Peyto Exploration & Development Corp.

Condensed Consolidated Balance Sheet *(unaudited)*

(Amount in $ thousands)

	September 30 2020	**December 31 2019**
Assets		
Current assets		
Cash	21,960	6,185
Accounts receivable (*Note 10)*	42,402	61,343
Prepaid expenses	18,757	12,737
	83,119	80,265
Property, plant and equipment, net *(Note 3)*	3,432,029	3,516,915
	3,432,029	3,516,915
	3,515,148	3,597,180
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	95,224	103,627
Dividends payable *(Note 7)*	1,649	3,297
Current portion of lease obligation *(Note 6)*	1,097	981
Derivative financial instruments *(Note 11)*	41,541	5,537
	139,511	113,442
Long-term debt *(Note 4)*	1,170,000	1,120,000
Long-term derivative financial instruments *(Note 11)*	7,575	552
Decommissioning provision (Note 5)	180,795	165,513
Lease obligation *(Note 6)*	6,843	7,757
Deferred income taxes	436,599	475,999
	1,801,812	1,769,821
Equity		
Share capital *(Note 7)*	1,649,602	1,649,369
Contributed surplus	9,234	4,462
Retained earnings (deficit)	(51,575)	63,122
Accumulated other comprehensive loss (*Note 7)*	(33,436)	(3,036)
	1,573,825	1,713,917
	3,515,148	3,597,180

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Consolidated Income (Loss) Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2020	**2019**	**2020**	**2019**
Revenue				
Natural gas and natural gas liquid sales (*Note 10)*	93,771	90,162	262,452	336,945
Royalties	(5,867)	(1,440)	(13,508)	(8,350)
Sales of natural gas from third parties	-		11,060	-
Natural gas and natural gas liquid sales, net of royalties	87,904	88,722	260,004	328,595
Risk management contracts				
Realized gain (loss) on risk management contracts *(Note 11)*	(918)	15,782	2,005	36,185
Unrealized loss on risk management contracts *(Note 11)*	(3,546)	-	(3,546)	-
	83,440	104,504	**258,463**	364,780
Expenses				
Natural gas purchased from third parties	-	-	10,338	-
Operating	14,191	13,383	46,324	45,307
Transportation	6,840	7,815	22,285	25,109
General and administrative	1,792	1,818	5,128	6,889
Reserves-based bonus *(Note 8)*	-	-	-	2,291
Stock based compensation *(Note 9)*	1,608	1,304	4,822	2,814
Interest	14,990	13,382	41,237	40,318
Accretion of decommissioning provision (*Note 5)*	842	599	2,509	1,988
Depletion, depreciation, and impairment (*Note 3)*	57,833	58,053	257,647	183,766
	98,096	96,354	**390,290**	308,482
Earnings (loss) before taxes	**(14,656)**	8,150	**(131,827)**	56,298
Income tax				
Deferred income tax expense (recovery)	(3,371)	1,875	(30,321)	(73,705)
Earnings (loss) for the period	**(11,285)**	6,275	**(101,506)**	130,003

Earnings (loss) per share (Note 7)				
Basic and diluted	**$(0.07)**	$0.04	**$(0.62)**	$0.79

See accompanying notes to the consolidated financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Earnings (loss) for the period	**(11,285)**	6,275	**(101,506)**	130,003
Other comprehensive loss				
Change in unrealized (loss) on cash flow hedges	(44,334)	(12,262)	(40,292)	(47,581)
Deferred tax recovery	9,338	7,572	9,081	22,434
Realized loss (gain) on cash flow hedges	3,734	(15,782)	811	(36,185)
Comprehensive (loss) income	**(42,547)**	(14,197)	**(131,906)**	68,671

See accompanying notes to the consolidated financial statements.

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30	
	2020	**2019**
Share capital, beginning of period	1,649,369	1,649,537
Common shares issued	233	-
Stock option issuance costs (net of tax)	-	(168)
Share capital, end of period	**1,649,602**	1,649,369

Contributed surplus, beginning of period	4,462	-
Stock based compensation expense	4,822	2,814
Recognized under share-based compensation plans	(50)	-
Contributed surplus, end of period	**9,234**	2,814

Retained earnings (deficit), beginning of period	**63,122**	(30,804)
Earnings (deficit) for the period	(101,506)	130,003
Dividends *(Note 7)*	(13,191)	(29,677)
Retained earnings (deficit), end of period	**(51,575)**	69,522

Accumulated other comprehensive income (loss), beginning of period	**(3,036)**	60,785
Other comprehensive loss	(30,400)	(61,332)
Accumulated other comprehensive (loss) income, end of period	**(33,436)**	(547)

Total equity	**1,573,825**	1,721,158

See accompanying notes to the consolidated financial statements.

