

# PEYTO

Exploration & Development Corp.

# 2020



# Highlights

	Three Months Ended Dec 31			Twelve Months Ended Dec 31		
	2020	2019	% Change	2020	2019	% Change
<b>Operations</b>						
Production						
Natural gas (mcf/d)	433,226	397,419	9%	409,619	419,281	-2%
Oil & NGLs (bbl/d)	11,256	11,221	-%	11,308	10,922	4%
Thousand cubic feet equivalent (mcf/d @ 1:6)	500,764	464,745	8%	477,464	484,810	-2%
Barrels of oil equivalent (boe/d @ 6:1)	83,461	77,457	8%	79,577	80,802	-2%
Production per million common shares (boe/d)*	506	470	8%	483	490	-1%
Product prices						
Natural gas (\$/mcf)	2.19	1.96	12%	1.74	2.04	-15%
Oil & NGLs (\$/bbl)	35.82	43.85	-18%	31.25	44.61	-30%
Operating expenses (\$/mcf)	0.31	0.34	-9%	0.34	0.34	-%
Transportation (\$/mcf)	0.15	0.19	-21%	0.17	0.19	-11%
Field netback (\$/mcf)	2.07	2.11	-2%	1.59	2.17	-27%
General & administrative expenses (\$/mcf)	0.04	0.02	100%	0.04	0.04	-%
Interest expense (\$/mcf)	0.38	0.31	23%	0.34	0.30	13%
<b>Financial (\$000, except per share*)</b>						
Revenue and realized hedging gains (losses) <sup>1</sup>	124,524	116,691	7%	388,981	489,822	-21%
Royalties	8,506	5,303	60%	22,014	13,653	61%
Funds from operations	76,013	75,974	-%	212,710	323,131	-34%
Funds from operations per share	0.46	0.46	-%	1.29	1.96	-34%
Total dividends	1,649	9,892	-83%	14,840	39,570	-62%
Total dividends per share	0.01	0.06	-83%	0.09	0.24	-63%
Payout ratio	2	13	-85%	7	12	-42%
Earnings (loss)	65,951	3,492	1,789%	(35,555)	133,495	-127%
Earnings (loss) per diluted share	0.40	0.02	1,900%	(0.22)	0.81	-127%
Capital expenditures	68,250	73,351	-7%	235,703	206,431	14%
Weighted average common shares outstanding	164,937,898	164,874,175	-	164,894,920	164,874,175	-
<b>As at December 31</b>						
Net debt				1,176,340	1,146,659	3%
Shareholders' equity				1,677,473	1,713,917	-2%
Total assets				3,601,057	3,597,180	-%

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

	Three Months Ended Dec 31		Twelve Months Ended Dec 31	
	2020	2019	2020	2019
(\$000 except per share)				
Cash flows from operating activities	52,884	74,943	203,053	316,936
Change in non-cash working capital	23,129	1,031	9,657	3,904
Performance based compensation	-	-	-	2,291
Funds from operations	76,013	75,974	212,710	323,131
Funds from operations per share	0.46	0.46	1.29	1.96

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

## Management's discussion and analysis

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Peyto Exploration & Development Corp. ("Peyto" or the "Company") for the years ended December 31, 2020 and 2019. 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 2, 2021. 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.

In March 2020, the World Health Organization declared novel coronavirus COVID-19 ("COVID-19") a global pandemic. COVID-19 has had, and is anticipated to continue to have, a significant impact on the global economy, commodity prices, and Peyto's business. At December 31, 2020, Peyto's management has incorporated the anticipated impacts of COVID-19 in its preparation of the MD&A. Refer to Note 2 of the audited consolidated financial statements.

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, 2019 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. At December 31, 2020, the Company's total Proved plus Probable reserves were 5.0 trillion cubic feet equivalent (834 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 credit lines.

Operating results over the last twenty-two 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	2020	2019	2018
(\$000 except per share amounts)			
Total revenue and realized hedging gains (losses) (before royalties) <sup>1</sup>	<b>388,981</b>	489,822	658,906
Funds from operations	<b>212,710</b>	323,131	473,740
Per share – basic and diluted	<b>1.29</b>	1.96	2.87
Earnings (loss)	<b>(35,555)</b>	133,495	129,110
Per share – basic and diluted	<b>(0.22)</b>	0.81	0.78
Capital Expenditures	<b>235,703</b>	206,431	232,363
Total assets	<b>3,601,057</b>	3,597,180	3,688,852
Total long-term debt (including current portion)	<b>1,170,000</b>	1,120,000	1,150,000
Dividends per share	<b>0.09</b>	0.24	0.72
Total payout ratio (%)	<b>118</b>	76	74

<sup>1</sup> excludes revenue from sale of natural gas volumes from third-parties

### 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, among others, to assess the sustainability of Peyto's dividend and capital program.

## QUARTERLY FINANCIAL INFORMATION

(\$000 except per share amounts)	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue and realized hedging gains (losses) (net of royalties) <sup>1</sup>	<b>116,018</b>	86,986	71,178	92,787	111,389	104,504	115,289	144,987
Funds from operations	<b>76,013</b>	49,173	33,012	54,513	75,974	68,106	75,971	103,078
Per share – basic and diluted	<b>0.46</b>	0.30	0.20	0.33	0.46	0.41	0.46	0.63
Earnings (loss)	<b>65,951</b>	(11,285)	(22,538)	(67,684)	3,492	6,275	98,757	24,970
Per share – basic and diluted	<b>0.40</b>	(0.07)	(0.14)	(0.41)	0.02	0.04	0.59	0.15
Dividends	<b>1,649</b>	1,649	1,649	9,892	9,892	9,892	9,892	9,892
Per share – basic and diluted	<b>0.01</b>	0.01	0.01	0.06	0.06	0.06	0.06	0.06
Capital expenditures	<b>68,250</b>	61,568	37,299	68,587	73,351	36,574	34,112	62,395
Total payout ratio (%)	<b>92</b>	129	118	144	110	68	58	70

<sup>1</sup> excludes revenue from sale of natural gas volumes from third-parties

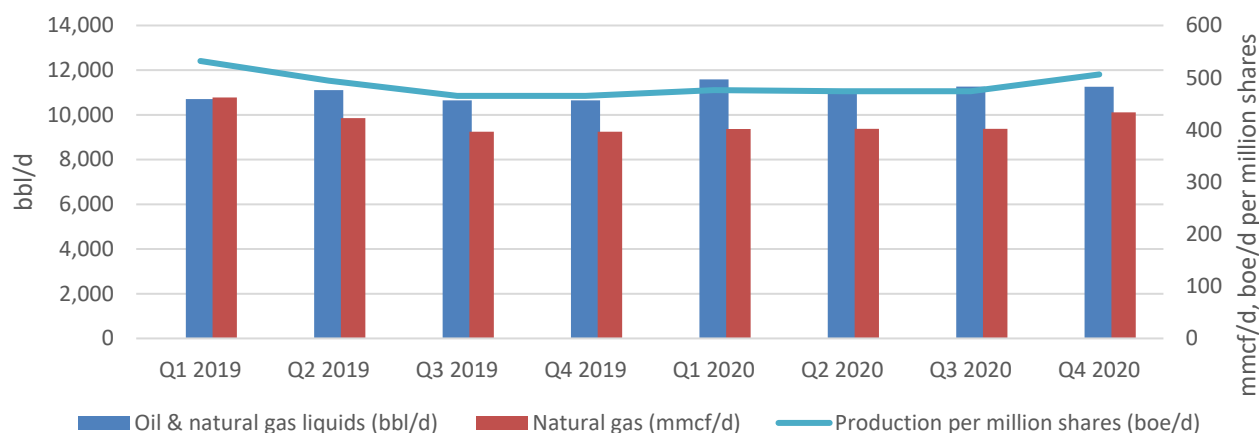
## RESULTS OF OPERATIONS

### Production

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Natural gas (mmcf/d)	<b>433.2</b>	397.4	<b>409.6</b>	419.3
Oil & natural gas liquids (bbl/d)	<b>11,256</b>	11,221	<b>11,308</b>	10,922
Barrels of oil equivalent (boe/d)	<b>83,461</b>	77,457	<b>79,577</b>	80,802
Thousand cubic feet equivalent (mmcfe/d)	<b>500.8</b>	464.7	<b>477.5</b>	484.8

Condensate and NGL production was flat at 11,256 bbl/d in the fourth quarter of 2020 compared to 11,221 bbl/d in the fourth quarter of 2019. Natural gas production increased 9 per cent to 433.2 mmcf/d from 397.4 mmcf/d. Total fourth quarter production increased 8 per cent from 464.7 mmcfe/d to 500.8 mmcfe/d. Production for the year decreased 2 per cent from 484.8 mmcfe/d to 477.5 mmcfe/d (80,802 boe/d to 79,577 boe/d).

### Average Daily Production



### Oil & Natural Gas Liquids Production by Component

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Oil, Condensate and Pentanes+ (bbl/d)	<b>6,336</b>	6,533	<b>6,507</b>	6,374
Other Natural gas liquids(bbl/d)	<b>4,920</b>	4,688	<b>4,801</b>	4,548
Oil & Natural gas liquids (bbl/d)	<b>11,256</b>	11,221	<b>11,308</b>	10,922
Barrels per million cubic feet	<b>26.0</b>	28.2	<b>27.6</b>	26.0

The liquid production to sales gas ratio decreased 8 per cent from 28.2 bbl/mmcf in Q4 2019 to 26.0 bbl/mmcf in Q4 2020. On an annual basis, the liquid production to sales gas ratio increased 6 per cent. As natural gas prices improved over the course of 2020, Peyto included more dry gas wells into the drilling program.

### Benchmark Commodity Prices

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
AECO 7A monthly (\$/GJ)	<b>2.62</b>	2.21	<b>2.12</b>	1.54
AECO 5A daily (\$/GJ)	<b>2.50</b>	2.35	<b>2.11</b>	1.67
NYMEX (US\$/MMBtu)	<b>2.47</b>	2.41	<b>1.99</b>	2.53
Emerson2 (US\$/MMBtu)	<b>2.23</b>	2.59	<b>1.84</b>	2.43
Malin (US\$/MMBtu)	<b>2.88</b>	2.69	<b>2.05</b>	2.78
Ventura daily (US\$/MMBtu)	<b>2.30</b>	2.64	<b>1.85</b>	2.47
Canadian WTI (\$/bbl)	<b>55.53</b>	75.18	<b>52.53</b>	75.68
Conway C3 (US\$/bbl)	<b>23.29</b>	19.73	<b>18.60</b>	19.91

Q4 2020 average CND/USD exchange rate of 1.303

### Commodity Prices

(\$CAD)	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Oil & natural gas liquids (\$/bbl)	<b>36.45</b>	43.12	<b>30.73</b>	42.59
Hedging – Oil & NGL (\$/bbl)	<b>(0.63)</b>	0.73	<b>0.52</b>	2.02
Oil & NGL – after hedging (\$/bbl)	<b>35.82</b>	43.85	<b>31.25</b>	44.61
Natural gas (\$/mcf)	<b>3.23</b>	3.00	<b>2.65</b>	2.51
Diversification activities (\$/mcf)	<b>(1.01)</b>	(0.80)	<b>(0.90)</b>	(0.60)
Hedging – gas (\$/mcf)	<b>(0.03)</b>	(0.24)	<b>(0.01)</b>	0.13
Natural gas – after hedging (\$/mcf)	<b>2.19</b>	1.96	<b>1.74</b>	2.04
Total Hedging (\$/mcf)	<b>(0.04)</b>	(0.19)	-	0.16
Total Hedging (\$/boe)	<b>(0.25)</b>	(1.11)	-	0.96

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

Peyto's natural gas price, before hedging and diversification activities, averaged \$3.23/mcf during the fourth quarter of 2020 compared to \$3.00/mcf for the equivalent period in 2019. Oil & natural gas liquids prices, before hedging, averaged \$36.45/bbl, a decrease of 15 per cent from \$43.12/bbl a year earlier. On an annual basis, natural gas prices before hedging and diversification activities increased 6 per cent from \$2.51/mcf to \$2.65/mcf while oil and natural gas liquids decreased 28 per cent from \$42.59/bbl to \$30.73/bbl.

Peyto actively marketed all components of its production stream in the fourth quarter including natural gas, condensate, pentane, butane and propane. Peyto's market diversification activity resulted in natural gas being sold at various hubs including AECO, Ventura, Emerson 2, Malin and Henry Hub using both physical fixed price and temporary basis transactions to access those locations. Natural gas prices were left to float on daily pricing or locked in using fixed price swaps at those hubs and Peyto's realized price was benchmarked against those local prices, then adjusted for marketing arrangements (either physical or short-term synthetic) to those markets. This gas market diversification cost represents the total marketing and synthetic transportation cost, not just the difference between those markets and an AECO equivalent price.

