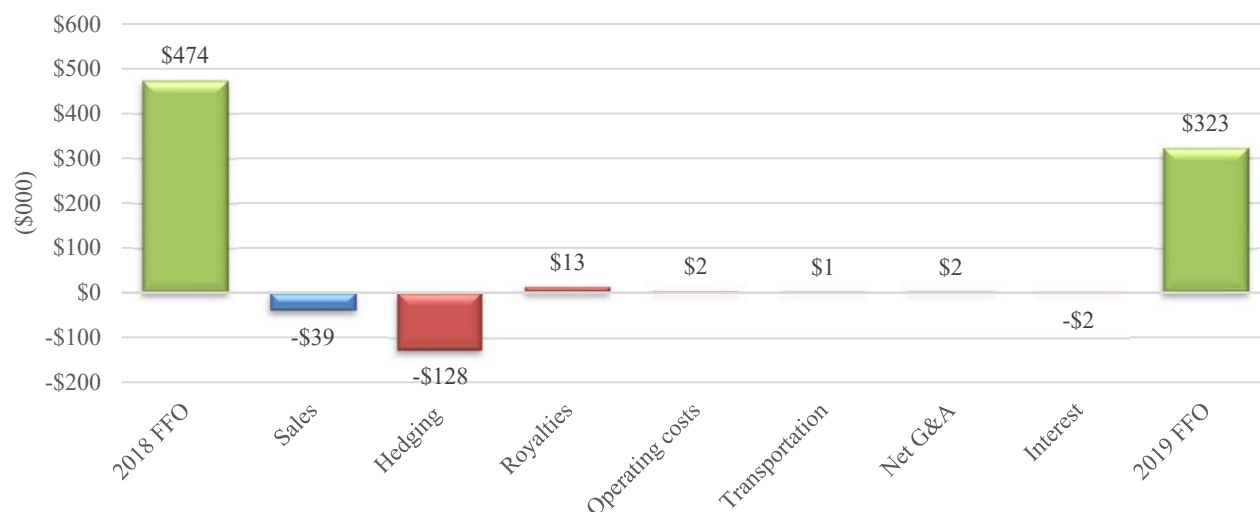
(\$000)	Three Months ended December 31		Twelve months ended December 31	
	2019	2018	2019	2018
Cash flows from operating activities	74,943	102,559	316,936	486,478
Change in non-cash working capital	1,031	(3,955)	3,904	(17,131)
Change in provision for performance based compensation	-	(12,527)	-	(9,165)
Performance based compensation	-	13,558	2,291	13,558
Funds from operations	75,974	99,635	323,131	473,740
Funds from operations per share	0.46	0.60	1.96	2.87

For the fourth quarter ended December 31, 2019, funds from operations totaled \$76.0 million or \$0.46 per share, compared to \$99.6 million or \$0.60 per share during the same quarter in 2018. For the year ended December 31, 2019 funds from operations was \$323.1 million or \$1.96 per share, compared to \$473.7 million or \$2.87 per share for 2018. The decrease in funds from operation was due to a decrease in production natural gas volumes, realized hedging gains (losses) and commodity prices.

### Q4 Change in Funds from Operations



## 2019 Change in Funds from Operations



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)	December 31, 2019	December 31, 2018
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	415,000	520,000
Bank credit facility	705,000	530,000
<b>Balance, end of the period</b>	<b>1,120,000</b>	<b>1,150,000</b>

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 3.5 times trailing twelve-month net income before non-cash items, interest and income taxes (this covenant is scheduled to revert to 3.25 times for the fiscal quarter ending December 31, 2021);

as at December 31, 2019 – 2.99:1.0

- 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 December 31, 2019 – 2.99:1.0

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

as at December 31, 2019 – 7.0 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 December 31, 2019 – 40%

Peyto is in compliance with all financial covenants and has no subordinated debt or letters of credit as at December 31, 2019.

