

# Peyto Exploration & Development Corp.

## Condensed Consolidated Balance Sheet (unaudited)

(Amount in \$ thousands)

	June 30 2020	December 31 2019
<b>Assets</b>		
<b>Current assets</b>		
Cash	-	6,185
Accounts receivable (Note 10)	36,407	61,343
Prepaid expenses	13,915	12,737
	<b>50,322</b>	<b>80,265</b>
Property, plant and equipment, net (Note 3)	3,430,706	3,516,915
	<b>3,430,706</b>	<b>3,516,915</b>
	<b>3,481,028</b>	<b>3,597,180</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	66,263	103,627
Dividends payable (Note 7)	1,649	3,297
Current portion of lease obligation (Note 6)	1,088	981
Derivative financial instruments (Note 11)	1,774	5,537
	<b>70,774</b>	<b>113,442</b>
Long-term debt (Note 4)	1,155,000	1,120,000
Long-term derivative financial instruments (Note 11)	3,197	552
Decommissioning provision (Note 5)	179,400	165,513
Lease obligation (Note 6)	7,120	7,757
Deferred income taxes	449,307	475,999
	<b>1,794,024</b>	<b>1,769,821</b>
<b>Equity</b>		
Share capital (Note 7)	1,649,369	1,649,369
Contributed surplus	7,675	4,462
Retained earnings (deficit)	(38,640)	63,122
Accumulated other comprehensive loss (Note 7)	(2,174)	(3,036)
	<b>1,616,230</b>	<b>1,713,917</b>
	<b>3,481,028</b>	<b>3,597,180</b>

See accompanying notes to the financial statements.

Approved by the Board of Directors

(signed) "Michael MacBean"  
Director

(signed) "Darren Gee"  
Director

**Peyto Exploration & Development Corp.**  
**Condensed Consolidated Income Statement** *(unaudited)*

(Amount in \$ thousands except earnings per share amount)

	<b>Three months ended June 30</b>		<b>Six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Revenue</b>				
Natural gas and natural gas liquid sales <i>(Note 10)</i>	70,907	103,658	168,682	246,782
Royalties	(2,705)	(237)	(7,641)	(6,910)
Sales of natural gas from third parties	-	-	11,060	-
Natural gas and natural gas liquid sales, net of royalties	<b>68,202</b>	103,421	<b>172,101</b>	239,872
<b>Risk management contracts</b>				
Realized gain on risk management contracts <i>(Note 11)</i>	2,976	11,868	2,923	20,404
	<b>71,178</b>	115,289	<b>175,024</b>	260,276
<b>Expenses</b>				
Natural gas purchased from third parties	-	-	10,338	-
Operating	15,458	15,299	32,134	31,924
Transportation	7,253	8,333	15,445	17,294
General and administrative	1,697	2,275	3,337	5,071
Reserves-based bonus <i>(Note 8)</i>	-	-	-	2,291
Stock based compensation <i>(Note 9)</i>	1,565	894	3,214	1,510
Interest	13,758	13,411	26,245	26,937
Accretion of decommissioning provision <i>(Note 5)</i>	837	654	1,667	1,388
Depletion, depreciation, and impairment <i>(Note 3)</i>	59,880	60,480	199,814	125,713
	<b>100,448</b>	101,346	<b>292,194</b>	212,128
<b>Earnings (deficit) before taxes</b>	<b>(29,270)</b>	13,943	<b>(117,170)</b>	48,148
<b>Income tax</b>				
Deferred income tax recovery	(6,732)	(84,814)	(26,949)	(75,579)
<b>Earnings (deficit) for the period</b>	<b>(22,538)</b>	98,757	<b>(90,221)</b>	123,727
<b>Earnings per share</b> <i>(Note 7)</i>				
<b>Basic and Diluted</b>	<b>\$(0.14)</b>	\$0.59	<b>\$(0.55)</b>	\$0.75

See accompanying notes to the financial statements.