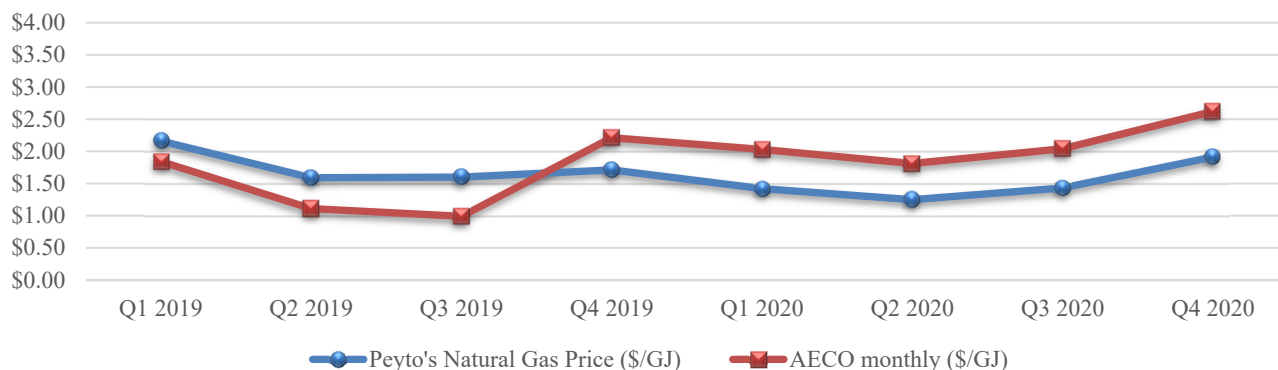
The Company's liquids were also actively marketed with condensate being sold on a monthly index differential linked to West Texas Intermediate ("WTI") oil prices. Peyto's NGLs (a blend of pentanes plus, butane and propane) are fractionated by a third party in Fort Saskatchewan, Alberta but Peyto markets each product separately. Pentanes Plus were sold on a

monthly index differential linked to WTI, with some volumes forward sold on fixed differentials to WTI. Butane was sold as a percent of WTI or a fixed differential to the Mount Belvieu, Texas market. Propane was sold on a fixed differential to the Conway, Kansas market. While some products were sold pursuant to annual term contracts to ensure delivery paths remain open, others were marketed on the daily spot market.

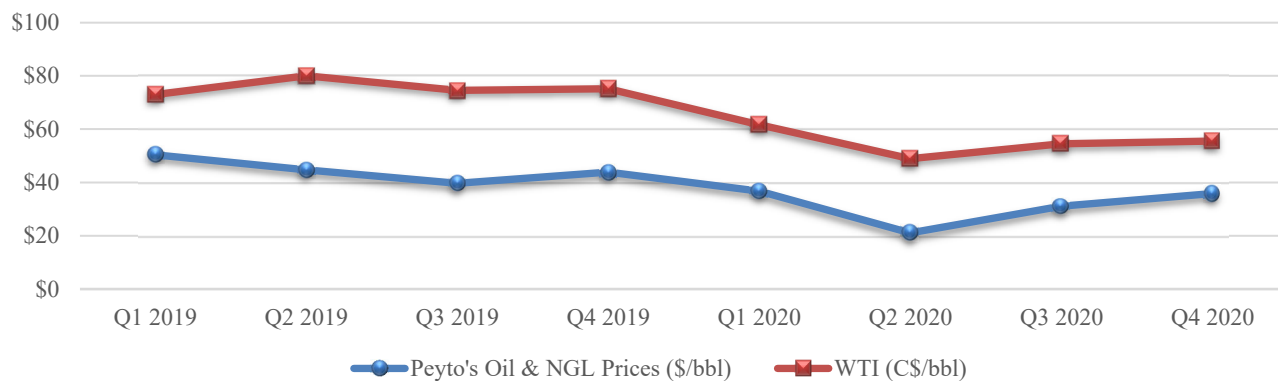
### Realized Commodity Prices by Component

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Natural gas, after hedging and diversification activities (\$/mcf)	2.19	1.96	1.74	2.04
Oil, Condensate and Pentanes+, after hedging (\$/bbl)	50.29	66.39	45.11	69.22
Other Natural gas liquids (\$/bbl)	16.96	12.45	12.37	10.43
Total Oil and Natural gas liquids (\$/bbl)	35.82	43.85	31.25	44.61

### Natural Gas Price



### Oil & NGL Prices

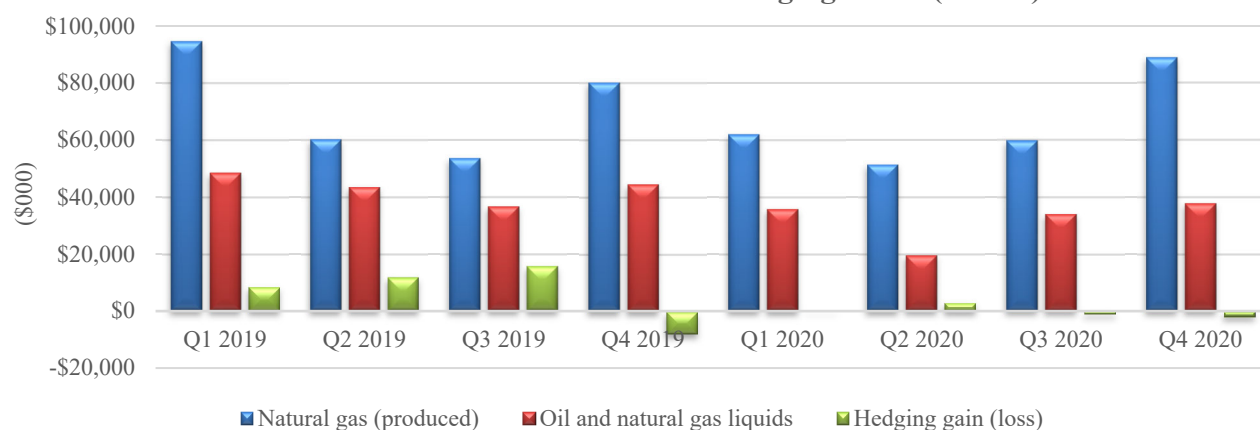


### Revenue from Produced Volumes and Realized Hedging Gains (Losses)

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Natural gas <sup>1</sup>	88,732	80,085	261,754	288,380
Oil & natural gas liquids	37,745	44,518	127,176	173,168
Hedging – gas	(1,301)	(8,666)	(2,120)	20,227
Hedging – oil and NGL	(652)	754	2,171	8,047
	124,524	116,691	388,981	489,822

<sup>1</sup> excludes revenue from sale of natural gas volumes from third-parties

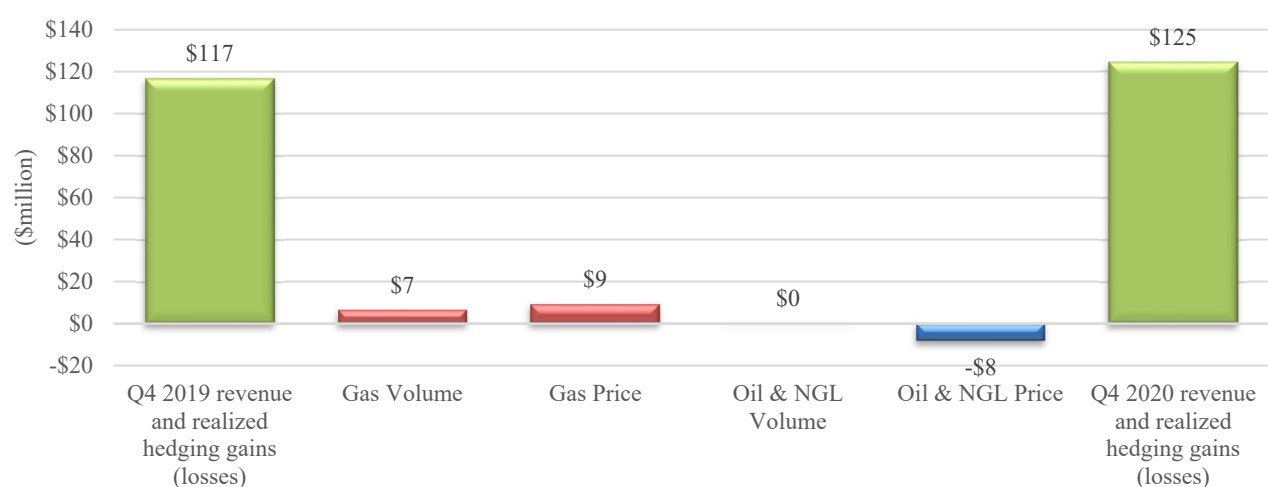
### Revenue and Realized Hedging Gains (Losses)



For the three months ended December 31, 2020, revenue from the sale of produced volumes and realized hedging gains (losses) increased 7 per cent to \$124.5 million from \$116.7 million for the same period in 2019. On an annual basis, revenue decreased 21 per cent from \$489.8 million in 2019 to \$389.0 million in 2020. The increase in revenue from the sale of produced volumes and realized hedging gains (losses) for the quarter was a result of increased production volumes and natural gas prices partially offset by a decrease in oil and natural gas liquids prices, as detailed in the following table:

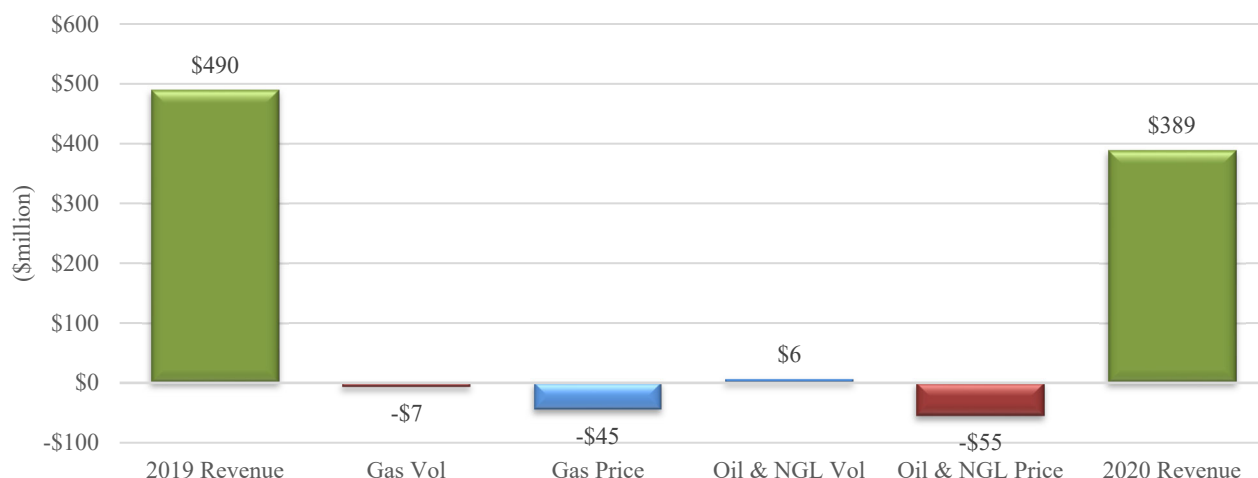
	Three Months ended December 31			Twelve Months ended December 31		
	2020	2019	\$million	2020	2019	\$million
December 31, 2019			<b>117</b>			<b>490</b>
change due to:						
<b>Natural gas</b>						
Volume (mmcf)	39,857	36,563	7	149,920	153,038	(7)
Price (\$/mcf)	\$2.19	\$1.96	9	\$1.74	\$2.04	(45)
<b>Oil &amp; NGL</b>						
Volume (mdbl)	1,036	1,032	-	4,139	3,986	7
Price (\$/bbl)	\$35.82	\$43.85	(8)	\$31.25	\$44.61	(56)
December 31, 2020			<b>125</b>			<b>389</b>

### Q4 Change in Revenue and Realized Hedging Gains (Losses)





## 2020 Change in Revenue and Realized Hedging Gains (Losses)



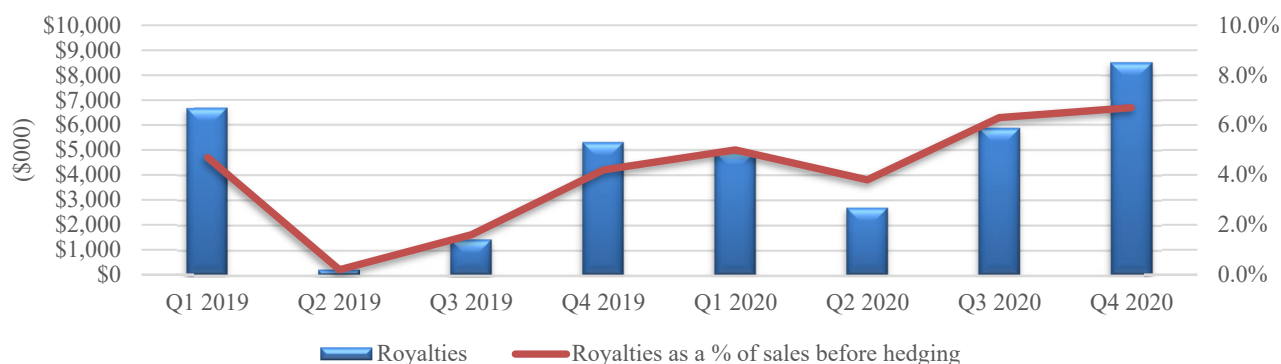
### Royalties

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.

