PEYTO

Exploration & Development Corp.

3

Interim Report
for the three and nine months ended September 30, 2020

HIGHLIGHTS

	Three Months Ended Sep 30		%	Nine Months Ended Sep 30		%
	2020	2019	Change	**2020**	2019	Change
Operations						
Production						
Natural gas (mcf/d)	**401,680**	396,343	*1%*	**401,692**	426,648	*-6%*
Oil & NGLs (bbl/d)	**11,263**	10,650	*6%*	**11,325**	10,821	*5%*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	**469,259**	460,243	*2%*	**469,640**	491,572	*-4%*
Barrels of oil equivalent (boe/d @ 6:1)	**78,210**	76,707	*2%*	**78,273**	81,929	*-4%*
Production per million common shares (boe/d)*	**474**	465	*2%*	**475**	497	*-4%*
Product prices						
Natural gas ($/mcf)	**1.64**	1.84	*-11%*	**1.57**	2.07	*-24%*
Oil & NGLs ($/bbl)	**31.08**	39.65	*-22%*	**29.73**	44.87	*-34%*
Operating expenses ($/mcfe)	**0.32**	0.31	*3%*	**0.36**	0.34	*6%*
Transportation ($/mcfe)	**0.16**	0.19	*-16%*	**0.17**	0.19	*-11%*
Field netback ($/mcfe)	**1.53**	1.97	*-22%*	**1.42**	2.19	*-35%*
General & administrative expenses ($/mcfe)	**0.04**	0.05	*-20%*	**0.04**	0.05	*-20%*
Interest expense ($/mcfe)	**0.35**	0.31	*13%*	**0.32**	0.30	*7%*
Financial ($000, except per share*)						
Revenue and realized hedging gains (losses) [1]	**92,853**	105,944	*-12%*	**264,457**	373,130	*-29%*
Royalties	**5,867**	1,440	*307%*	**13,508**	8,350	*62%*
Funds from operations	**49,173**	68,106	*-28%*	**136,697**	247,157	*-45%*
Funds from operations per share	**0.30**	0.41	*-28%*	**0.83**	1.50	*-45%*
Total dividends	**1,649**	9,892	*-83%*	**13,191**	29,677	*-56%*
Total dividends per share	**0.01**	0.06	*-83%*	**0.08**	0.18	*-56%*
Payout ratio (%)	**3**	15	*-80%*	**10**	12	*-17%*
Earnings (loss)	**(11,285)**	6,275	*-280%*	**(101,506)**	130,003	*-178%*
Earnings (loss) per diluted share	**(0.07)**	0.04	*-275%*	**(0.62)**	0.79	*-179%*
Capital expenditures	**61,568**	36,574	*68%*	**167,454**	133,080	*26%*
Weighted average common shares outstanding	**164,892,979**	164,874,175	-	**164,880,489**	164,874,175	-
As at September 30						
Net debt				**1,183,754**	1,133,869	*4%*
Shareholders' equity				**1,573,825**	1,721,158	*-9%*
Total assets				**3,515,148**	3,587,612	*-2%*

[1]excludes revenue from sale of third party volumes

	Three Months Ended Sep 30		Nine Months Ended Sep 30	
($000 except per share)	**2020**	2019	**2020**	2019
Cash flows from operating activities	**48,074**	64,913	**150,169**	241,993
Change in non-cash working capital	**1,099**	3,193	**(13,472)**	2,873
Performance based compensation	**-**	-	**-**	2,291
Funds from operations	**49,173**	68,106	**136,697**	247,157
Funds from operations per share	**0.30**	0.41	**0.83**	1.50

(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.

Report from the president

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is pleased to present its operating and financial results for the third quarter of the 2020 fiscal year. While the COVID-19 pandemic continued to grip the world and global energy markets, Peyto was able to safely continue conducting drilling operations, achieving a significant operational milestone in the Company's 22 year history with the completion of its 1,000th horizontal well. Results for the quarter included:

- **Funds from operations of $0.30/share.** Generated $49 million in Funds From Operations ("FFO") in Q3 2020, down from $68 million in Q3 2019 due to 14% lower realized commodity prices offset by 2% higher production levels.

- **Liquids production up 6%.** Natural gas production increased 1% from 396 MMcf/d in Q3 2019 to 402 MMcf/d in Q3 2020 while Condensate and NGL production increased 6% from a year ago to 11,263 bbl/d. Liquid yields were 28 bbl/MMcf, up from 27 bbl/MMcf in Q3 2019, primarily due to new Cardium drilling. Total liquids production was comprised of 6,493 bbls/d of Condensate and Pentanes+, and 4,770 bbls/d of Propane and Butane. Total Q3 2020 production of 78,210 boe/d was up 2% from Q3 2019.