## Peyto Exploration & Development Corp.

### Condensed Consolidated Statement of Comprehensive Income *(unaudited)*

(Amount in \$ thousands)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<b>Earnings (deficit) for the period</b>	<b>(22,538)</b>	98,757	<b>(90,221)</b>	123,727
<b>Other comprehensive income</b>				
Change in unrealized gain (loss) on cash flow hedges	566	11,651	4,042	(35,319)
Deferred income tax (expense) recovery	554	(124)	(257)	14,863
Realized gain on cash flow hedges	(2,976)	(11,868)	(2,923)	(20,404)
<b>Comprehensive income (loss)</b>	<b>(24,394)</b>	98,416	<b>(89,359)</b>	82,867

See accompanying notes to the financial statements.

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

(Amount in \$ thousands)

	<b>Six months ended June 30</b>	
	<b>2020</b>	<b>2019</b>
<b>Share capital, beginning of period</b>	<b>1,649,369</b>	1,649,537
Stock option issuance costs (net of tax)	-	(168)
<b>Share capital, end of period</b>	<b>1,649,369</b>	1,649,369
<b>Contributed surplus, beginning of period</b>	<b>4,462</b>	-
Stock based compensation expense	3,213	1,510
<b>Contributed surplus, end of period</b>	<b>7,675</b>	1,510
<b>Retained earnings (deficit), beginning of period</b>	<b>63,122</b>	(30,804)
Earnings for the period	(90,221)	123,727
Dividends ( <i>Note 7</i> )	(11,541)	(19,784)
<b>Retained earnings (deficit), end of period</b>	<b>(38,640)</b>	73,139
<b>Accumulated other comprehensive income, beginning of period</b>	<b>(3,036)</b>	60,785
Other comprehensive income (loss)	862	(40,860)
<b>Accumulated other comprehensive (loss) income, end of period</b>	<b>(2,174)</b>	19,925
<b>Total equity</b>	<b>1,616,230</b>	1,743,943

See accompanying notes to the financial statements.

**Peyto Exploration & Development Corp.**  
**Condensed Consolidated Statement of Cash Flows** *(unaudited)*

(Amount in \$ thousands)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
<b>Cash provided by (used in) operating activities</b>				
Earnings	(22,538)	98,757	(90,221)	123,727
Items not requiring cash:				
Deferred income tax (recovery)	(6,732)	(84,814)	(26,949)	(75,579)
Depletion, depreciation, and impairment	59,880	60,480	199,814	125,713
Accretion of decommissioning provision	837	654	1,667	1,388
Stock based compensation	1,565	894	3,214	1,510
Long term portion of future performance-based compensation	-	215	-	-
Change in non-cash working capital related to operating activities	3,242	9,383	14,570	322
	<b>36,254</b>	<b>85,569</b>	<b>102,095</b>	<b>177,081</b>
<b>Financing activities</b>				
Bank overdraft	83	(246)	83	(19,281)
Stock option issuance costs	-	(225)	-	(225)
Cash dividends paid	(3,298)	(9,892)	(13,190)	(26,380)
Lease interest <i>(Note 6)</i>	72	81	147	164
Principal repayment of lease <i>(Note 6)</i>	(338)	(338)	(677)	(677)
Issuance of senior notes	-	-	-	100,000
Repayment of senior note	-	-	-	(100,000)
Increase (decrease) in bank debt	25,000	(40,000)	35,000	-
	<b>21,519</b>	<b>(50,620)</b>	<b>21,363</b>	<b>(46,399)</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(37,299)	(34,112)	(105,886)	(96,507)
Change in prepaid capital	1,831	760	5,939	7,371
Change in non-cash working capital relating to investing activities	(28,019)	(935)	(29,696)	(40,884)
	<b>(63,487)</b>	<b>(34,287)</b>	<b>(129,643)</b>	<b>(130,020)</b>
<b>Net increase in cash</b>	<b>(5,714)</b>	<b>662</b>	<b>(6,185)</b>	<b>662</b>
<b>Cash, beginning of period</b>	<b>5,714</b>	<b>-</b>	<b>6,185</b>	<b>-</b>
<b>Cash, end of period</b>	<b>-</b>	<b>662</b>	<b>-</b>	<b>662</b>
The following amounts are included in cash flows from operating activities:				
Cash interest paid	<b>12,820</b>	13,111	<b>26,292</b>	26,059
Cash taxes paid	-	-	-	-

See accompanying notes to the financial statements

**Peyto Exploration & Development Corp.**  
**Notes to Condensed Consolidated Financial Statements** *(unaudited)*  
**As at and for three and six months ended June 30, 2020 and 2019**  
(Amount 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 financial statements were approved and authorized for issuance by the Audit Committee of Peyto on August 10, 2020.