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Royalties (\$000)	<b>8,506</b>	5,303	<b>22,014</b>	13,653
per cent of sales before hedging	<b>6.7</b>	4.2	<b>5.7</b>	2.9
per cent of sales after hedging	<b>6.8</b>	4.5	<b>5.7</b>	2.8
\$/mcf	<b>0.18</b>	0.12	<b>0.13</b>	0.08
\$/boe	<b>1.11</b>	0.74	<b>0.76</b>	0.46

For the fourth quarter of 2020, royalties averaged \$0.18/mcfe or approximately 6.7 per cent of Peyto's total petroleum and natural gas sales excluding hedging gains. On an annual basis, royalties averaged \$0.13/mcfe or 5.7 per cent of sales excluding hedging gains (losses). The increase on both an annual and quarterly basis was due to higher 2020 AECO prices. The royalty rate expressed as a percentage of natural gas and natural gas liquid sales will fluctuate from period to period as the Alberta Reference Price can differ significantly from the commodity prices realized by Peyto. 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. In its 22-year history, Peyto has invested over \$6.4 billion in capital projects, found and developed 4.0 TCFe of natural gas reserves and paid over \$894 million in royalties.

### Royalties



## Operating Costs & Transportation

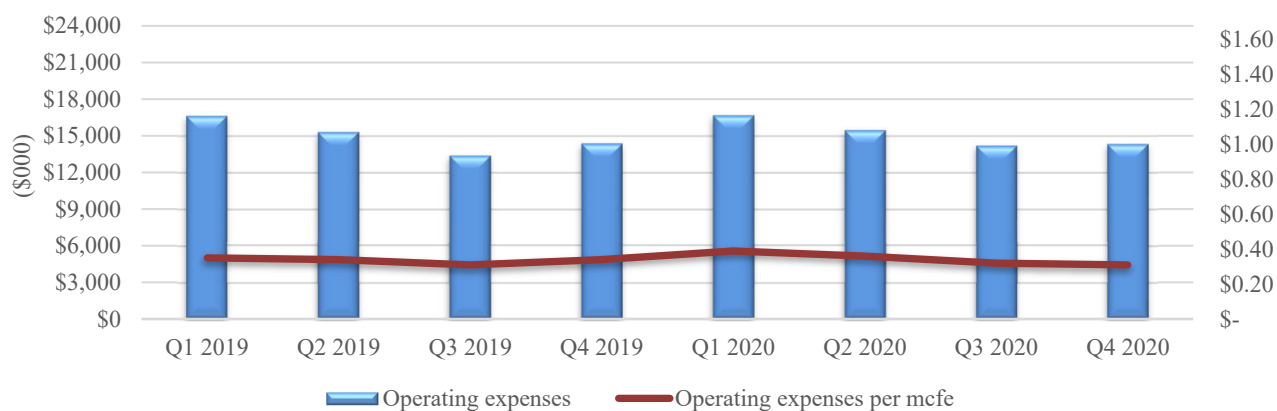
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Payments to Government	<b>4,164</b>	4,095	<b>16,995</b>	17,744
Other expenses	<b>10,148</b>	10,272	<b>43,641</b>	41,930
Operating costs (\$000)	<b>14,312</b>	14,367	<b>60,636</b>	59,674
\$/mcf	<b>0.31</b>	0.34	<b>0.34</b>	0.34
\$/boe	<b>1.86</b>	2.02	<b>2.08</b>	2.02
Transportation (\$000)	<b>6,717</b>	8,058	<b>29,002</b>	33,168
\$/mcf	<b>0.15</b>	0.19	<b>0.17</b>	0.19
\$/boe	<b>0.87</b>	1.13	<b>1.00</b>	1.12

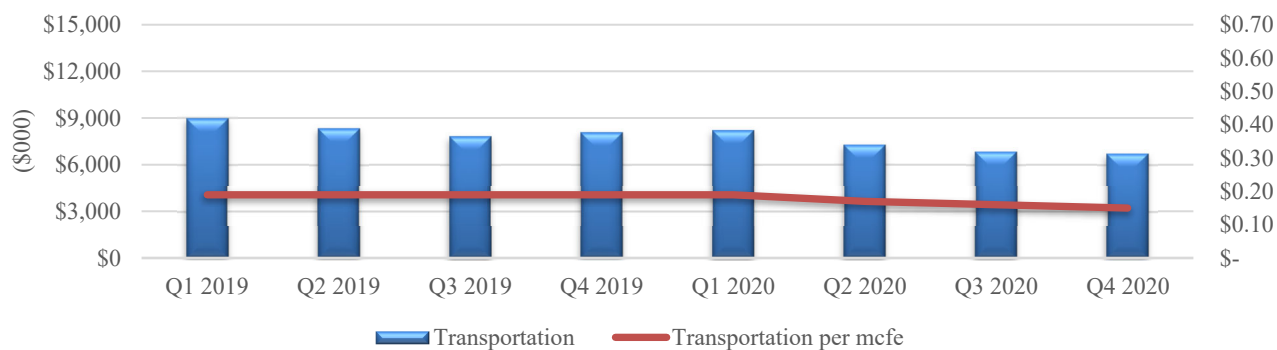
For the fourth quarter, operating expenses were \$14.3 million compared to \$14.3 million for the same quarter in 2019. On a unit-of-production basis, operating costs decreased 9 per cent from \$0.34/mcf to \$0.31/mcf. On an annual basis, operating costs per mcf were unchanged at \$0.34/mcf. Approximately 25 per cent - 30 per cent 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 decreased 21 per cent on a unit-of production basis from \$0.19/mcf in the fourth quarter 2019 to \$0.15/mcf in the fourth quarter 2020. On an annual basis, transportation expenses decreased 11 per cent on a unit-of production basis from \$0.19/mcf in 2019 to \$0.17/mcf in 2019 due to optimization of transportation contracts.

### Operating Expenses



### Transportation



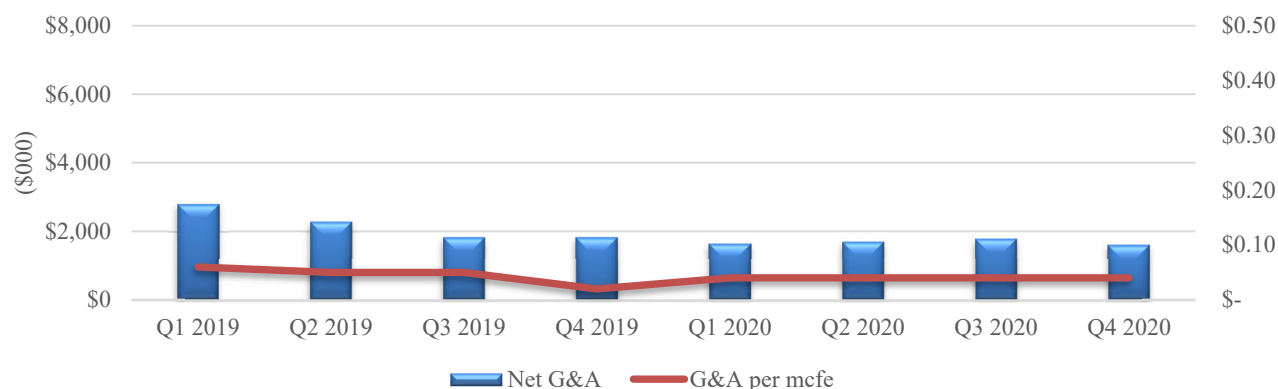
## General and Administrative Expenses

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
G&A expenses (\$000)	3,777	3,751	14,632	15,930
Overhead recoveries (\$000)	(2,176)	(2,757)	(7,903)	(8,047)
Net G&A expenses (\$000)	1,601	994	6,729	7,883
\$/mcf	0.04	0.02	0.04	0.04
\$/boe	0.21	0.14	0.23	0.27

For the fourth quarter, general and administrative expenses before overhead recoveries was \$3.8 million compared to \$3.8 million for the same quarter of 2019. On an annual basis, general and administrative expenses before overhead recoveries were \$14.6 million compared to \$15.9 million in 2019. The reduction on an annual basis was due a reduction in employee and director compensation and professional service costs. General and administrative expenses averaged \$0.09/mcfe before overhead recoveries of \$0.05/mcfe for net general and administrative expenses of \$0.04/mcfe in the fourth quarter of 2020 (\$0.09/mcfe before overhead recoveries of \$0.07/mcfe for net general and administrative expenses of \$0.02/mcfe in the fourth quarter of 2019).

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 2020, Peyto capitalized \$7.4 million of expenses directly attributable to exploration and development activities compared to \$7.6 million in 2019.

### Net G&A Expense



## Performance and Stock Based Compensation

The Company awards performance-based compensation to employees, key consultants and directors. Performance and stock based compensation is comprised of stock options, deferred share units, and reserve value-based components.

The reserve value-based component is 4 per cent of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8 per cent. Compensation expense of \$Nil was recorded for 2020.

Under the market-based component, rights with a three-year vesting period were allocated to employees and key consultants. On December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out by the issuance of equity. This compensation component was replaced by the adopted stock option plan in 2019. All outstanding rights will vest on December 31, 2021.

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.

In 2020, the Company adopted a deferred share unit plan, whereby DSUs may be issued to members of the Board of Directors. Each DSU is a notional unit equal in value to one Common Share, which entitles the holder to receive a common share upon redemption. DSUs vest immediately but can only be converted to a share upon the holder ceasing to be a Director of the Company. The expense associated with the DSU plan is determined based on the 5-day VWAP of Common Shares at the

grant date. The expense is recognized in the statement of operations in the quarter in which the units are granted, with a corresponding charge to contributed surplus in the statement of financial position.

Based on the weighted average trading price of the common shares for the period ended December 31 2020, compensation costs related to 0.7 million non-vested rights (1 per cent of the total number of common shares outstanding), with an average grant price of \$7.23 are \$0.2 million for the fourth quarter of 2020, 7.9 million non-vested stock options (5 per cent of the total number of common shares outstanding), with an average grant price of \$3.50 are \$0.9 million for the fourth quarter of 2020 and 108 thousand vested DSU's (0.05 per cent of the total number of common shares outstanding), with an average grant price of \$1.65 are \$0.2 million for the third quarter of 2020. 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 audited consolidated financial statements for more details). These plans limit the number of common shares that may be granted to 10 per cent 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**

<b>Valuation and Vesting Date</b>	<b>Rights Granted</b>	<b>Rights Forfeited</b>	<b>Rights Outstanding</b>	<b>Average Grant Price</b>
December 31, 2021	825,000	98,800	726,200	\$ 7.23

#### **Stock Options Plan**

<b>Valuation and Vesting Date</b>	<b>Stock Options Granted</b>	<b>Stock Options Forfeited</b>	<b>Options Outstanding</b>	<b>Average Grant Price</b>
May 15, 2021	825,000	92,000	733,000	\$ 5.72
May 15, 2022	825,000	91,999	733,001	\$ 5.72
August 15, 2021	864,167	71,032	793,135	\$ 3.18
August 15, 2022	864,167	71,033	793,134	\$ 3.18
November 15, 2020	889,633	889,633	-	\$ 3.07
November 15, 2021	889,633	57,700	831,933	\$ 3.07
November 15, 2022	889,633	57,700	831,933	\$ 3.07
January 1, 2021	275,000	11,133	263,867	\$ 3.75
January 1, 2022	275,000	18,300	256,700	\$ 3.75
January 1, 2023	275,000	18,300	256,700	\$ 3.75
July 8, 2021	275,000	15,900	259,100	\$ 1.91
July 8, 2022	275,000	15,900	259,100	\$ 1.91
July 8, 2023	275,000	15,900	259,100	\$ 1.91
August 20, 2021	275,000	12,500	262,500	\$ 3.03
August 20, 2022	275,000	12,500	262,500	\$ 3.03
August 20, 2023	275,000	12,501	262,499	\$ 3.03
November 19, 2021	292,000	-	292,000	\$2.92
November 19, 2022	292,000	-	292,000	\$2.92
November 19, 2023	292,000	-	292,000	\$2.92

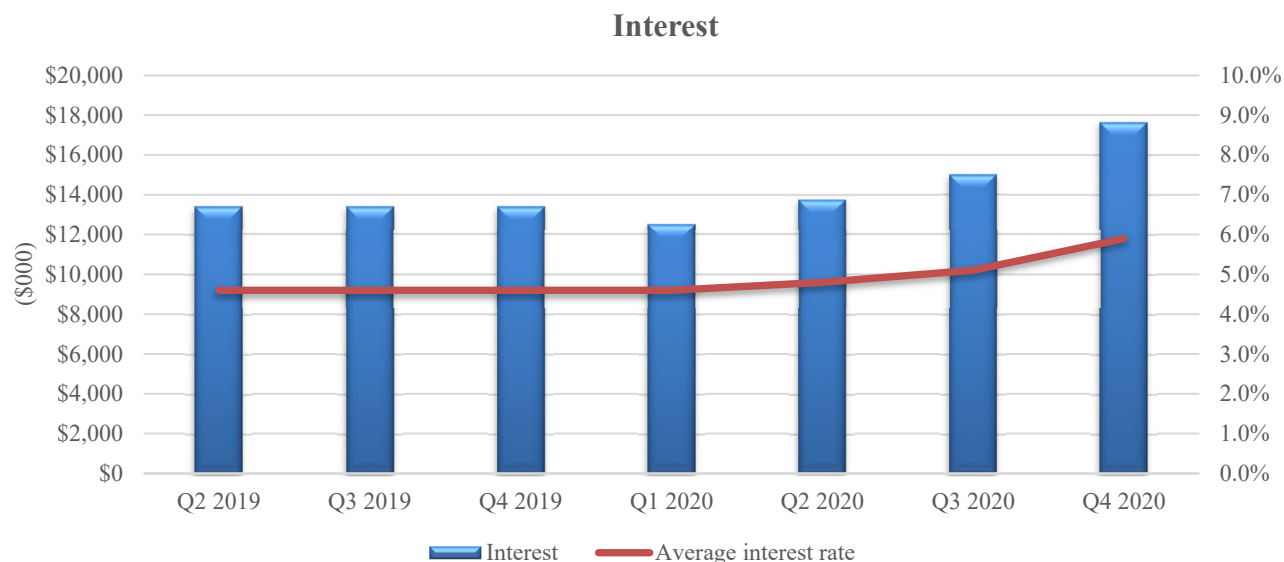
#### **Deferred Share Units**

<b>Valuation and Vesting Date</b>	<b>Units Granted</b>	<b>Units Forfeited</b>	<b>Units Outstanding</b>	<b>Average Grant Price</b>
July 8, 2020	46,466	-	46,466	\$ 1.91
August 20, 2020	29,290	-	29,290	\$ 3.03
November 19, 2020	31,810	-	31,810	\$2.79