Outstanding unsecured senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate*	Maturity Date
\$50 million	September 6, 2012	4.88%	September 6, 2022
\$100 million	October 24, 2016	3.70%	October 24, 2023
\$65 million	May 1, 2015	4.26%	May 1, 2025
\$100 million	January 3, 2012	4.39%	January 3, 2026
\$100 million	January 2, 2018	3.95%	January 2, 2028

\*In any fiscal quarter where Debt to EBITDA exceeds 3.0 times but is less than 3.25 times the interest rate is increased by 100 basis points per annum. In any fiscal quarter where Debt to EBITDA exceeds 3.25 times the interest rate is increased by 150 basis points per annum.

On October 25, 2019, the Company voluntarily repaid \$120 million of senior unsecured notes due December 4, 2020. Further, on December 18, 2019 the Company voluntarily repaid \$50 million of senior unsecured notes due July 3, 2022, and \$35 million of senior unsecured notes due May 1, 2025. The funds were repaid, without make-whole, from the unsecured revolving credit facility. The next note maturity is September 6, 2022 while the stated term date of the revolving credit facility is October 13, 2022. In addition, Peyto's senior debt to EBITDA covenant was amended effective December 31, 2019 to 3.5 times. This covenant is scheduled to revert to 3.25 for the fiscal quarter ending December 31, 2021.

In light of the current volatility in commodity prices, Peyto will be routinely monitoring its financial forecasts, capital spending, balance sheet and dividend policy and has the ability to make operational and financial changes to help ensure Peyto remains compliant with all financial covenants. If necessary, Peyto can request temporary relief from financial covenants from lenders. In the event Peyto does not comply with its financial covenants and lenders do not grant covenant relief, Peyto's access to capital could be restricted or repayment required.

Peyto's total borrowing capacity is \$1.715 billion of which the credit facility is \$1.3 billion.

The total amount of capital invested in 2020 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

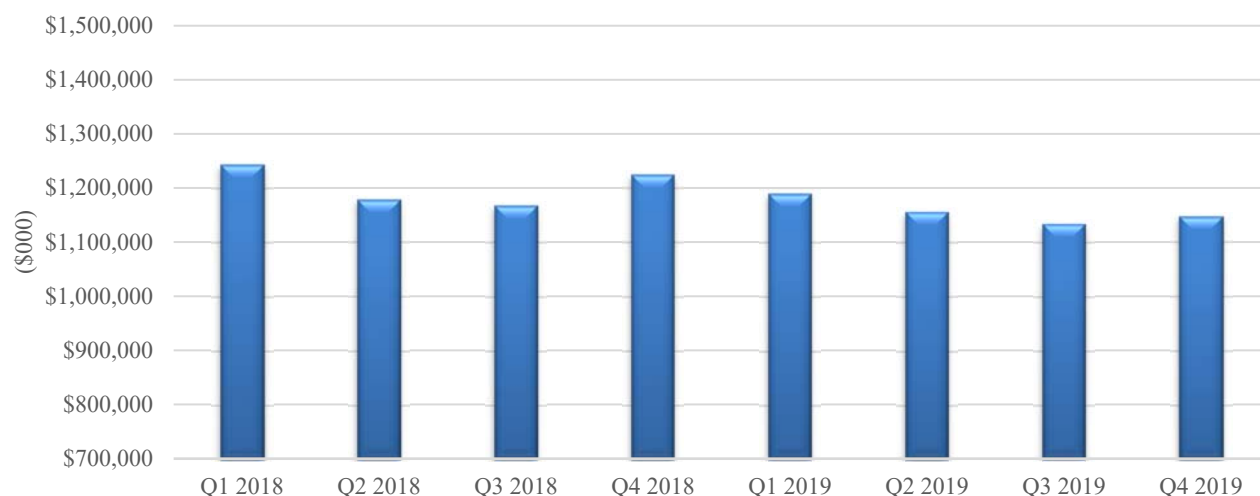
"Net debt" is a non-GAAP measure that is the sum of long-term debt and working capital excluding the current financial derivative instruments and current provision for future performance-based compensation. It is used by management to analyze the financial position and leverage of the Company. Net debt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



(\$000)	As at December 31, 2019	As at December 31, 2018
Bank credit facility - drawn	705,000	530,000
Senior unsecured notes	415,000	620,000
Current assets	(80,265)	(135,231)
Current liabilities (excludes current portion of senior unsecured notes)	113,442	143,884
Financial derivative instruments	(5,537)	65,769
Current lease obligation	(981)	-
<b>Net debt</b>	<b>1,146,659</b>	<b>1,224,422</b>

Net debt has decreased 6 per cent from \$1.22 billion at December 31, 2018 to \$1.15 billion at December 31, 2019.