- **Total cash costs of $1.01/Mcfe ($0.87/Mcfe or $5.25/boe excluding royalties).** Industry leading total cash costs, included $0.14/Mcfe royalties, $0.32/Mcfe operating costs, $0.16/Mcfe transportation, $0.04/Mcfe G&A and $0.35/Mcfe interest, and combined with a realized price of $2.15/Mcfe, resulting in a $1.14/Mcfe ($6.83/boe) cash netback, down 29% from $1.61/Mcfe ($9.65/boe) in Q3 2019. Operating costs per unit for Q3 2020 were up 3% from Q3 2019, largely due to increased power and chemical costs.

- **Capital investment of $62 million**. A total of 18 gross wells (16.5 net) were drilled in the third quarter, 21 gross wells (19.5 net) were completed, and 21 gross wells (19.5 net) were brought on production. Over the last 12 months the 74 gross (67.35 net) wells brought on production accounted for approximately 24,000 boe/d at the end of the quarter, which, when combined with a trailing twelve month capital investment of $241 million, equates to an annualized capital efficiency of $10,000/boe/d. Peyto anticipates the 2020 full year capital efficiency will be approximately $9,000/boe/d based on continued drilling and completion cost improvements.

- **Dividends of $0.01/share, Loss of $0.07/share.** Dividends of $1.6 million were paid to shareholders during the quarter while a loss of $11.3 million was recorded.

Third Quarter 2020 in Review

Peyto increased drilling activity in the third quarter, following spring break up, with four drilling rigs active across the Company's Deep Basin core areas. On September 23, 2020 drilling commenced on the Company's 1,000th Deep Basin horizontal well at 14-01-054-19W5. The well was drilled to 4,250m measured depth with a 1,832m horizontal lateral in the Notikewin formation. Drilling was conducted by the Ensign #401 rig which has been drilling for Peyto for over 10 years without a single lost-time incident. The 14-01 well also set a new drilling pace record at Peyto, taking only 6.5 days from spud to total depth. The well is currently being completed as part of a multi-well pad site and will commence production shortly. Peyto has now drilled more horizontal wells in the Alberta Deep Basin than any other operator and continues to lead the industry in innovation, efficiency and safety while responsibly developing Alberta's natural gas resources. Production grew from 76,000 boe/d at the start of the quarter to exit at 83,000 boe/d. Commodity prices also rebounded from Q2 2020 lows with NYMEX gas and WTI oil up 18% and 47%, respectively. Although Funds from Operations for the quarter were lower than Q3 2019, the higher commodity prices lifted FFO 49% from the previous quarter. Peyto maintained its industry leading low cash costs at $1.01/Mcfe which delivered a 53% Operating Margin[1]. The Company anticipates that the recent improvement in natural gas prices and continued growth in production will significantly improve financial performance in the quarters ahead.

1. Operating Margin is defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.
Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.

Exploration & Development Activity

Third quarter 2020 drilling activity was spread throughout the Greater Sundance and Brazeau River areas and amongst both the liquids rich Cardium and drier Spirit River plays as shown in the following table:

Zone	Field							Total Wells Drilled
	Sundance	Nosehill	Wildhay	Ansell	Whitehorse	Kisku/ Kakwa	Brazeau	
Cardium	2		3				2	7
Viking	1							1
Notikewin	2			1			1	4
Falher				2				2
Wilrich	3							3
Bluesky	1							1
Total	9		3	3			3	18

Drilling and completion costs for the third quarter of 2020 continued their downward trend. Peyto expects 2020 drilling cost per meter and completion costs per stage will be the lowest in Company history. Repeated success with a new extended reach horizontal well design is contributing to the lower costs. No lost time incidents occurred in Q3 2020 as Peyto and its service providers safely executed operations in drilling, completions, pipelining, and facility installations all while dealing with the added concerns of the COVID-19 pandemic.