#### **Interest Expense**

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Interest expense (\$000)	17,664	13,236	58,871	53,553
\$/mcf	0.38	0.31	0.33	0.30
\$/boe	2.30	1.86	2.02	1.82
Average interest rate	5.9%	4.5%	5.1%	4.6%

Fourth quarter 2020 interest expense was \$17.7 million or \$0.38/mcfe compared to \$13.2 million or \$0.31/mcfe for the fourth quarter 2019. On an annual basis, interest expense increased by 10 per cent from \$53.6 million to \$58.9 million. This increase is due to higher stamping fees and interest costs under the amended Credit Facility and Note Purchase Agreements dated June 29, 2020 (refer to Note 4 of the audited consolidated financial statements for more details). As leverage increases, stamping fees also increase and, conversely, as leverage decreases stamping fees will also decrease.

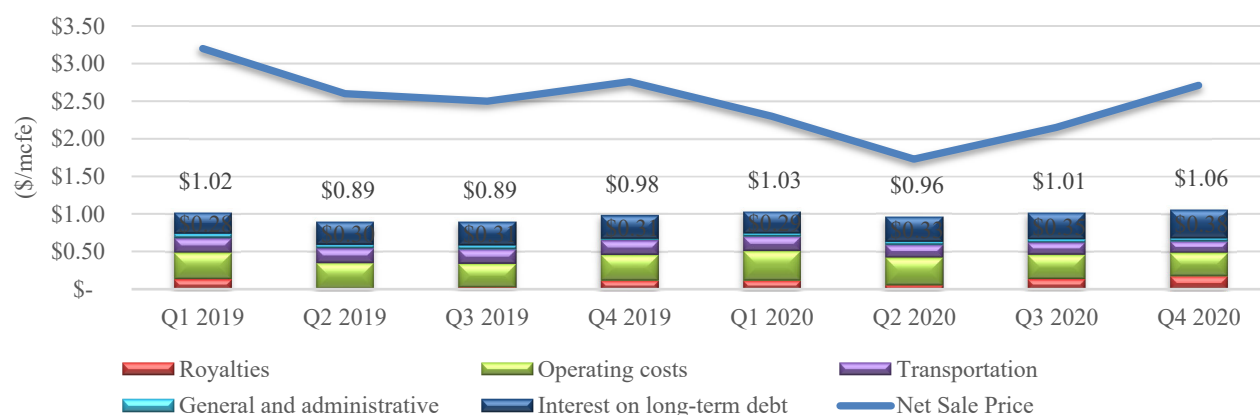


### Netbacks

(\$/mcfe)	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Gross Sale Price	<b>2.75</b>	2.95	<b>2.23</b>	2.62
Realized hedging gain (loss)	<b>(0.04)</b>	(0.19)	-	0.16
Net Sale Price	<b>2.71</b>	2.76	<b>2.23</b>	2.78
Less: Royalties	<b>0.18</b>	0.12	<b>0.13</b>	0.08
Operating costs	<b>0.31</b>	0.34	<b>0.34</b>	0.34
Transportation	<b>0.15</b>	0.19	<b>0.17</b>	0.19
Field netback	<b>2.07</b>	2.11	<b>1.59</b>	2.17
General and administrative	<b>0.04</b>	0.02	<b>0.04</b>	0.04
Interest on long-term debt	<b>0.38</b>	0.31	<b>0.33</b>	0.30
Cash netback (\$/mcfe)	<b>1.65</b>	1.78	<b>1.22</b>	1.83
Cash netback (\$/boe)	<b>9.90</b>	10.66	<b>7.30</b>	10.96

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.

## Cash Costs



### Depletion, Depreciation and Impairment

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2020 fourth quarter provision for depletion, depreciation and amortization totaled \$61.8 million (\$1.34/mcfe) compared to \$59.8 million (\$1.39/mcfe) in the fourth quarter 2019. On a unit-of-production basis, depletion and depreciation costs averaged \$1.39/mcfe in 2020 compared to \$1.37/mcfe in 2019.

Peyto recorded an impairment of \$79.7 million (\$61.4 million net of deferred tax expense) in the first quarter of 2020. Due to the recovery of future commodity prices and an increase in proved plus probable oil and gas reserves, an impairment test was completed, resulting in an impairment recovery of \$76.1 million (\$79.7 million less depletion for the first to the fourth quarters) at December 31, 2020. For further information, refer to Note 3 of the audited consolidated financial statements.

### Income Taxes

The current provision for deferred income tax expense is \$21.5 million compared to an expense of \$10.1 million in the fourth quarter of 2019. For the year ended December 31, 2020 a deferred income tax recovery of \$8.8 million was recorded compared to a recovery of \$63.6 million for 2019. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type (\$ millions)	December 31, 2020	December 31, 2019	Annual deductibility
Canadian Oil and Gas Property Expense	160.3	175.5	10% declining balance
Canadian Development Expense	489.4	589.6	30% declining balance
Canadian Exploration Expense	102.5	98.0	100%
Undepreciated Capital Cost	250.2	296.6	Primarily 25% declining balance
Tax Losses Carried Forward	234.1	48.5	100%
Other	0.2	1.9	20% declining balance
<b>Total Federal Tax Pools</b>	<b>1,236.7</b>	<b>1,210.1</b>	
Additional Alberta Tax Pools	45.0	45.0	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. 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 2020, a realized hedging loss of \$2.0 million was recorded as compared to a \$7.9 million loss for the equivalent period in 2019. A summary of contracts outstanding in respect of the hedging activities are as follows:

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	\$1.65
November 1, 2020 to March 31, 2021	Fixed Price	90,000 GJ	\$2.62
January 1, 2021 to March 31, 2021	Fixed Price	20,000 GJ	\$2.55
April 1, 2021 to October 31, 2021	Fixed Price	60,000 GJ	\$1.86
November 1, 2021 to March 31, 2022	Fixed Price	80,000 GJ	\$2.83
April 1, 2022 to October 31, 2022	Fixed Price	105,000 GJ	\$2.20
November 1, 2022 to March 31, 2023	Fixed Price	20,000 GJ	\$2.38

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Daily Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
November 1, 2020 to March 31, 2021	Fixed Price	5,000 GJ	\$2.55
January 1, 2021 to March 31, 2021	Fixed Price	5,000 GJ	\$2.50
April 1, 2021 to October 31, 2021	Fixed Price	40,000 GJ	\$2.15

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2020 to March 31, 2022	Fixed Price	20,000 mmbtu	\$2.28
May 1, 2020 to March 31, 2021	Fixed Price	20,000 mmbtu	\$2.43
November 1, 2020 to March 31, 2021	Fixed Price	152,500 mmbtu	\$2.85
April 1, 2021 to October 31, 2021	Fixed Price	177,500 mmbtu	\$2.69
November 1, 2021 to March 31, 2022	Fixed Price	77,500 mmbtu	\$3.04
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	\$2.56

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Malin</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2021 to March 31, 2022	Fixed Price	10,000 mmbtu	\$3.24
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	\$2.35

<b>Crude Oil</b>			<b>Average Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
January 1, 2021 to March 31, 2021	Fixed Price	2,800 bbl	\$43.09
January 1, 2021 to June 30, 2021	Fixed Price	200 bbl	\$46.50
April 1, 2021 to June 30, 2021	Fixed Price	900 bbl	\$45.35

<b>Propane</b>			<b>Average Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(USD/bbl)</b>
October 1, 2020 to March 31, 2021	Fixed Price	1,250 bbl	\$20.76
April 1, 2021 to September 30, 2021	Fixed Price	250 bbl	\$23.42

<b>Natural Gas</b>			<b>Strike Price</b>
<b>Period - NYMEX Covered Call Options</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Nymex USD/mmbtu</b>
April 1, 2021 to October 31, 2021	Call	50,000 mmbtu	\$2.88

As at December 31, 2020, Peyto had committed to the future sale of 70,670,000 gigajoules (GJ) of natural gas at an average price of \$2.30 per GJ or \$2.64 per mcf, 80,102,500 mmbtu of natural gas at an average price of \$2.71 US per mmbtu, 370,100 barrels of crude at an average price of \$43.92 US per bbl and 158,250 barrels of propane at an average price of \$21.53 US per bbl. Had these contracts closed on December 31, 2020, Peyto would have realized a gain in the amount of \$3.9 million.

Subsequent to December 31, 2020 Peyto entered into the following contracts:

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
April 1, 2021 to October 31, 2021	Fixed Price	15,000 GJ	\$2.56
November 1, 2021 to March 31, 2022	Fixed Price	40,000 GJ	\$2.96

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Daily Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	\$2.53

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2021 to October 31, 2021	Fixed Price	10,000 mmbtu	\$2.81

<b>Natural Gas</b>			<b>Average Price</b>
<b>Period Hedged - Malin</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2021 to March 31, 2022	Fixed Price	5,000 mmbtu	\$3.30
April 1, 2022 to October 31, 2022	Fixed Price	15,000 mmbtu	\$2.38
November 1, 2022 to March 31, 2023	Fixed Price	30,000 mmbtu	\$2.95

<b>Crude Oil</b>			<b>Average Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
April 1, 2021 to June 30, 2021	Fixed Price	2,100 bbl	\$53.75
April 1, 2021 to December 31, 2021	Fixed Price	600 bbl	\$58.17
July 1, 2021 to September 30, 2021	Fixed Price	700 bbl	\$54.81
July 1, 2021 to December 31, 2021	Fixed Price	300 bbl	\$54.13
October 1, 2021 to December 31, 2021	Fixed Price	700 bbl	\$53.49

<b>Propane</b>			<b>Average Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(USD/bbl)</b>
January 1, 2021 to March 31, 2021	Fixed Price	250 bbl	\$30.66
February 1, 2021 to March 31, 2021	Fixed Price	500 bbl	\$33.60
March 1, 2021 to March 31, 2021	Fixed Price	250 bbl	\$37.80
April 1, 2021 to September 30, 2021	Fixed Price	1,250 bbl	\$29.11
April 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$26.36
October 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$25.41

### 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. This risk is mitigated indirectly as the Canadian dollar tends to rise as commodity prices rise. 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. Currently there are no agreements to manage the risk on the credit facility. At December 31, 2020, the increase or decrease in earnings for each 100 bps (1 per cent) change in weighted average borrowing rate paid on the outstanding revolving demand loan amounts to approximately \$1.9 million per quarter. Average debt outstanding for the quarter was \$1.17 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	
	2020	2019	2020	2019
Cash flows from operating activities	52,884	74,943	203,053	316,936
Change in non-cash working capital	23,129	1,031	9,657	3,904
Performance based compensation	-	-	-	2,291
Funds from operations	76,013	75,974	212,710	323,131
Funds from operations per share	0.46	0.46	1.29	1.96

For the fourth quarter ended December 31, 2020, funds from operations totaled \$76.0 million or \$0.46 per share, unchanged from the same quarter in 2019. For the year ended December 31, 2020 funds from operations was \$212.7 million or \$1.29 per share, compared to \$323.1 million or \$1.96 per share for 2019. The decrease in funds from operation was due to a decrease in 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 credit 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, 2020	December 31, 2019
Long-term senior secured notes	415,000	415,000
Bank credit facility	755,000	705,000
<b>Balance, end of the period</b>	<b>1,170,000</b>	<b>1,120,000</b>

On June 29, 2020, the Company finalized an agreement with its syndicate of lenders and term debt note holders to revise its credit and note purchase agreements to reflect a reduction in the size of its credit facility and provide financial covenant relief until March 2022. The credit facility and long-term notes are now secured by a floating debenture on Peyto's assets.

The Company has a syndicated \$950 million extendible secured 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 \$910 million 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 200 basis points and 600 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 50 to 150 basis points.