### Net Debt



### 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)
<b>Balance, December 31, 2019</b>	<b>164,874,175</b>	<b>1,649,369</b>

### Capital Expenditures

Net capital expenditures for the fourth quarter of 2019 totaled \$73.4 million. Exploration and development related activity represented \$57.5 million (78 per cent), while expenditures on facilities, gathering systems and equipment totaled \$14.1 million (19 per cent) and land, seismic, and acquisitions totaled \$1.8 million (3 per cent). The following table summarizes capital expenditures for the period:

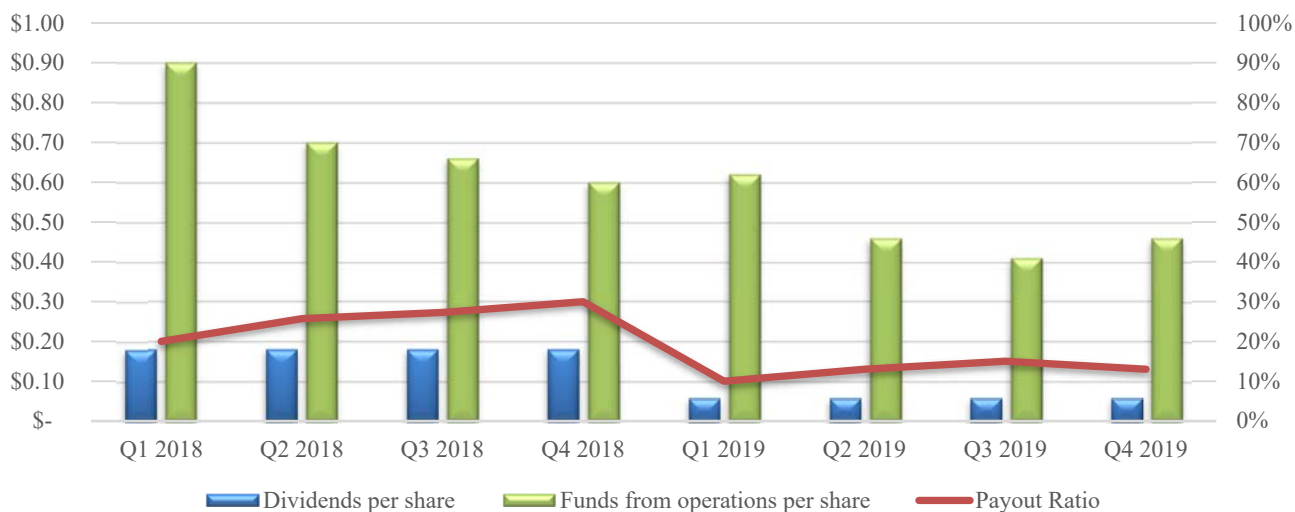
(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Land	186	106	2,716	3,291
Seismic	1,600	2,000	4,588	5,216
Drilling	36,325	57,383	86,053	115,610
Completions	21,125	36,369	64,973	72,274
Equipping & Tie-ins	9,317	10,716	20,505	20,766
Facilities & Pipelines	4,798	3,691	26,540	17,293
Acquisitions	-	1,950	1,071	1,950
Dispositions	-	-	(15)	(4,037)
<b>Total Capital Expenditures</b>	<b>73,351</b>	<b>112,215</b>	<b>206,431</b>	<b>232,363</b>

### Dividends

	Three Months ended December 31		Twelve Months ended December 31	
	2019	2018	2019	2018
Funds from operations (\$000)	75,974	99,635	323,131	473,740
Total dividends (\$000)	9,892	29,677	39,570	118,709
Total dividends per common share (\$)	0.06	0.18	0.24	0.72
Payout ratio (%)	13	30	12	25

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.