**2. Basis of presentation**

The condensed consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These condensed consolidated financial statements do not include all of the information required for full annual consolidated financial statements and should be read in conjunction with the Company’s consolidated financial statements as at and for the years ended December 31, 2019 and 2018.

**Significant Accounting Policies**

**(a) Significant Accounting Judgments Estimates and Assumptions**

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

In March 2020, the World Health Organization declared a global pandemic as a result of the emergence and rapid transmission of a novel strain of the coronavirus (“COVID-19”). This pandemic has significantly affected the global economy, disrupting business operations and economic activity worldwide, and drastically reducing the global demand for commodities. In addition, the decision of certain Organization of the Petroleum Exporting Countries (“OPEC”) and non-OPEC members to temporarily increase the supply of crude oil during the first quarter of 2020 resulted in severe declines to crude oil and crude-based commodity prices. As a result of this deterioration in market conditions, an unprecedented environment of extreme volatility in financial markets has emerged.

In the application of Peyto’s accounting policies, management is required to make estimates and assumptions about the carrying amounts of assets and liabilities recorded in the condensed interim consolidated financial statements. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The current fluctuation in market conditions introduce additional uncertainties, risks and complexities in management’s determination of the estimates and assumptions used to prepare Peyto’s financial results. As the COVID-19 pandemic and volatility in financial markets is an evolving situation, management cannot reasonably estimate the length or severity of the implications. Actual results may differ from estimates and the effect of such differences may be material.

Examples of key estimates and judgments used to prepare the condensed interim consolidated financial statements include amounts recorded for depreciation, depletion and amortization, decommissioning costs, reserve based bonus, obligations and amounts used for impairment calculations are based on estimates of gross proved plus probable reserves and future costs required to develop those reserves. A full list of the key accounting estimates, and the methodologies and assumptions underlying such estimates, are described in note 2(b) of the annual audited consolidated financial

statements for the year ended December 31, 2019.

### 3. Property, plant and equipment, net

<b>Cost</b>	
<b>At December 31, 2019</b>	<b>5,910,267</b>
Additions	105,886
Decommissioning provision additions	12,220
Prepaid capital	(5,939)
<b>At June 30, 2020</b>	<b>6,022,434</b>
Accumulated depletion and depreciation	
<b>At December 31, 2019</b>	<b>(2,393,352)</b>
Depletion and depreciation	(118,676)
Impairment	(79,700)
<b>At June 30, 2020</b>	<b>(2,591,728)</b>
Carrying amount at December 31, 2019	
	<b>3,516,915</b>
<b>Carrying amount at June 30, 2020</b>	
	<b>3,430,706</b>

During the three- and six-month periods ended June 30, 2020, Peyto capitalized \$0.9 million and \$1.9 million (2019 - \$1.5 million and \$2.1 million) of general and administrative expense directly attributable to exploration and development activities.

For the period ended March 31, 2020, the Company identified two indicators of impairment:

- 1) The decrease in demand for commodities 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 further decrease in Peyto’s market capitalization relative to the carrying value of its net assets since the date of its last impairment test.