The Company has received relief from its previous financial covenants with respect to senior and total debt to EBITDA and interest coverage until March 2022. Peyto is subject to the following financial covenants as in the June 29, 2020 amended credit facility and note purchase agreements:

### Total Debt to EBITDA

Fiscal Quarter ended	Limit
December 31, 2020	Less than 5.75
March 31, 2021	Less than 5.50
June 30, 2021	Less than 5.00
September 30, 2021	Less than 4.75
December 31, 2021	Less than 4.50
March 31, 2022	Less than 4.25
June 30, 2022 and thereafter	Less than 4.00

## Senior Debt to EBITDA

<b>Fiscal Quarter ended</b>	<b>Limit</b>
December 31, 2020	Less than 5.25
March 31, 2021	Less than 5.00
June 30, 2021	Less than 4.50
September 30, 2021	Less than 4.25
December 31, 2021	Less than 4.00
March 31, 2022	Less than 3.75
June 30, 2022 and thereafter	Less than 3.50

## Interest Coverage Ratio

EBITDA to be greater than 2.50:1.00 up to and including the Fiscal Quarter ending December 31, 2021; and 3.00:1.00 for each Fiscal Quarter thereafter.

## Total Debt to Capitalization Ratio

Total Debt not to exceed 55% of shareholders' equity and total debt.

Peyto's financial covenants include financial measures defined within our revolving credit facility agreement that are not defined under IFRS. These financial measures are defined by our amended credit facility agreement as follows:

- Total Debt: includes long-term debt and subordinated debt plus bank overdraft and letters of credit.
- Senior Debt: includes long-term debt plus bank overdraft and letters of credit.
- EBITDA: trailing twelve-month net income before non-cash items, interest, and income taxes.

<b>Financial covenant</b>	<b>Limit</b>	<b>December 31, 2020</b>	<b>December 31, 2019</b>
Total Debt to EBITDA	Less than 5.75	4.35	2.99
Senior Debt to EBITDA	Less than 5.25	4.35	2.99
Interest coverage	Greater than 2.5	4.60	7.0
Total Debt to (Total Debt + Equity)	Less than 0.55	0.41	0.40

Peyto is in compliance with all financial covenants as at December 31, 2020.

Outstanding secured senior notes are as follows:

<b>Senior Secured Notes</b>	<b>Date Issued</b>	<b>Rate*</b>	<b>Maturity Date</b>
\$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 senior debt to EBITDA exceeds 3.0x, the interest rate on the notes will increase by a range of 85 basis points to 285 basis points.

The total amount of capital invested in 2021 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, 2020	As at December 31, 2019
Bank credit facility - drawn	755,000	705,000
Senior secured notes	415,000	415,000
Current assets	(82,651)	(80,265)
Current liabilities	95,060	113,442
Financial derivative instruments	(4,962)	(5,537)
Current portion of lease obligation	(1,107)	(981)
Net debt	1,176,340	1,146,659

## 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, 2019	164,874,175	1,649,369
Common shares issued under stock option plan	66,800	266
Balance, December 31, 2020	164,940,975	1,649,635

## Capital Expenditures

Net capital expenditures for the fourth quarter of 2020 totaled \$68.2 million. Exploration and development related activity represented \$51.1 million (75 per cent), while expenditures on facilities, gathering systems and equipment totaled \$14.4 million (21 per cent) and land, acquisitions and seismic totaled \$2.7 million (4 per cent). The following table summarizes capital expenditures for the period:

(\$000)	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Land	-	186	100	2,716
Seismic	1,702	1,600	7,905	4,588
Drilling	29,031	36,325	105,091	86,053
Completions	22,080	21,125	70,521	64,973
Equipping & Tie-ins	7,321	9,317	23,162	20,505
Facilities & Pipelines	7,045	4,798	26,053	26,540
Acquisitions	1,071	-	2,871	1,071
Dispositions	-	-	-	(15)
Total Capital Expenditures	68,250	73,351	235,703	206,431

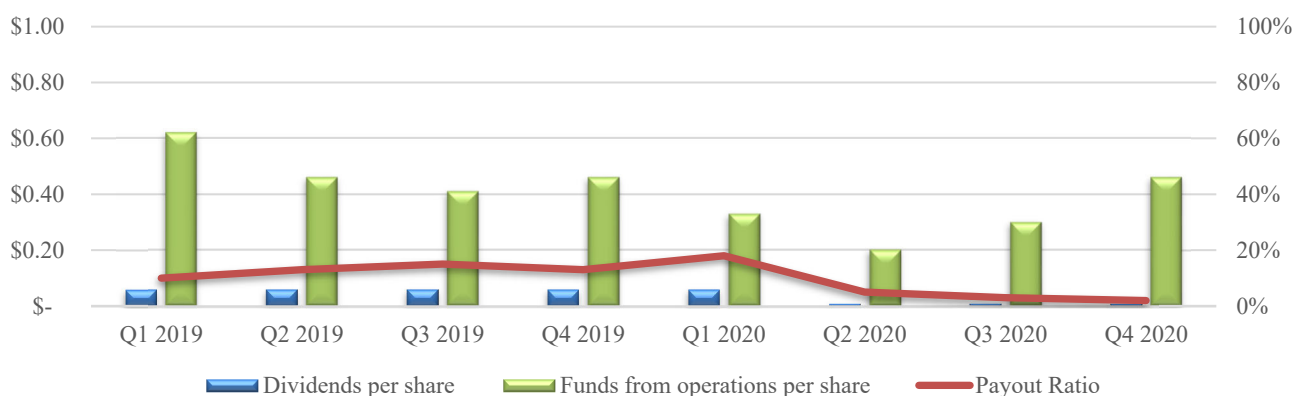
Subsequent to December 31, 2020, the Company acquired a gas processing facility, 106 net producing wells and undeveloped land for \$35 million.

## Dividends

	Three Months ended December 31		Twelve Months ended December 31	
	2020	2019	2020	2019
Funds from operations (\$000)	<b>76,013</b>	75,974	<b>212,710</b>	323,131
Total dividends (\$000)	<b>1,649</b>	9,892	<b>14,840</b>	39,570
Total dividends per common share (\$)	<b>0.01</b>	0.06	<b>0.09</b>	0.24
Payout ratio (%)	<b>2</b>	13	<b>7</b>	12

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 credit 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, 2020:

(\$000)	2021	2022	2023	2024	2025	Thereafter
Interest payments <sup>(1)</sup>	15,274	17,249	14,809	11,109	9,725	12,070
Transportation commitments	51,730	80,822	52,634	36,112	35,881	352,564
Operating lease	2,125	2,200	2,200	2,200	2,200	2,200
Methanol	2,196	-	-	-	-	-
<b>Total</b>	<b>71,325</b>	<b>100,271</b>	<b>69,643</b>	<b>49,421</b>	<b>47,806</b>	<b>366,834</b>

<sup>(1)</sup> Fixed interest payments on senior secured 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 30	
	2020	2020	2020	2019
	<b>4.4</b>	<b>105.3</b>	<b>5.5</b>	191.5

## RISK MANAGEMENT

Investors who purchase common 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, Ventura, and Emerson 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 common 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.

Changes to the demand for oil and natural gas products and the rise of petroleum alternatives may negatively affect Peyto's financial condition, results of operations and cash flows. Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas and technological advances in fuel economy and renewable energy generation systems could reduce the demand for oil, natural gas and liquid hydrocarbons. Recently, certain jurisdictions have implemented policies or incentives to decrease the use of hydrocarbons and encourage the use of renewable

fuel alternatives, which may lessen the demand for petroleum products and put downward pressure on commodity prices. Advancements in energy efficient products have a similar effect on the demand for oil and natural gas products. Peyto cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on Peyto's business, financial condition, results of operations and cash flow by decreasing Peyto's profitability, increasing its costs, limiting its access to capital and decreasing the value of its assets.

A number of factors, including the effects of the use of hydrocarbons on climate change, the impact of crude oil and natural gas operations on the environment, environmental damage relating to spills of crude oil products during production and transportation, and Indigenous rights, have affected certain investors' sentiments towards investing in the crude oil and natural gas industry. As a result of these concerns, some institutional, retail and governmental investors have announced that they are no longer funding or investing in crude oil and natural gas assets or companies, or are reducing the amount thereof over time. In addition, certain institutional investors are requesting that issuers develop and implement more robust ESG policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board, Management and employees of Peyto. Failing to implement the policies and practices, as requested by institutional investors, may result in such investors reducing their investment in Peyto, or not investing in Peyto at all. Any reduction in the investor base interested or willing to invest in the crude oil and natural gas industry and more specifically, Peyto, may result in limiting Peyto's access to capital, increasing the cost of capital, and decreasing the price and liquidity of Peyto's securities even if Peyto's operating results, underlying asset values, or cash flows have not changed.

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, 2020 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, 2020 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 2021. 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

	2020				2019
	Q4	Q3	Q2	Q1	Q4
<b>Operations</b>					
Production					
Natural gas (mcf/d)	433,226	401,680	401,825	401,572	397,419
Oil & NGLs (bbl/d)	11,256	11,263	11,126	11,585	11,221
Barrels of oil equivalent (boe/d @ 6:1)	83,461	78,210	78,097	78,514	77,457
Thousand cubic feet equivalent (mcf/d @ 6:1)	500,764	469,259	468,583	471,083	464,745
Liquid to gas ratio (bbl per mmcf)	26.0	28.0	27.7	28.8	28.2
Average product prices					
Natural gas (\$/mcf)	2.19	1.64	1.44	1.63	1.96
Oil & natural gas liquids (\$/bbl)	35.82	31.08	21.07	36.73	43.85
\$/mcf					
Average sale price (\$/mcf)	2.71	2.15	1.73	2.30	2.76
Average royalties paid (\$/mcf)	0.18	0.14	0.06	0.12	0.12
Average operating expenses (\$/mcf)	0.31	0.32	0.36	0.39	0.34
Average transportation costs (\$/mcf)	0.15	0.16	0.17	0.19	0.19
Field netback (\$/mcf)	2.07	1.53	1.14	1.58	2.11
General & administrative expense (\$/mcf)	0.04	0.04	0.04	0.04	0.02
Interest expense (\$/mcf)	0.38	0.35	0.33	0.29	0.31
Cash netback (\$/mcf)	1.65	1.14	0.77	1.27	1.78
<b>Financial (\$000 except per share)</b>					
Revenue and realized hedging gains (losses) <sup>1</sup>	124,524	92,853	73,883	97,723	116,691
Royalties	8,506	5,867	2,705	4,936	5,303
Funds from operations	76,013	49,173	33,012	54,513	75,974
Funds from operations per share	0.46	0.30	0.20	0.33	0.46
Total dividends	1,649	1,649	1,649	9,892	9,892
Total dividends per share	0.01	0.01	0.01	0.06	0.06
Payout ratio	2%	3%	5%	18%	13%
Earnings (loss)	65,951	(11,285)	(22,538)	(67,684)	3,492
Earnings (loss) per diluted share	0.40	(0.07)	(0.14)	(0.41)	0.02
Capital expenditures	68,250	61,568	37,299	68,587	73,351
Weighted average shares outstanding	164,937,898	164,892,979	164,874,175	164,874,175	164,874,175

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

## Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

### Opinion

We have audited the consolidated financial statements of Peyto Exploration & Development Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

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

### Key Audit Matters

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the financial statements for the year ended December 31, 2020. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

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

#### *Key Audit Matter Description*

The Company's property, plant and equipment includes oil and gas properties. Oil and gas properties are measured by depleting the assets on a unit-of-production basis ("depletion") and are evaluated for impairment using the future net cash flows of the underlying proved and probable oil and natural gas reserves. The Company engages an independent reservoir engineer to estimate oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future net cash flows used to evaluate the depletion and impairment requires management to make significant estimates and assumptions related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs.

Given the significant judgments made by management related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required

auditor judgement in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort including the involvement of fair value specialists.

#### *How the Key Audit Matter Was Addressed in the Audit*

Our audit procedures related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs used to measure oil and gas properties included the following, among others:

- With the assistance of fair value specialists,
  - Evaluated future oil and natural gas prices by independently developing a reasonable range of forecasts based on reputable third-party forecasts and market data and comparing those to the future prices selected by management.
  - Evaluated the reasonableness of the discount rates by testing the source information underlying the determination of the discount rates and developing a range of independent estimates and comparing those to the discount rates selected by management.
- Evaluated the Company's independent reservoir engineer by:
  - Examining reports and assessing their scope of work and findings.
  - Assessing the competence, capability and objectivity by evaluating their relevant professional qualifications and experience.
- Evaluated the reasonableness of reserves by testing the source financial information underlying the reserves and comparing the reserve volumes to historical production volumes.
- Evaluated the reasonableness of future operating and development costs by testing the source financial information underlying the estimate, comparing future operating and development costs to historical results, and evaluating whether they are consistent with evidence obtained in other areas of the audit.
- Performed a retrospective review to evaluate management's ability to accurately forecast and to assess for indications of estimation bias over time.