### Dividend Payout Ratio



## 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 December 31, 2019:

(\$000)	2020	2021	2022	2023	2024	Thereafter
Interest payments <sup>(1)</sup>	17,249	17,249	17,249	14,809	11,109	19,600
Transportation commitments	31,881	44,583	70,933	53,670	36,981	435,544
Operating lease	2,223	2,223	2,297	2,297	2,297	4,595
Methanol	1,449	-	-	-	-	-
Total	52,802	64,055	90,479	70,776	50,387	459,739

<sup>(1)</sup> 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 December 31	Twelve Months ended December 31	As at December 31			
	2019	2018	2019	2018		
	<b>28.2</b>	283.6	<b>254.9</b>	716.4	<b>191.5</b>	650.5

## 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.

Peyto routinely monitors its financial forecasts, capital spending, balance sheet and dividend policy and has the ability to make operational and financial changes to help ensure Peyto remains compliant with all financial covenants. If necessary, Peyto can request temporary relief from financial covenants from lenders. In the event Peyto does not comply with its financial covenants and lenders do not grant covenant relief, Peyto's access to capital could be restricted or repayment required.

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 December 31, 2019 that has materially affected, or is reasonably likely to materially affect, Peyto's internal control over financial reporting. No material changes in Peyto's internal control over financial reporting were identified during such period that has materially affected, or are reasonably likely to materially affect, Peyto's internal control over financial reporting.

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

## **CRITICAL ACCOUNTING ESTIMATES**

### **Reserve Estimates**

Estimates of oil and natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent to the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is an analytical process of estimating underground accumulations of oil

and natural gas that can be difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable oil and natural gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing future oil and natural gas prices, future royalties and operating costs, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of such reserves based on risk recovery, and estimates of the future net cash flows expected therefrom 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, 2019 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.

### **Reserve Value Performance Based Compensation**

The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2020. 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](http://www.sedar.com) and [www.peyto.com](http://www.peyto.com).

## Quarterly information

	2019				2018
	Q4	Q3	Q2	Q1	Q4
<b>Operations</b>					
Production					
Natural gas (mcf/d)	397,419	396,343	422,320	462,003	458,792
Oil & NGLs (bbl/d)	11,221	10,650	11,110	10,703	10,273
Barrels of oil equivalent (boe/d @ 6:1)	77,457	76,707	81,496	87,703	86,738
Thousand cubic feet equivalent (mcf/d @ 6:1)	464,745	460,243	488,977	526,220	520,430
Liquid to gas ratio (bbl per mmcf)	28.2	26.9	26.3	23.2	22.4
Average product prices					
Natural gas (\$/mcf)	1.96	1.84	1.83	2.48	2.43
Oil & natural gas liquids (\$/bbl)	43.85	39.65	44.70	50.37	44.83
\$/mcf					
Average sale price (\$/mcf)	2.76	2.50	2.60	3.20	3.03
Average royalties paid (\$/mcf)	0.12	0.03	0.01	0.14	0.12
Average operating expenses (\$/mcf)	0.34	0.31	0.34	0.35	0.33
Average transportation costs (\$/mcf)	0.19	0.19	0.19	0.19	0.19
Field netback (\$/mcf)	2.11	1.97	2.06	2.52	2.39
General & administrative expense (\$/mcf)	0.02	0.05	0.05	0.06	0.04
Interest expense (\$/mcf)	0.31	0.31	0.30	0.28	0.27
Cash netback (\$/mcf)	1.78	1.61	1.71	2.18	2.08
<b>Financial (\$000 except per share)</b>					
Revenue and realized hedging gains (losses) – excluding sales of third party volumes	116,691	105,944	115,526	151,660	145,109
Royalties	5,303	1,440	237	6,673	5,801
Funds from operations	75,974	68,106	75,971	103,078	99,635
Funds from operations per share	0.46	0.41	0.46	0.63	0.60
Total dividends	9,892	9,892	9,892	9,892	29,677
Total dividends per share	0.06	0.06	0.06	0.06	0.18
Payout ratio	13%	15%	13%	10%	30%
Earnings	3,492	6,275	98,757	24,970	21,458
Earnings per share	0.02	0.04	0.59	0.15	0.13
Capital expenditures	73,351	36,574	34,112	62,395	112,215
Weighted average shares outstanding	164,874,175	164,874,175	164,874,175	164,874,175	164,874,175