	2013	2014	2015	2016	2017	2018	2019	2020 Q1	2020 Q2	2020 Q3	2020 YTD
Gross Hz Spuds	99	123	140	126	135	70	61	17	12	18	**47**
Measured Depth (m)	4,179	4,251	4,309	4,197	4,229	4,020	3,848	4,069	4,335	4,219	**4,222**
Drilling conducted ($MM/well)	$2.72	$2.66	$2.16	$1.82	$1.90	$1.71	$1.62	$1.75	$1.69	$1.68	**$1.71**
$ per meter	$651	$626	$501	$433	$450	$425	$420	$430	$390	$398	**$404**
Completion conducted ($MM/well)	$1.63	$1.70	$1.21	$0.86	$1.00	$1.13	$1.01*	$0.98	$0.97	$0.91	**$0.93**
Hz Length MD-TVD (m)	1,409	1,460	1,531	1,460	1,241	1,348	1,484	1,563	1,587	1,720	**1,632**
$ per Hz Length (m)	$1,153	$1,166	$792	$587	$803	$835	$679	$624	$610	$528	**$574**
$ '000 per Stage	$188	$168	$115	$79	$81	$51	$38	$38	$37	$34	**$36**

**excluding Peyto's Wildhay Montney well.*

Capital Expenditures

During the third quarter of 2020, Peyto invested 88% of total capital in well related expenditures, with $28.0 million in drilling, $20.1 million in completions and $6.0 million in wellsite equipment and tie-ins. A further $5.0 million was invested in facilities and major pipeline projects, and $2.5 million acquiring new land and seismic, for total capital investments of $61.6 million.

Peyto commissioned its Sundance water disposal well and associated pipeline during the quarter, along with several pipeline looping projects to debottleneck portions of the gathering system in the Greater Sundance area. This work, along with compressor upgrades and continued installation of reduced methane emission controllers, made up the majority of the $5 million in facility and pipeline expenditures. These reduced emission controllers have allowed Peyto to reduce it's methane emissions per boe of production by over 40% from 2016.

Commodity Prices

During Q3 2020 Peyto sold 34% of its natural gas at AECO, 9% at Emerson, 5% at Ventura, and 52% at Henry Hub. Benchmark prices, Peyto realized prices, and aggregate gas marketing diversification costs are shown below. Moving forward, the Company expects to continue to market more of its gas at hubs outside of AECO but expects that market diversification costs will be significantly reduced over time.

Benchmark Commodity Prices

	Three Months ended September 30	
	2020	2019
AECO 7A monthly ($/GJ)	**2.04**	0.99
AECO 5A daily ($/GJ)	**2.12**	0.86
Emerson2 (US$/MMBTU)	**1.78**	1.90
NYMEX (US$/MMbtu)	**1.95**	2.33
Ventura daily (US$/MMbtu)	**1.80**	2.00
Dawn daily (US$/MMbtu)	**1.82**	2.13
Canadian WTI ($/bbl)	**54.50**	74.55
Conway C3 (US$/bbl)	**19.54**	15.10

Q3 2020 average CND/USD exchange rate of 1.332

Peyto Realized Commodity Prices by Component

	Three Months ended September 30	
	2020	2019
Natural gas ($/mcf)	**2.62**	2.17
Gas marketing diversification activities ($/mcf)	**(1.01)**	(0.70)
Gas hedging ($/mcf)	**0.03**	0.37
Oil, condensate and C5+ ($/bbl)	**42.09**	67.76
Butane and propane ($/bbl)	**15.76**	2.79
Oil and NGL hedging ($/bbl)	**(1.78)**	2.26

Liquids prices are Peyto realized prices in Canadian dollars adjusted for fractionation, transportation, and market differentials.
Peyto natural gas has an average heating value of approximately 1.15 GJ/mcf
Details of Peyto's ongoing marketing and diversification efforts are available on Peyto's website at:
http://www.peyto.com/Files/Operations/Marketing/hedges.pdf

Financial Results

Approximately 36%, or $0.79/Mcfe, of Peyto's unhedged revenue came from its associated condensate and natural gas liquids sales while 64%, or $1.38/Mcfe, is attributable to natural gas sales. Natural gas hedging increased revenue by $0.02/Mcfe while liquids hedging reduced revenue by $0.04/Mcfe for total revenue of $2.15/Mcfe. Cash costs of $1.01/Mcfe, included royalties of $0.14/Mcfe, operating costs of $0.32/Mcfe, transportation costs of $0.16/Mcfe, G&A of $0.04/Mcfe and interest costs of $0.35/Mcfe. Cash costs per unit of production were higher than Q3 2019 due to increased royalties and interest charges.