#### **Other Information**

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

*Deloitte LLP*

Chartered Professional Accountants

Calgary, Alberta

March 2, 2021

# Peyto Exploration & Development Corp.

## Consolidated Balance Sheets

(Amounts in \$ thousands)

	December 31 2020	December 31 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash	9,310	6,185
Accounts receivable (Note 12)	56,445	61,343
Prepaid expenses	16,896	12,737
	<b>82,651</b>	80,265
Long-term derivative financial instruments (Note 14)	6,475	-
Property, plant and equipment, net (Note 3)	3,511,931	3,516,915
	<b>3,518,406</b>	3,516,915
	<b>3,601,057</b>	3,597,180
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	87,342	103,627
Dividends payable (Note 7)	1,649	3,297
Current portion of lease obligation (Note 6)	1,107	981
Derivative financial instruments (Note 14)	4,962	5,537
	<b>95,060</b>	113,442
Long-term debt (Note 4)	1,170,000	1,120,000
Long-term derivative financial instruments (Note 14)	-	552
Decommissioning provision (Note 5)	182,456	165,513
Lease obligation (Note 6)	6,563	7,757
Deferred income taxes (Note 13)	469,505	475,999
	<b>1,828,524</b>	1,769,821
<b>Equity</b>		
Shareholders' capital (Note 7)	1,649,635	1,649,369
Contributed surplus (Note 11)	10,487	4,462
Retained earnings	12,727	63,122
Accumulated other comprehensive income (loss)	4,624	(3,036)
	<b>1,677,473</b>	1,713,917
	<b>3,601,057</b>	3,597,180

Approved by the Board of Directors

(signed) "Michael MacBean"  
Director

(signed) "Darren Gee"  
Director

# Peyto Exploration & Development Corp.

## Consolidated Income Statements

(Amounts in \$ thousands)

	Year ended December 31	
	2020	2019
<b>Revenue</b>		
Natural gas and natural gas liquid sales <i>(Note 12)</i>	388,930	461,548
Royalties	(22,014)	(13,653)
Sales of natural gas from third parties	11,060	8,133
Natural gas and natural gas liquid sales, net of royalties	<b>377,976</b>	456,028
Realized gain on derivative financial instruments <i>(Note 14)</i>	51	28,274
Unrealized loss on derivative financial instruments <i>(Note 14)</i>	(2,345)	-
Other income	259	-
<b>Total revenue, other income, and derivative financial instruments</b>	<b>375,941</b>	484,302
<b>Expenses</b>		
Natural gas purchased from third parties	10,338	6,893
Operating <i>(Note 8)</i>	60,636	59,674
Transportation	29,002	33,168
General and administrative	6,729	7,883
Reserves-based bonus <i>(Note 10)</i>	-	2,291
Stock based compensation <i>(Note 11)</i>	6,080	4,462
Interest <i>(Note 9)</i>	58,871	53,553
Accretion of decommissioning provision <i>(Note 5)</i>	3,372	2,865
Loss on disposition of capital assets	1,871	-
Depletion, depreciation, and impairment <i>(Note 3)</i>	243,380	243,583
	<b>420,279</b>	414,372
<b>Earnings (loss) before taxes</b>	<b>(44,338)</b>	69,930
<b>Income tax</b>		
Deferred income tax (recovery) <i>(Note 13)</i>	(8,783)	(63,565)
<b>Earnings (loss) for the year</b>	<b>(35,555)</b>	133,495
<b>Earnings (loss) per share <i>(Note 7)</i></b>		
<b>Basic and diluted</b>	<b>(\$0.22)</b>	\$0.81
<b>Weighted average number of common shares outstanding <i>(Note 7)</i></b>		
Basic and Diluted	<b>164,894,920</b>	164,874,175

**Peyto Exploration & Development Corp.**  
**Consolidated Statements of Comprehensive Income**

(Amounts in \$ thousands)

	<b>Year ended December 31</b>	
	<b>2020</b>	<b>2019</b>
<b>Earnings for the year</b>	<b>(35,555)</b>	133,495
<b>Other comprehensive income</b>		
Change in unrealized gain (loss) on derivative financial instruments	6,476	(56,577)
Deferred tax (expense) recovery	(2,288)	21,030
Realized loss (gain) on derivative financial instruments	3,472	(28,274)
<b>Comprehensive (loss) Income</b>	<b>(27,895)</b>	69,674



# Peyto Exploration & Development Corp.

## Consolidated Statements of Changes in Equity

(Amounts in \$ thousands)

	Year ended December 31	
	2020	2019
<b>Shareholders' capital, Beginning of Year</b>	<b>1,649,369</b>	1,649,537
Common shares issued under stock option plan	266	-
Stock option issuance costs (net of tax)	-	(168)
<b>Shareholders' capital, End of Year</b>	<b>1,649,635</b>	1,649,369
<b>Contributed surplus, Beginning of Year</b>	<b>4,462</b>	-
Stock-based compensation expense	6,080	4,462
Recognized under stock-based compensation plans	(55)	-
<b>Contributed surplus, End of Year</b>	<b>10,487</b>	4,462
<b>Retained earnings (deficit), Beginning of Year</b>	<b>63,122</b>	(29,860)
Impact of change in accounting policy	-	(943)
Earnings for the year	(35,555)	133,495
Dividends ( <i>Note 7</i> )	(14,840)	(39,570)
<b>Retained earnings (deficit), End of Year</b>	<b>12,727</b>	63,122
<b>Accumulated other comprehensive income (loss), Beginning of Year</b>	<b>(3,036)</b>	60,785
Other comprehensive income (loss)	7,660	(63,821)
<b>Accumulated other comprehensive income (loss), End of Year</b>	<b>4,624</b>	(3,036)
<b>Total Equity</b>	<b>1,677,473</b>	1,713,917

# Peyto Exploration & Development Corp.

## Consolidated Statements of Cash Flows

(Amounts in \$ thousands)

	<b>Year ended December 31</b>	
	<b>2020</b>	2019
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Earnings (loss)	(35,555)	133,495
Items not requiring cash:		
Deferred income tax (recovery)	(8,783)	(63,565)
Depletion and depreciation, and impairment	243,380	243,583
Loss on disposition of capital assets	1,871	
Accretion of decommissioning provision	3,372	2,865
Stock-based compensation	6,080	4,462
Unrealized loss on derivative financial instruments	2,345	-
Change in non-cash working capital related to operating activities	(9,657)	(3,904)
	<b>203,053</b>	316,936
<b>Financing activities</b>		
Bank overdraft	-	(19,281)
Stock option issuance costs	-	(225)
Common shares issued under stock option plan	211	-
Cash dividends paid	(16,488)	(46,165)
Lease interest ( <i>Note 6</i> )	286	322
Principal repayment of lease ( <i>Note 6</i> )	(1,354)	(1,354)
Increase in bank debt	50,000	175,000
Repayment of senior notes	-	(205,000)
	<b>32,655</b>	(96,703)
<b>Investing activities</b>		
Additions to property, plant and equipment	(235,703)	(206,431)
Change in prepaid capital	10,477	3,423
Change in non-cash working capital relating to investing activities	(7,357)	(11,040)
	<b>(232,583)</b>	(214,048)
<b>Net increase in cash</b>	<b>3,125</b>	<b>6,185</b>
<b>Cash, beginning of year</b>	<b>6,185</b>	<b>-</b>
<b>Cash, end of year</b>	<b>9,310</b>	<b>6,185</b>

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

Cash interest paid	<b>59,994</b>	56,914
Cash taxes paid	-	-

# **Peyto Exploration & Development Corp.**

## **Notes to Consolidated Financial Statements**

**As at December 31, 2020 and 2019**

(Amounts in \$ thousands, except as otherwise noted)

### **1. Nature of operations**

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

These consolidated financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 2, 2021.

### **2. Basis of presentation**

These consolidated financial statements (“consolidated financial statements”) as at and for the years ended December 31, 2020 and December 31, 2019 represent the Company’s results and financial position in accordance with International Financial Reporting Standards (“IFRS”).

#### **a) Summary of significant accounting policies**

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

#### **b) Significant accounting estimates and judgements**

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

In March 2020, the World Health Organization declared COVID-19 a global pandemic; prompting many countries around the world to close international borders and order the closure of institutions and businesses deemed non-essential.

At the same time, the Organization of Petroleum Exporting Countries (“OPEC”), and certain other countries, increased the planned supply of crude oil in an attempt to trigger a price war over market share. The sudden decrease in global crude oil demand due to COVID-19 coupled with a planned increase in supply significantly reduced commodity prices.

In subsequent months, agreements have been made between OPEC, Russia, and other oil-producing countries around the world that have reduced global crude oil production and brought the oversupply closer into balance with demand. Crude oil prices have partially recovered from the historic lows observed earlier in 2020, but price support from future demand remains uncertain. Efforts to re-open local economies and international borders around the globe resulted in varying degrees of virus outbreak. Many countries have now re-imposed restrictions as regions experience a second wave of COVID-19, often with higher rates of infection than the first wave. Vaccination programs have begun around the world, however the pace with which vaccines are administered is dependent on the supply access and logistics organized by individual nations. There remains uncertainty about the future supply of and demand for oil and natural gas.

In addition to the impact on commodity prices and commodity sales from production amounts, the effects of COVID-19 have created other uncertainties in the crude oil and natural gas industry, including increased counterparty credit risk and decreased valuation of long-lived crude oil and natural gas assets and goodwill. At December 31, 2020, Management

has incorporated the anticipated impacts of COVID-19 in its estimates and judgments in preparation of these financial statements.

### **Depletion and Recoverability of oil & gas properties**

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

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

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

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

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

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

### **Decommissioning provision**

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

### **Derivative financial instruments**

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

### **Stock-based compensation**

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

### **Income Taxes**

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

#### **c) Presentation currency**

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

#### **d) Cash Equivalents**

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

#### **e) Jointly controlled operations and assets**

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

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

#### **f) Exploration and evaluation assets**

##### **Pre-license costs**

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

##### **Exploration and evaluation costs**

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

#### **g) Property, plant and equipment**

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

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

##### **Oil and natural gas asset swaps**

For exchanges or parts of exchanges that involve assets, the exchange is accounted for at fair value. Assets are then de-recognized at their current carrying amount.

### **Depletion and depreciation**

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

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

#### **h) Corporate assets**

Corporate assets not related to oil and natural gas exploration and development activities are recorded at historical costs and depreciated over their useful life. These assets are not significant or material in nature.

#### **i) Impairment of non-financial assets**

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

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

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

#### **j) Lease obligations and right of use assets**

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. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset ("ROU") is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Peyto does not recognize leases for short-term leases with a lease term of 12 months or less, or leases for low-value assets.

ROU assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on lease assets is recognized in depletion, depreciation, and amortization expense.

#### **k) Financial instruments**

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

The Company has made the following classifications:

<b>Financial Assets &amp; Liabilities</b>	<b>Category</b>
Cash	Fair value through profit or loss
Accounts Receivable	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Dividends Payable	Amortized cost
Long Term Debt	Amortized cost
Derivative Financial Instruments (non-hedged)	Fair value through profit or loss (“FVTPL”)
Derivative Financial Instruments (hedged)	Fair value through other comprehensive income (“FVOCI”)

### **Impairment of Financial Assets**

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

### **Derivative financial instruments**

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

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

### **Embedded derivatives**

An embedded derivative is a component of a contract that causes some of the cash flows of the combined instrument to vary in a way similar to a stand-alone derivative. This causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified variable, such as interest rate, financial instrument price, commodity price, foreign exchange rate, a credit rating or credit index, or other variables to be treated as a financial derivative. The Company has no contracts containing embedded derivatives.

### **Normal purchase or sale exemption**

Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32

*Financial Instruments: Presentation* (“IAS 32”), which is known as the ‘normal purchase or sale exemption’. The Company recognizes such contracts in its balance sheet only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

## **l) Hedging**

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

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

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

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

## **m) Inventories**

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

## **n) Provisions**

### **General**

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

### **Decommissioning provision**

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

The decommissioning provision represents the present value of the decommissioning costs related to oil & gas properties, which are expected to be incurred over the economic life of the assets. The provisions have been based on the Company’s internal estimates on the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon



the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain.

**o) Taxes**

**Current income tax**

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in Canada.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

**Deferred income tax**

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

**p) Revenue recognition**

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

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

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

**q) Gains and losses on disposition**

For all dispositions, either through sale or exchange, gains and losses are calculated as the difference between the sale or exchange value in the transaction and the carrying amount of the assets disposed. Gains and losses on disposition are recognized in earnings in the same period as the transaction date.

**r) Borrowing costs**

Borrowing costs directly relating to the acquisition, construction or production of a qualifying capital project under construction are capitalized and added to the project cost during construction until such time the assets are substantially ready for their intended use, which is when they are capable of commercial production. Where the funds used to finance a project form part of general borrowings, the amount capitalized is calculated using a weighted average of rates applicable to relevant general borrowings of the Company during the period. All other borrowing costs are recognized in the income statement in the period in which they are incurred.

**s) Share-based payments**

Peyto has three share-based plans: market-based bonus, stock options and deferred share units. Each share-based compensation plan is equity-settled. Compensation expense associated with equity-settled awards is determined based

on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

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

**t) Earnings per share**

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

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

**u) Share capital**

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

**v) Government Grants**

Government grants are recognized when there is reasonable assurance that Peyto will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are fulfilled. When the conditions of a grant relate to income or expense, it is recognized in the statements of income. When the conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

**3. Property, plant and equipment**

Cost	
<b>At December 31, 2018</b>	<b>5,691,372</b>
Additions	205,455
ROU asset	8,070
Decommissioning provision additions	8,793
Prepaid capital	(3,423)
<b>At December 31, 2019</b>	<b>5,910,267</b>
Additions	234,621
Decommissioning provision additions	13,571
Prepaid capital	(10,447)
<b>At December 31, 2020</b>	<b>6,148,012</b>
Accumulated depletion and depreciation	
<b>At December 31, 2018</b>	<b>(2,150,744)</b>
Depletion and depreciation	(242,608)
<b>At December 31, 2019</b>	<b>(2,393,352)</b>
Depletion and depreciation	(239,129)
Impairment	(79,700)
Impairment recovery, net of depletion	76,100
<b>At December 31, 2020</b>	<b>(2,636,081)</b>
Carrying amount at December 31, 2019	3,516,915
<b>Carrying amount at December 31, 2020</b>	<b>3,511,931</b>

At December 31, 2019, there were indicators of impairment identified and therefore a test was performed. No impairment was recognized as the estimated recoverable amount of the CGU exceeded its carrying value.