Peyto Exploration & Development Corp.

Condensed Consolidated Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2020	2019	**2020**	2019
Cash provided by (used in)				
Operating activities				
Earnings (loss)	(11,285)	6,275	(101,506)	130,003
Items not requiring cash:				
Deferred income tax (recovery)	(3,371)	1,875	(30,321)	(73,705)
Depletion, depreciation, and impairment	57,833	58,053	257,647	183,766
Accretion of decommissioning provision	842	599	2,509	1,988
Stock based compensation	1,608	1,304	4,822	2,814
Unrealized loss on risk management contracts	3,546	-	3,546	-
Change in non-cash working capital related to operating activities	(1,099)	(3,193)	13,472	(2,873)
	48,074	64,913	**150,169**	241,993
Financing activities				
Bank overdraft	(83)	-	-	(19,281)
Stock option issuance costs	-	-	-	(225)
Stock options exercised	183	-	183	-
Cash dividends paid	(1,649)	(9,892)	(14,838)	(36,273)
Lease interest *(Note 6)*	71	80	217	244
Principal repayment of lease *(Note 6)*	(338)	(338)	(1,015)	(1,015)
Issuance of senior notes	-	-	-	100,000
Repayment of senior notes	-	-	-	(100,000)
Increase (decrease) in bank debt	15,000	(20,000)	50,000	(20,000)
	13,184	(30,150)	**34,547**	(76,550)
Investing activities				
Additions to property, plant and equipment	(61,568)	(36,574)	(167,454)	(133,080)
Change in prepaid capital	2,965	1,313	8,904	8,684
Change in non-cash working capital relating to investing activities	19,305	428	(10,391)	(40,455)
	(39,298)	(34,833)	**(168,941)**	(164,851)
Net increase (decrease) in cash	**21,960**	(70)	**15,775**	592
Cash, beginning of period	**-**	662	**6,185**	-
Cash, end of period	**21,960**	592	**21,960**	592
The following amounts are included in cash flows from operating activities:				
Cash interest paid	**14,674**	14,101	**40,966**	40,160
Cash taxes paid	**-**	-	**-**	-

See accompanying notes to the consolidated financial statements

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 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These condensed consolidated financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 9, 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

Cost	
At December 31, 2019	**5,910,267**
Additions	167,454
Decommissioning provision additions	12,773
Prepaid capital	(8,904)
At September 30, 2020	**6,081,590**
Accumulated depletion and depreciation	
At December 31, 2019	**(2,393,352)**
Depletion and depreciation	(176,509)
Impairment	(79,700)
At September 30, 2020	**(2,649,561)**
Carrying amount at December 31, 2019	**3,516,915**
Carrying amount at September 30, 2020	**3,432,029**

During the three- and nine-month periods ended September 30, 2020, Peyto capitalized $0.8 million and $2.7 million (2019 - $0.4 million and $2.5 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

	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$ (1)	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.

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.

As at September 30, 2020 no indictors of additional impairment or impairment reversal from March 31, 2020 were identified on the property, plant and equipment.

4. Long-term debt

	September 30, 2020	December 31, 2019
Bank credit facility	755,000	705,000
Long-term senior unsecured notes	415,000	415,000
Balance, end of the period	**1,170,000**	**1,120,000**

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 June 29, 2020 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

Fiscal Quarter ended	Limit
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:

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

* In any fiscal quarter where 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 September 30, 2020.

Total interest expense for the three- and nine-month periods ended September 30, 2020 was $15.0 million and $41.2 million (2019 - $13.4 million and $40.3 million) and the average borrowing rate for the period was 5.1% and 4.8% (2019– 4.6% and 4.6%).

5. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2019	**165,513**
New or increased provisions	3,478
Accretion of decommissioning provision	2,509
Change in discount rate and estimates	9,295
Balance, September 30, 2020	**180,795**
Current	-
Non-current	**180,795**

Peyto has estimated the net present value of its total decommissioning provision to be $180.8 million as at September 30, 2020 ($165.5 million at December 31, 2019) based on a total future undiscounted liability of $333.5 million ($327.1 million at December 31, 2019). At September 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 September 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 recognized at January 1, 2019 relates to the Company's head office lease in Calgary.

Right of use Asset

Balance as at December 31, 2019	**7,061**
Depreciation	(756)
Balance at September 30, 2020	**6,305**

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

Lease Obligation

Lease obligation at December 31, 2019	**8,738**
Lease interest expense	217
Principal repayment of lease	(1,015)
Lease obligation at September 30, 2020	**7,940**
Current portion of lease obligation at September 30, 2020	**1,097**
Non-current portion of lease obligation at September 30, 2020	**6,843**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million and $0.8 million for the three and nine months ended September 30, 2020. The variable lease payments are recognized through general and administration expense.

During the period ended September 30, 2020, $13.7 million was capitalized in relation to short-term leases.

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

	As at September 30, 2020
Less than 1 year	338
1-3 years	4,211
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	1,429
Total lease payment	8,835
Amount representing interest	(895)
Present value of lease payments	7,940
Current portion of lease obligation	1,097
Non-current portion of lease obligation	6,843

7. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount**
Balance, December 31, 2019	**164,874,175**	**1,649,369**
Common shares issued	57,667	233
Stock option issuance costs (net of tax)	-	-
Balance, September 30, 2020	**164,931,842**	**1,649,602**

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

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Weighted average common shares basic	**164,892,979**	164,874,175	**164,880,489**	164,874,175
Weighted average common shares diluted	**164,910,727**	164,874,175	**164,881,267**	164,874,175

Dividends

During the three- and nine-month periods ended September 30, 2020, Peyto declared and paid dividends of $0.01 and $0.08 per common share, totaling $1.6 million and $13.2 million respectively (2019 - $0.06 and $0.18, totaling $9.9 million and $29.7 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 nine months ended September 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 commons shares to fulfill the Company's obligation under previously granted rights pursuant to its market-based bonus plan, as a transition between the market-based bonus and the newly adopted stock option plan. The stock option plan will replace the market-based bonus plan on a go forward basis. These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

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

		Weighted average exercise price $
Balance, December 31, 2019	**1,551,867**	**7.23**
Rights under market-based bonus plan granted	-	-
Forfeited	18,267	(7.23)
Balance, September 30, 2020	**1,533,600**	**7.23**

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 September 30, 2020 the fair value per right was $2.55. The following tables summarizes the assumptions used in the Black-Scholes model:

	September 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 September 30, 2020:

		Weighted average exercise price $
Balance, December 31, 2019	**7,572,201**	**3.93**
Stock options granted	2,475,000	2.90
Cancelled	(106,734)	3.57
Forfeited	(1,634,433)	4.40
Balance September 30, 2020	**8,306,034**	**3.53**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the nine months ended September 30, 2020 the weighted-average fair value per option was $1.07. The following tables summarize the assumptions used in the Black-Scholes model:

	September 30, 2020
Share price	$3.05
Exercise price	$3.20
Expected volatility	48.83%
Average option life	2 year
Risk-free interest rate	1.19%
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	1,533,600	7.23	1.07
Stock options	8,306,034	3.53	1.41

At September 30, 2020, no stock options were exercisable

Deferred Share Units

The Company has 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.

The following tables summarize the DSU's outstanding at September 30, 2020:

		Weighted average exercise price $
Balance, December 31, 2019	**-**	**-**
DSU granted	75,756	2.34
Balance September 30, 2020	**75,756**	**2.34**

10. Revenue and receivables

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Natural Gas Sales	59,719	53,528	173,021	208,296
Natural Gas Sales from third parties	-	-	11,060	-
Natural Gas Liquid sales	34,052	36,634	89,431	128,649
Natural gas and natural gas liquid sales	**93,771**	90,162	**273,512**	336,945

	September 30, 2020	December 31, 2019
Accounts receivable from customers	36,472	53,248
Accounts receivable from realized risk management contracts	738	4
Accounts receivable from joint venture partners and other	5,192	8,091
	42,402	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 consolidated balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at September 30, 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 September 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 September 30, 2020:

Natural Gas **Period Hedged- Monthly Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD/GJ)**
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	90,000 GJ	$2.40 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	55,000 GJ	$2.55 to $2.94
April 1, 2022 to October 31, 2022	Fixed Price	35,000 GJ	$2.15 to $2.26

Natural Gas **Period Hedged – Daily Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD/GJ)**
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.64 to $1.73
November 1, 2020 to March 31, 2021	Fixed Price	5,000 GJ	$2.55
April 1, 2021 to October 31, 2021	Fixed Price	15,000 GJ	$1.64 to $2.23

Natural Gas **Period Hedged - NYMEX**	**Type**	**Daily Volume**	**Price** **(Nymex USD/mmbtu)**
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	$2.25 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	120,000 mmbtu	$2.47 to $2.83
November 1, 2020 to March 31, 2021	Fixed Price	15,000 mmbtu	$2.86 to $3.03

Crude Oil **Period Hedged - WTI**	**Type**	**Daily Volume**	**Price** **(WTI USD/bbl)**
October 1, 2020 to December 31, 2020	Fixed Price	2,300 bbl	$39.65to $44.00
January 1, 2021 to March 31, 2021	Fixed Price	800 bbl	$41.35 to $44.80

Propane **Period Hedged**	**Type**	**Daily Volume**	**Price** **(USD/bbl)**
October 1, 2020 to March 31, 2021	Fixed Price	1,250 bbl	$19.74 to $21.53

Natural Gas **Period – Covered Call Options**	**Type**	**Daily Volume**	**Strike Price** **Nymex USD/mmbtu**
April 1, 2021 to October 31, 2021	Call	40,000 mmbtu	$2.75 to $2.85

As at September 30, 2020, Peyto had committed to the future sale of 54,130,000 gigajoules (GJ) of natural gas at an average price of $2.25 per GJ or $2.59 per mcf, 65,552,500 mmbtu at an average price of $2.64 US per mmbtu, 283,600 barrels of crude at an average price of $41.98 US per bbl and 227,500 barrel of propane at an average price of $20.77 US per bbl.. Had these contracts closed on September 30, 2020, Peyto would have realized a loss in the amount of $45.6 million. If the gas price on September 30, 2020 were to increase by $0.10/GJ, the unrealized loss would decrease by approximately $14.0 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Subsequent to September 30, 2020 Peyto entered into the following contracts:

Natural Gas **Period Hedged – Monthly Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD/GJ)**
November 1, 2021 to March 31, 2022	Fixed Price	25,000 GJ	$2.87 to $3.07
April 1, 2022 to October 31, 2022	Fixed Price	70,000 GJ	$2.13 to $2.25

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Price (Nymex USD/mmbtu)
April 1, 2021 to October 31, 2021	Fixed Price	35,000 mmbtu	$2.80 to $2.99
November1, 2021 to March 31, 2022	Fixed Price	30,000 mmbtu	$2.99 to $3.20

Crude Oil Period Hedged - WTI	Type	Daily Volume	Price (WTI USD/bbl)
January 1, 2021 to March 31, 2021	Fixed Price	500 bbl	$42.00 to $42.20

Natural Gas Period – Covered Call Options	Type	Daily Volume	Strike Price Nymex USD/mmbtu
April 1, 2021 to October 31, 2021	Call	10,000 mmbtu	$3.15

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 September 30		Nine Months ended September 30		As at September 30	
2020	2019	**2020**	2019	**2020**	2019
6.0	2.7	**100.9**	226.7	**-**	150.6

13. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at September 30, 2020:

	2020	2021	2022	2023	2024	Thereafter
Interest payments [(1)]	3,235	17,249	17,249	14,809	11,109	21,795
Transportation commitments	8,306	46,432	71,533	49,650	32,511	351,369
Operating leases	525	2,101	2,176	2,176	2,176	4,352
Other	-	1,742	-	-	-	-
Total	12,066	67,524	90,958	66,635	45,796	377,516

(1) Fixed interest payments on senior unsecured notes

Officers

Darren Gee
President and CEO

Kathy Turgeon
Vice President, Finance and CFO

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Engineering and COO

Stephen Chetner
Corporate Secretary

Directors

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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