For the period ended 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 following table summarizes the price forecast used in the Corporation’s discounted cash flow estimates:

	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
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

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

As a result of the impairment test performed during the period ended March 31, 2020, the Company recorded an impairment charge of \$79.7 million as additional depreciation, depletion and amortization (“DD&A”). As at March 31, 2020, a 1% change in the assumed discount rate, or a 5% change in the future cash flows of proved and probable reserves while holding all other assumptions constant, would result in the following additional pre-tax impairment expense (recovery) being recognized:

(\$millions)			
1% decrease in discount rate	1% increase in discount rate	Increase in cash flows of 5%	Decrease in cash flows of 5%
(295.8)	257.7	(161.4)	161.4

The fair value less costs of disposal values used to determine the recoverable amounts at March 31, 2020 were classified as Level 3 fair value measurements as certain key assumptions are not based on observable market data, but rather, Management's best estimates. The results of the impairment and impairment reversal tests performed are sensitive to changes in any of the key judgments, such as a revision in reserves, a change in forecast commodity prices, expected royalties, required future development capital expenditures, or expected future production costs, which could decrease or increase the recoverable amounts of assets and result in additional impairment charges or reversal of impairment charges.

For the period ended June 30, 2020, the Company identified no indicators of impairment and therefore a test was not performed.

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

	June 30, 2020	December 31, 2019
Bank credit facility	740,000	705,000
Long-term senior secured notes	415,000	415,000
<b>Balance, end of the period</b>	<b>1,155,000</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 defined in the credit facility and note purchase agreements:

#### Total Debt to EBITDA

Fiscal Quarter ended	Limit
June 30, 2020	Less than 5.00
September 30, 2020	Less than 5.75
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>
June 30, 2020	Less than 4.50
September 30, 2020	Less than 5.25
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 revolving 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 June 30, 2020.

Total interest expense for the three- and six-month periods ended June 30, 2020 was \$13.8 million and \$26.2 million (2019 - \$13.4 million and \$26.9 million) and the average borrowing rate for the period was 4.8% and 4.7% (2019– 4.6% and 4.5%).

## 5. Decommissioning provision

The following table reconciles the change in decommissioning provision:

<b>Balance, December 31, 2019</b>	<b>165,513</b>
New or increased provisions	2,265
Accretion of decommissioning provision	1,667
Change in discount rate and estimates	9,955
<b>Balance, June 30, 2020</b>	<b>179,400</b>
Current	-
Non-current	<b>179,400</b>

Peyto has estimated the net present value of its total decommissioning provision to be \$179.4 million as at June 30, 2020 (\$165.5 million at December 31, 2019) based on a total future undiscounted liability of \$331.3 million (\$327.1 million at December 31, 2019). At June 30, 2020 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2024 to 2070. At June 30, 2020 the Bank of Canada's long-term bond rate of 2.00 per cent (1.90 per cent at December 31, 2019) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2019) were used to calculate the present value of the decommissioning provision.

## 6. Leases

The ROU asset and lease obligation 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	(504)
<b>Balance at June 30, 2020</b>	<b>6,557</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	147
Principal repayment of lease	(677)
<b>Lease obligation at June 30, 2020</b>	<b>8,208</b>
Current portion of lease obligation at June 30, 2020	<b>1,088</b>
Non-current portion of lease obligation at June 30, 2020	<b>7,120</b>

The variable lease payments not included in the measurement of the office lease obligation is \$0.2 million and \$0.4 million for the three and six months ended June 30, 2020. The variable lease payments are recognized through general and administration expense.

During the period ended June 30, 2020, \$9.3 million was capitalized in relation to short-term leases.

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

	<b>As at June 30, 2020</b>
Less than 1 year	677
1-3 years	4,211
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	1,429
Total lease payment	9,174
Amount representing interest	(966)
Present value of lease payments	8,208
Current portion of lease obligation	1,088
Non-current portion of lease obligation	7,120

## 7. Share capital

**Authorized:** Unlimited number of voting common shares

### Issued and Outstanding

<b>Common Shares (no par value)</b>	<b>Number of Common Shares</b>	<b>Amount \$</b>
<b>Balance, December 31, 2019</b>	<b>164,874,175</b>	<b>1,649,369</b>
Common shares issued by private placement	-	-
Stock option issuance costs (net of tax)	-	-
<b>Balance, June 30, 2019</b>	<b>164,874,175</b>	<b>1,649,369</b>

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

	Three Months ended June 30		Six Months ended June 30	
	2020	2019	2020	2019
Weighted average common shares basic and diluted	<b>164,874,175</b>	164,874,175	<b>164,874,175</b>	164,874,175

### Dividends

During the three- and six-month periods ended June 30, 2020, Peyto declared and paid dividends of \$0.01 and \$0.07 per common share totaling \$1.6 million and \$11.5 million respectively (2019 - \$0.06 and \$0.12 totaling \$9.9 million and \$19.8 million respectively).