The benchmark prices used in the Company's forecast at December 31, 2019 are outlined as follows:

	2020	2021	2022	2023	2024	2025	2026
AECO natural gas (Cdn\$/MMBtu)	2.05	2.32	2.60	2.69	2.81	2.94	3.00

	2020	2021	2022	2023	2024	2025	2026
Henry Hub (US\$/MMBtu)	2.50	2.75	3.00	3.15	3.25	3.35	3.42
Cdn\$/US\$ <sup>(1)</sup>	0.76	0.77	0.78	0.80	0.80	0.80	0.80

	2020	2021	2022	2023	2024	2025	2026
WTI (US\$/BBL)	61.00	64.50	66.50	68.20	69.90	71.50	73.50
Cdn\$/US\$ <sup>(1)</sup>	0.76	0.77	0.78	0.80	0.80	0.80	0.80

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective December 31, 2019.

During 2020 Peyto capitalized \$7.4 million (2019 - \$7.6 million) of general and administrative expense directly attributable to exploration and development activities.

At March 31, 2020, the Company identified two indicators of impairment:

- 1) The decrease in demand for crude oil due to the COVID-19 pandemic, and the adequacy of supply management efforts by the Organization of Petroleum Exporting Countries ("OPEC") and non-OPEC partners to address such dramatic changes. These factors lead to a decrease in the outlook of commodity prices in the North American market.
- 2) A decrease in Peyto's market capitalization relative to the carrying value of its net assets since the date of its last impairment test.

At March 31, 2020, the Company performed an impairment test using after-tax discounted future cash flows of proved and probable reserves, utilizing a discount rate of 10% after tax. In estimating the recoverable amount, the fair value less costs of disposal method was used.

The benchmark prices used in the Company's forecast at March 31, 2020 are as follows

	2020	2021	2022	2023	2024	2025	2026
AECO natural gas (Cdn\$/MMBtu)	1.90	2.26	2.38	2.47	2.55	2.63	2.69

	2020	2021	2022	2023	2024	2025	2026
Henry Hub (US\$/MMBtu)	2.10	2.60	2.80	2.90	3.00	3.10	3.16
Cdn\$/US\$ <sup>(1)</sup>	0.71	0.73	0.75	0.75	0.75	0.75	0.75

	2020	2021	2022	2023	2024	2025	2026
WTI (US\$/BBL)	31.00	42.00	50.00	55.00	58.00	59.16	60.34
Cdn\$/US\$ <sup>(1)</sup>	0.71	0.73	0.75	0.75	0.75	0.75	0.75

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective March 31, 2020.

Prices subsequent to 2037 have been adjusted for estimated annual inflation of 2%.

As a result of the impairment test performed as at March 31, 2020, the Company recorded an impairment charge of \$79.7 million as depreciation, depletion, and impairment.

At December 31, 2020 there were no indicators of impairment however with the increase in the outlook of future oil and natural gas prices as well as an increase in the market capitalization since March 31, 2020 indicators of impairment reversal were identified. The Company carried out a recovery test for its ("CGU"). A recovery of \$76.1 million net of depletion was recognized as depreciation, depletion, and impairment. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated industry weighted average cost of capital of 10 per cent after tax.

The benchmark prices used in the Company's forecast at December 31, 2020 are as follows:

	2021	2022	2023	2024	2025	2026	2027
AECO natural gas (Cdn\$/MMBtu)	2.80	2.71	2.62	2.67	2.73	2.78	2.84
	2021	2022	2023	2024	2025	2026	2027
Henry Hub (US\$/MMBtu)	2.85	2.91	2.97	3.02	3.08	3.15	3.21
Cdn\$/US\$ <sup>(1)</sup>	0.77	0.77	0.77	0.77	0.77	0.77	0.77
WTI (US\$/BBL)	48.00	51.00	54.00	55.08	56.18	57.13	58.45
Cdn\$/US\$ (1)	0.77	0.77	0.77	0.77	0.77	0.77	0.77

<sup>(1)</sup> Source: Insite Petroleum Consultants Ltd. price forecast, effective December 31, 2020.

Prices subsequent to 2037 have been adjusted for estimated annual inflation of 2%.

All else being equal, a 1% increase in the assumed discount rate or a 10% decrease in future planned cash flows would not result in an impairment for the years ended December 31, 2020.

Subsequent to December 31, 2020, the Company acquired a gas processing facility, 106 net producing wells and undeveloped land for \$35 million.

#### 4. Current and long-term debt

	December 31, 2020	December 31, 2019
Bank credit facility	755,000	705,000
Long-term senior Secured notes	415,000	415,000
<b>Balance, end of the year</b>	<b>1,170,000</b>	<b>1,120,000</b>

On June 29, 2020, the Company finalized an agreement with its syndicate of lenders and term debt note holders to revise its credit and note purchase agreements to reflect a reduction in the size of its credit facility and provide financial covenant relief until March 2022. The credit facility and long-term notes are now secured by a floating debenture on Peyto's consolidated total assets.

The Company has a syndicated \$950 million extendible secured 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 \$910 million 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 200 basis points and 600 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 50 to 150 basis points.

The Company has received relief from its previous financial covenants with respect to senior and total debt to EBITDA and interest coverage until March 2022. Peyto is subject to the following financial covenants as set forth in the June 29, 2020 amended credit facility and note purchase agreements:

#### Total Debt to EBITDA

Fiscal Quarter ended	Limit
December 31, 2020	Less than 5.75
March 31, 2021	Less than 5.50
June 30, 2021	Less than 5.00
September 30, 2021	Less than 4.75
December 31, 2021	Less than 4.50
March 31, 2022	Less than 4.25
June 30, 2022 and thereafter	Less than 4.00

## Senior Debt to EBITDA

<b>Fiscal Quarter ended</b>	<b>Limit</b>
December 31, 2020	Less than 5.25
March 31, 2021	Less than 5.00
June 30, 2021	Less than 4.50
September 30, 2021	Less than 4.25
December 31, 2021	Less than 4.00
March 31, 2022	Less than 3.75
June 30, 2022 and thereafter	Less than 3.50

## Interest Coverage Ratio

EBITDA to be greater than 2.50:1.00 up to and including the Fiscal Quarter ending December 31, 2021; and 3.00:1.00 for each Fiscal Quarter thereafter.

## Total Debt to Capitalization Ratio

Total Debt not to exceed 55% of shareholders' equity and total debt.

Peyto's financial covenants include financial measures defined within our revolving credit facility agreement that are not defined under IFRS. These financial measures are defined by our amended credit facility agreement as follows:

- Total Debt: includes long-term debt and subordinated debt plus bank overdraft and letters of credit.
- Senior Debt: includes long-term debt plus bank overdraft and letters of credit.
- EBITDA: trailing twelve-month net income before non-cash items, interest, and income taxes.

Outstanding senior notes are as follows:

<b>Senior Secured Notes</b>	<b>Date Issued</b>	<b>Rate*</b>	<b>Maturity Date</b>
\$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 senior debt to EBITDA exceeds 3.0x, the interest rate on the notes will increase by a range of 85 basis points to 285 basis points.

Peyto is in compliance with all financial covenants at December 31, 2020.

Total interest expense for 2020 was \$58.9 million (2019 - \$53.6 million) and the weighted average borrowing rate for 2020 was 5.10% (2019 - 4.6%).

## 5. Decommissioning provision

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

The Company has estimated the net present value of its total decommissioning provision to be \$182.5 million as at December 31, 2020 (2019 - \$165.5 million) based on a total escalated future undiscounted liability of \$337.3 million (2019 - \$327.6 million). At December 31, 2020 management estimates that these payments are expected to be made over the next 50 years (2019 - 50 years) with the majority of payments being made in years 2024 to 2070. The Bank of Canada's long-term bond rate of 2.00 per cent (2019 - 2.22 per cent) and an inflation rate of 2.0 per cent (2019 - 2.0 per cent) were used to calculate the present value of the decommissioning provision.

The following table reconciles the change in decommissioning provision:

<b>Balance, December 31, 2018</b>	<b>153,855</b>
New or increased provisions	5,253
Accretion of discount	2,865
Change in discount rate and estimates	3,540
<b>Balance, December 31, 2019</b>	<b>165,513</b>
New or increased provisions	5,265
Accretion of discount	3,372
Change in discount rate and estimates	8,306
<b>Balance, December 31, 2020</b>	<b>182,456</b>
Current	-
Non-current	<b>182,456</b>

## 6. 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

<b>Balance as at December 31, 2019</b>	<b>7,061</b>
Depreciation	(1,009)
<b>Balance at December 31, 2020</b>	<b>6,052</b>

The ROU asset is included in Property plant & equipment, refer to Note 3.

### Lease Obligation

<b>Lease obligation at December 31, 2019</b>	<b>8,738</b>
Lease interest expense	286
Principal repayment of lease	(1,354)
<b>Lease obligation at December 31, 2020</b>	<b>7,670</b>
Current portion of lease obligation at December 31, 2020	<b>1,107</b>
Non-current portion of lease obligation at December 31, 2020	<b>6,563</b>

The variable lease payments not included in the measurement of the office lease obligation is \$0.8 million for the period ended December 31, 2020. The variable lease payments are recognized through general and administration expense.

During the period ended December 31, 2020, \$19.0 million (2019- \$15.1 million) was recorded in property, plant, and equipment in relation to short-term leases.

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

	<b>As at December 31, 2020</b>
Less than 1 year	1,354
1-3 years	4,286
4-5 years	2,857
Total lease payment	8,497
Amount representing interest	(827)
Present value of lease payments	7,670
Current portion of lease obligation	1,107
Non-current portion of lease obligation	6,563

## 7. Equity

### Share capital

Authorized: Unlimited number of voting common shares

### Issued and Outstanding

	Number of Common Shares	Amount \$
<b>Common Shares (no par value)</b>		
<b>Balance, December 31, 2018</b>	<b>164,874,175</b>	<b>1,649,537</b>
Stock option issuance costs (net of tax)	-	(168)
<b>Balance, December 31, 2019</b>	<b>164,874,175</b>	<b>1,649,369</b>
Common shares issued	66,800	266
<b>Balance, December 31, 2020</b>	<b>164,940,975</b>	<b>1,649,635</b>

### Per share amounts

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

	As at December 31	
	2020	2019
Weighted average common shares basic and diluted	<b>164,894,920</b>	164,874,175

### Dividends

During the year ended December 31, 2020, Peyto declared and paid dividends of \$14.8 million (2019 - \$39.6 million).

Dividends declared	2020	2019
January	<b>0.02</b>	0.02
February	<b>0.02</b>	0.02
March	<b>0.02</b>	0.02
April	-	0.02
May	-	0.02
June	<b>0.01</b>	0.02
July	-	0.02
August	-	0.02
September	<b>0.01</b>	0.02
October	-	0.02
November	-	0.02
December	<b>0.01</b>	0.02
<b>Total</b>	<b>\$0.09</b>	\$0.24

## 8. Operating expenses

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

	Years ended December 31	
	2020	2019
Gross field expenses	67,985	67,978
Cost recoveries related to processing and gathering of partner production	(7,349)	(8,304)
<b>Total operating expenses</b>	<b>60,636</b>	<b>59,674</b>

## 9. Interest expense

	Years ended December 31	
	2020	2019
Interest expense	59,871	55,076
Capitalized interest	(1,000)	(1,523)
	<b>58,871</b>	<b>53,553</b>

## 10. Performance-based compensation

### Reserve value-based bonus

The reserve value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, dividends, general and administrative expenses and interest expense, of proved producing reserves calculated using realized prices at December 31 of the current year and a discount rate of 8%. The company recognized \$nil for 2020 (2019 -\$2.3 million).

## 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.

### Equity compensation arrangements

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

		Weighted Average Exercise price \$	Weighted Average Remaining Contractual life- Years
Rights under market-based bonus plan	726,200	7.23	1.08
Stock options	7,934,202	3.50	1.37

### Market based bonus plan

The following tables summarize the rights outstanding under the market-based bonus plan at December 31, 2020:

		Weighted average exercise price \$
<b>Balance, December 31, 2019</b>		
Rights under market-based bonus plan granted	<b>1,551,867</b>	<b>7.23</b>
Forfeited	(99,467)	(7.23)
Vested and cancelled	(726,200)	(7.23)
<b>Balance, December 31, 2020</b>	<b>726,200</b>	<b>7.23</b>

The Company estimates the fair value of rights under the market-based bonus plan using the Black-Scholes pricing model. During the period ended December 31, 2020 the average fair value per right was \$2.99. The following tables summarizes the assumptions used in the Black-Scholes model:



	<b>December 31, 2020</b>
Share price	\$7.23
Exercise price (net of dividends)	\$7.21
Expected volatility	39.60%
Average life	1 year
Risk-free interest rate	1.85%
Forfeiture rate	0.17%

The outstanding rights will vest on December 31, 2021.