### Comprehensive income

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

### Accumulated hedging gains

Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement with gains and losses being recognized as a component of net revenue. Further information on these contracts is set out in Note 11.

## 8. Performance-based compensation

### Reserve based component

The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. For three and six months ended June 30, 2020, \$nil was expensed.

## 9. 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 common shares to fulfill the Company's obligation under previously granted rights pursuant to its market-based bonus plan, as a transition between the market-based bonus and the newly adopted stock option plan. The stock option plan will replace the market-based bonus plan on a go forward basis. These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

The following tables summarize the rights outstanding under the market-based bonus plan at June 30, 2020:

		Weighted average exercise price \$
<b>Balance, December 31, 2019</b>	<b>1,551,867</b>	<b>7.23</b>
Rights under market-based bonus plan granted	-	7.23
Forfeited	-	(7.23)
<b>Balance, June 30, 2020</b>	<b>1,551,867</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 three months ended June 30, 2020 the fair value per right was \$2.10. The following tables summarizes the assumptions used in the Black-Scholes model:

	June 30, 2020
Share price	\$7.23
Exercise price (net of dividends)	\$7.17
Expected volatility	39.60%
Average life	2 year
Risk-free interest rate	1.85%
Forfeiture rate	0.17%

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

The following tables summarize the stock options outstanding at June 30, 2020:

		Weighted average exercise price \$
<b>Balance, December 31, 2019</b>	<b>7,572,201</b>	<b>3.93</b>
Stock options granted	825,000	3.75
Forfeited	(783,599)	5.72
<b>Balance June 30, 2020</b>	<b>7,613,602</b>	<b>3.73</b>

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the six months ended June 30, 2020 the weighted-average fair value per option was \$1.62. The following tables summarize the assumptions used in the Black-Scholes model:

	June 30, 2020
Share price	\$3.21
Exercise price	\$3.40
Expected volatility	42.59%
Average option life	2 year
Risk-free interest rate	1.44%
Forfeiture rate	0.17%

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

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

		Weighted Average Exercise price \$	Weighted Average Remaining Contractual life- Years
Rights under market-based bonus plan	1,551,867	7.23	1.44
Stock options	7,613,602	3.73	1.39

At June 30, 2020, no stock options were exercisable

## 10. Revenue and receivables

	Three Months ended June 30		Six Months ended June 30	
	2020	2019	2020	2019
Natural Gas Sales	51,333	58,470	113,303	153,075
Natural Gas Sales from third parties	-		11,060	
Natural Gas Liquid sales	19,574	45,188	55,379	93,707
<b>Natural gas and natural gas liquid sales</b>	<b>70,907</b>	103,658	<b>179,742</b>	246,782

	June 30, 2020	December 31, 2019
Accounts receivable from customers	29,397	53,248
Accounts receivable from realized risk management contracts	1,402	4
Accounts receivable from joint venture partners and other	5,608	8,091
	<b>36,407</b>	61,343

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.

## 11. Financial instruments

### Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at June 30, 2020.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2019.

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

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

value drivers are unobservable.

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

#### Fair values of financial assets and liabilities

The Company's financial instruments include cash, accounts receivable, financial derivative instruments, current liabilities, and long-term debt. At June 30, 2020 cash and financial derivative 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.

#### Commodity price risk management

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

Following is a summary of all risk management contracts in place as at June 30, 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>
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	\$2.00 to \$2.04
April 1, 2020 to October 31, 2020	Fixed Price	65,000 GJ	\$1.30 to \$1.75
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	60,000 GJ	\$2.36 to \$2.70
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	55,000 GJ	\$1.48 to \$2.21
November 1, 2021 to March 31, 2022	Fixed Price	30,000 GJ	\$2.55 to \$2.70

<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>
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	\$1.64 to \$1.73
April 1, 2021 to October 31, 2021	Fixed Price	15,000 GJ	\$1.64 to \$2.23

<b>Natural GAS</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
April 1, 2020 to March 31, 2022	Fixed Price	20,000 GJ	\$2.28
May 1, 2020 to March 31, 2021	Fixed Price	20,000 GJ	\$2.25 to \$2.56
November 1, 2020 to March 31, 2021	Fixed Price	107,500 GJ	\$2.62 to \$2.97
April 1, 2021 to October 31, 2021	Fixed Price	65,000 GJ	\$2.47 to \$2.63

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
May 1, 2020 to September 30, 2020	Fixed Price	1,000 bbl	\$30.00 to \$33.82
June 1, 2020 to September 30, 2020	Fixed Price	750 bbl	\$34.05 to \$36.00
July 1, 2020 to September 30, 2020	Fixed Price	750 bbl	\$39.00 to \$40.35
October 1, 2020 to December 31, 2020	Fixed Price	200 bbl	\$39.65 to \$40.10

<b>Propane</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(USD/bbl)</b>
June 1, 2020 to September 30, 2020	Fixed Price	1,250 bbl	\$18.48 to \$21.00
October 1, 2020 to March 31, 2021	Fixed Price	600 bbl	\$19.74 to \$21.42

As at June 30, 2020, Peyto had committed to the future sale of 46,630,000 gigajoules (GJ) of natural gas at an average price of \$2.02 per GJ or \$2.33 per mcf, 48,402,500 mmbtu at an average price of \$2.54 US per mmbtu, 248,400 barrels of crude at an average price of \$35.16 US per bbl and 224,200 barrel of propane at an average price of \$20.13 US per bbl. Had these contracts closed on June 30, 2020, Peyto would have realized a loss in the amount of \$5.0 million. If the gas price on June 30, 2020 were to increase by \$0.10/GJ, the unrealized loss would increase by approximately \$23.5 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to June 30, 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/GJ)</b>
November 1, 2020 to March 31, 2021	Fixed Price	15,000 GJ	\$2.40 to \$2.70

<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

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Nymex USD/mmbtu)</b>
November 1, 2020 to March 31, 2021	Fixed Price	20,000 mmbtu	\$2.70 to \$2.95
April 1, 2021 to October 31, 2021	Fixed Price	25,000 mmbtu	\$2.50 to \$2.66
November 1, 2021 to March 31, 2022	Fixed Price	5,000 mmbtu	\$2.86

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
October 1, 2020 to December 31, 2020	Fixed Price	400 bbl	\$41.05 to \$41.20
January 1, 2021 to March 31, 2021	Fixed Price	100 bbl	\$43.00

<b>Propane</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI USD/bbl)</b>
October 1, 2020 to March 31, 2021	Fixed Price	550 bbl	\$20.58 to \$21.53

## 12. Related party transactions

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

Expense				Accounts Payable	
Three Months ended June 30		Six Months ended June 30		As at June 30	
2020	2019	2020	2019	2020	2019
45.9	4.2	94.9	224.8	41.6	146.7

### 13. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at June 30, 2020.

	2020	2021	2022	2023	2024	Thereafter
Interest payments <sup>(1)</sup>	8,625	17,249	17,249	14,809	11,109	21,795
Transportation commitments	15,268	42,093	65,463	47,752	30,793	335,220
Operating leases	1,051	2,101	2,176	2,176	2,176	4,352
Other	59	-	-	-	-	-
<b>Total</b>	<b>25,003</b>	<b>61,443</b>	<b>84,888</b>	<b>64,737</b>	<b>44,078</b>	<b>361,367</b>

<sup>(1)</sup> 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

Tim Louie  
Vice President, Land

David Thomas  
Vice President, Exploration

Jean-Paul Lachance  
Vice President, Engineering and COO

Stephen Chetner  
Corporate Secretary

**Directors**

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

**Auditors**

Deloitte LLP

**Solicitors**

Burnet, Duckworth & Palmer LLP

**Bankers**

Bank of Montreal  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
The Toronto-Dominion Bank  
The Bank of Nova Scotia  
MUFG Bank, Ltd., Canada Branch  
National Bank of Canada  
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