### Stock option plans

The following tables summarize the stock options outstanding at December 31, 2020:

		<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2019</b>	<b>7,572,201</b>	<b>3.93</b>
Stock options granted	3,351,000	2.87
Exercised	(66,800)	3.16
Forfeited	(477,600)	3.61
Expired	(2,444,599)	3.96
<b>Balance, December 31, 2020</b>	<b>7,934,202</b>	<b>3.50</b>

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the period ended December 31, 2020 the weighted-average fair value per option was \$1.12. The following tables summarize the assumptions used in the Black-Scholes model:

	<b>December 31, 2020</b>
Share price	\$3.02
Exercise price	\$3.16
Expected volatility	48.12%
Average option life	2 year
Risk-free interest rate	1.10%
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.

At December 31, 2020, no stock options are exercisable.

The following tables summarize the DSU's outstanding at December 31, 2020:

		<b>Weighted average exercise price \$</b>
<b>Balance, December 31, 2019</b>	<b>-</b>	<b>-</b>
DSU granted	107,564	1.65
<b>Balance December 31, 2020</b>	<b>107,564</b>	<b>1.65</b>

## 12. Revenue and receivables

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

	Years ended December 31	
	2020	2019
Natural gas sales	261,754	288,381
Natural gas liquid sales	127,176	173,167
<b>Natural gas and natural gas liquid sales</b>	<b>388,930</b>	<b>461,548</b>

	December 31,	December 31,
	2020	2019
Accounts receivable from customers	52,519	53,248
Accounts receivable from realized derivative financial instruments	766	4
Accounts receivable from joint venture partners and other	3,160	8,091
<b>Accounts Receivable</b>	<b>56,445</b>	<b>61,343</b>

## 13. Income taxes

	2020	2019
Earnings before income taxes	<b>(44,338)</b>	69,930
Statutory income tax rate	24.00%	26.50%
Expected income taxes	(10,641)	18,531
Increase (decrease) in income taxes from:		
True-up tax pools	65	(133)
Rate change	681	(82,779)
Other	1,112	816
<b>Total income tax (recovery) expense</b>	<b>(8,783)</b>	<b>(63,565)</b>
Deferred income tax expense	<b>(8,783)</b>	<b>(63,565)</b>
Current income tax expense	-	-
<b>Total income tax expense</b>	<b>(8,738)</b>	<b>(63,565)</b>
Differences between tax base and reported amounts for depreciable assets	(564,611)	(519,902)
Derivative financial instruments	(887)	1,517
Share issuance costs	35	411
Provision for decommission provision	41,965	30,685
Charitable donations	28	17
Tax loss carry-forwards recognized	53,965	11,273
<b>Deferred income taxes</b>	<b>(469,505)</b>	<b>(475,999)</b>

At December 31, 2020, the Company has tax pools of approximately \$1,236.7 million (2019 - \$1,210.1 million) available for deduction against future income.

## 14. Financial instruments

### Financial instrument classification and measurement

Financial instruments of the Company carried on the balance sheet are carried at amortized cost with the exception of cash and derivative financial instruments. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at December 31, 2020 except for derivative financial instruments.

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

- Level 1 – quoted prices in active markets for identical financial instruments.

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

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

#### **Fair values of financial assets and liabilities**

The Company's financial instruments include cash, accounts receivable, accounts payable and accrued liabilities, dividend payable, long term debt and derivative financial instruments. At December 31, 2020 and 2019, cash and derivative financial instruments, are carried at fair value. Accounts receivable and current liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

#### **Market risk**

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

#### **Commodity price risk management**

##### **Financial derivative instruments**

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

Following is a summary of all derivative financial instruments in place at December 31, 2020:

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged- Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	\$1.64 to \$1.65
November 1, 2020 to March 31, 2021	Fixed Price	90,000 GJ	\$2.36 to \$3.05
January 1, 2021 to March 31, 2021	Fixed Price	20,000 GJ	\$2.40 to \$2.70
April 1, 2021 to October 31, 2021	Fixed Price	60,000 GJ	\$1.48 to \$2.43
November 1, 2021 to March 31, 2022	Fixed Price	80,000 GJ	\$2.55 to \$3.07
April 1, 2022 to October 31, 2022	Fixed Price	105,000 GJ	\$2.13 to \$2.26
November 1, 2022 to March 31, 2023	Fixed Price	20,000 GJ	\$2.30 to \$2.55

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged – Daily Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD/GJ)</b>
November 1, 2020 to March 31, 2021	Fixed Price	5,000 GJ	\$2.55
January 1, 2021 to March 31, 2021	Fixed Price	5,000 GJ	\$2.50
April 1, 2021 to October 31, 2021	Fixed Price	40,000 GJ	\$1.64 to \$2.45

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2020 to March 31, 2022	Fixed Price	20,000 mmbtu	\$2.28 to \$2.78
May 1, 2020 to March 31, 2021	Fixed Price	20,000 mmbtu	\$2.25 to \$2.56
November 1, 2020 to March 31, 2021	Fixed Price	152,500 mmbtu	\$2.62 to \$3.23
April 1, 2021 to October 31, 2021	Fixed Price	177,500 mmbtu	\$2.47 to \$2.99
November 1, 2021 to March 31, 2022	Fixed Price	77,500 mmbtu	\$2.86 to \$3.20
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	\$2.56 to \$2.57

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - Malin</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2021 to March 31, 2022	Fixed Price	10,000 mmbtu	\$3.21 to \$3.28
April 1, 2022 to October 31, 2022	Fixed Price	10,000 mmbtu	\$2.35

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
January 1, 2021 to March 31, 2021	Fixed Price	2,800 bbl	\$40.10 to \$46.50
January 1, 2021 to June 30, 2021	Fixed Price	200 bbl	\$46.50
April 1, 2021 to June 30, 2021	Fixed Price	900 bbl	\$42.50 to \$48.25

<b>Propane</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(USD/bbl)</b>
October 1, 2020 to March 31, 2021	Fixed Price	1,250 bbl	\$20.16 to \$21.42
April 1, 2021 to September 30, 2021	Fixed Price	250 bbl	\$23.42

<b>Natural Gas</b>			<b>Strike Price</b>
<b>Period – Covered Call Options</b>	<b>Type</b>	<b>Daily Volume</b>	<b>Nymex USD/mmbtu</b>
April 1, 2021 to October 31, 2021	Call	50,000 mmbtu	\$2.75 to \$3.15

As at December 31, 2020, Peyto had committed to the future sale of 70,670,000 gigajoules (GJ) of natural gas at an average price of \$2.30 per GJ or \$2.64 per mcf, 80,102,500 mmbtu at an average price of \$2.71 US per mmbtu, 370,100 barrels of crude at an average price of \$43.92 US per bbl and 158,250 barrel of propane at an average price of \$21.53 US per bbl. Had these contracts closed on December 31, 2020, Peyto would have realized a loss in the amount of \$3.9 million. If the gas price on December 31, 2020 were to increase by \$0.10/GJ, the unrealized loss would decrease by approximately \$33.7 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to December 31, 2020, Peyto entered into the following contracts:

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged – Monthly Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD)</b>
April 1, 2021 to October 31, 2021	Fixed Price	15,000 GJ	\$2.50 to \$2.63
November 1, 2021 to March 31, 2022	Fixed Price	40,000 GJ	\$2.88 to \$3.10

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged – Daily Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD)</b>
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	\$2.50 to \$2.55

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - NYMEX</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2021 to October 31, 2021	Fixed Price	10,000 mmbtu	\$2.77 to \$2.85

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged - Malin</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2021 to March 31, 2022	Fixed Price	5,000 mmbtu	\$3.30
April 1, 2022 to October 31, 2022	Fixed Price	15,000 mmbtu	\$2.35 to \$2.40
November 1, 2022 to March 31, 2023	Fixed Price	30,000 mmbtu	\$2.90 to \$2.96

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged - WTI</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
April 1, 2021 to June 30, 2021	Fixed Price	2,100 bbl	\$49.65 to \$58.25
April 1, 2021 to December 31, 2021	Fixed Price	600 bbl	\$57.50 to \$59.00
July 1, 2021 to September 30, 2021	Fixed Price	700 bbl	\$51.55 to \$56.60
July 1, 2021 to December 31, 2021	Fixed Price	300 bbl	\$52.25 to \$56.00
October 1, 2021 to December 31, 2021	Fixed Price	700 bbl	\$50.60 to \$55.05

<b>Propane</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(USD/bbl)</b>
January 1, 2021 to March 31, 2021	Fixed Price	250 bbl	\$30.66
February 1, 2021 to March 31, 2021	Fixed Price	500 bbl	\$33.60
March 1, 2021 to March 31, 2021	Fixed Price	250 bbl	\$37.80
April 1, 2021 to September 30, 2021	Fixed Price	1,250 bbl	\$26.25 to \$32.76
April 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$26.36
October 1, 2021 to March 31, 2022	Fixed Price	250 bbl	\$25.41

#### **Interest rate risk**

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently, the Company has not entered into any agreements to manage this risk. If the weighted average borrowing rate were to increase by 100 bps (1%) it is estimated that the Company's earnings before income tax for the year ended December 31, 2020 would decrease by \$7.4 million. An opposite change in interest rates would result in an opposite impact on earnings before income tax.

#### **Credit risk**

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company generally extends unsecured credit to purchasers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. Credit limits exceeding \$2,000,000 per month are not granted to non-investment grade counterparties unless the Company receives either i) a parental guarantee from an investment grade parent; or ii) an irrevocable letter of credit for two months revenue. The Company has not previously experienced any material credit losses on the collection of accounts receivable. Of the Company's revenue for the year ended December 31, 2020, approximately 62% was received from three companies (35%,16% and 12%) (December 31, 2019 –66% was received from four companies 14%,10%,20% and 21%). Of the Company's accounts receivable at December 31, 2020, approximately 56% was receivable from four companies (10%, 14%,15% and 17%) (December 31, 2019 approximately 63% was receivable from four companies (11%, 11%,18% and 24%). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and no accounts have been written off.

The Company's accounts receivable was aged as follows at December 31, 2020:

	December 31, 2020	December 31, 2019
Current (less than 30 days)	55,779	58,530
31-60 days	284	1,778
61-90 days	49	743
Over 90 days	333	292
	<b>56,445</b>	<b>61,343</b>

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

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

The Company assesses quarterly if there should be any impairment of financial assets. At December 31, 2020 and 2019, there was no impairment of any of the financial assets of the Company.

### Liquidity risk

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

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

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

The following are the contractual maturities of financial liabilities as at December 31, 2020:

	< 1 Year	1-2 Years	3-5 Years	Thereafter
Accounts payable and accrued liabilities	87,342	-	-	-
Dividends payable	1,649	-	-	-
Long-term debt <sup>(1)</sup>	-	-	755,000	-
Secured senior notes	-	150,000	65,000	200,000

(1) Revolving credit facility (see Note 4)

### Capital disclosures

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue common shares, raise debt, adjust its capital spending or change dividends paid to manage its current and projected debt levels. The Company monitors capital based on the following measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and impairment ("EBITDA") ratios, payout ratios and net debt levels. To facilitate the

management of these ratios, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. Currently, all ratios are within acceptable parameters. The annual budget is approved by the Board of Directors.

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

	<b>December 31 2020</b>	<b>December 31 2019</b>
Equity	1,677,473	1,713,917
Long-term debt	1,170,000	1,120,000
Working capital deficit	12,409	33,177
	<b>2,859,882</b>	<b>2,867,094</b>

## 15. Related party transactions

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

Expense		Accounts Payable	
Year ended December 31		As at December 31	
2020	2019	2020	2019
<b>105.3</b>	254.9	<b>5.5</b>	191.5

The Company has determined that the key management personnel consists of key employees, officers and directors. In addition to the salaries and directors' fees paid to these individuals, the Company also provides compensation in the form of stock options and reserved based bonus to some of these individuals. Compensation expense of \$1.9 million is included in general and administrative expenses, \$2.7 million in stock-based compensation expense relating to key management personnel for the year 2020 (2019 - \$1.7 million is included in general and administrative expenses, \$1.9 million in stock-based compensation expense and \$1.0 million in reserve-based bonus).

## 16. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at December 31, 2020:

	2021	2022	2023	2024	2025	Thereafter
Interest payments <sup>(1)</sup>	15,274	17,249	14,809	11,109	9,725	12,070
Transportation commitments	51,730	80,822	52,634	36,112	35,881	352,564
Operating leases	2,125	2,200	2,200	2,200	2,200	2,200
Methanol	2,196	-	-	-	-	-
<b>Total</b>	<b>71,325</b>	<b>100,271</b>	<b>69,643</b>	<b>49,421</b>	<b>47,806</b>	<b>366,834</b>

(1) Fixed interest payments on senior secured 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

Derick Czember  
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  
The Bank of Nova Scotia  
MUFG Bank, Ltd., Canada Branch  
National Bank of Canada  
Wells Fargo Bank, N.A., Canadian Branch  
Canadian Western Bank  
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Toronto Stock Exchange