When the total cash costs of $1.01/Mcfe were deducted from realized revenues of $2.15/Mcfe, it resulted in a cash netback of $1.14/Mcfe or a 53% operating margin. Historical cash costs and operating margins are shown in the following table:

	2017				2018				2019				2020		
($/Mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	**Q3**
Revenue	3.44	3.36	3.24	3.50	3.54	3.20	3.27	3.03	3.20	2.60	2.50	2.76	2.30	1.73	**2.15**
Royalties	0.19	0.17	0.09	0.15	0.17	0.10	0.14	0.12	0.14	0.01	0.03	0.12	0.12	0.06	**0.14**
Op Costs	0.29	0.24	0.26	0.28	0.29	0.30	0.31	0.33	0.35	0.34	0.31	0.34	0.39	0.36	**0.32**
Transportation	0.17	0.18	0.17	0.16	0.13	0.18	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.17	**0.16**
G&A	0.04	0.05	0.03	0.03	0.08	0.05	0.03	0.04	0.06	0.05	0.05	0.02	0.04	0.04	**0.04**
Interest	0.20	0.21	0.21	0.21	0.24	0.26	0.27	0.27	0.28	0.30	0.31	0.31	0.29	0.33	**0.35**
Cash Costs	0.89	0.85	0.76	0.83	0.91	0.89	0.94	0.95	1.02	0.89	0.89	0.98	1.03	0.96	**1.01**
Netback	2.55	2.51	2.48	2.67	2.63	2.31	2.33	2.08	2.18	1.71	1.61	1.78	1.27	0.77	**1.14**
Operating Margin	74%	75%	76%	76%	74%	72%	71%	69%	68%	66%	64%	65%	55%	45%	**53%**

Depletion, depreciation, and amortization charges of $1.34/Mcfe, along with a provision for deferred tax and stock-based compensation payments reduced the cash netback to a loss of $0.26/Mcfe ($0.07/share). Dividends of $0.04/Mcfe ($0.01/share) were paid to shareholders in the quarter. No impairment charges were recorded in the quarter.

Activity Update

Peyto currently has 4 drilling rigs operating in the Greater Sundance and Brazeau core areas. These four rigs are scheduled to shut down in mid-December for the Christmas break but will resume drilling in early January. Since the end of the quarter, the Company has spud 11 wells, completed 10 wells, and brought on production 5 new wells. In addition, there are 7 wells at various stages of completion and tie-in.

Peyto's recent efforts to increase horizontal lateral length and increase stimulation intensity has yielded impressive results across several areas and in several different formations. The 2020 capital program, so far, has achieved the lowest total drilling and completion cost per meter of stimulated reservoir, while still delivering superior production performance compared to previous years. This superior performance combined with the strong spot natural gas prices, has resulted in some of the highest rates of return achieved in the last five years. Historical costs and the average of the first six months of production are shown below.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020 YTD**
Wells Drilled	70	86	99	123	140	126	135	70	61	**47**
Measured Depth (m)	4,041	4,017	4,179	4,251	4,309	4,197	4,229	4,020	3,848	**4,222**
Stimulated Hz Lateral (m)	1,138	1,123	1,264	1,269	1,287	1,224	1,241	1,377	1,351	**1,500**
Total Avg Drill & Complete ($MM/well)	$4.50	$4.28	$4.36	$4.31	$3.28	$2.59	$2.78	$2.78	$2.46	**$2.63**
D&C cost per meter of stimulated reservoir	$3,954	$3,809	$3,445	$3,393	$2,549	$2,119	$2,236	$2,018	$1,823	**$1,753**

Average IP180 (boe/d)	426	403	674	466	501	455	441	349	383	**520**

Recently, the Company has started gathering and processing 8 mmcf/d of third-party production into Peyto's under-utilized Sundance infrastructure. This will generate incremental fee revenue to Peyto while allowing the third party to share in Peyto's lower cost structure. The Company is continuing its efforts in this regard in areas where pipeline and plant infrastructure have spare capacity and will not impact Peyto's current volumes and future plans.

2021 Budget

The improved well performance and recent strength in both NYMEX and AECO natural gas prices, combined with the continued reduction in Peyto's drilling and completion costs, which has lowered the cost to add new production, significantly improves the Company's return on invested capital. Consistent with year two of Peyto's strategic three-year plan, the Board of Directors is currently examining a go-forward capital program that invests available free cashflow into resource development opportunities. While specifics of the 2021 budget are not yet finalized, a capital program of $300 to $350 million, funded entirely from free cashflow, is being contemplated, which could add a projected of 33,000-39,000 boe/d, based on current on-stream metrics. This volume addition would more than offset the annual forecast of approximately 25% base decline on anticipated 2020 exit production of 85,000 boe/d. The 2020 exit production and subsequent base decline will depend on the timing of year end activity.

Peyto believes it currently has all the necessary equipment and service providers in place to execute the proposed capital program and has demonstrated during the year an ability to conduct operations safely and efficiently during the COVID 19 pandemic. While this proposed capital program will be funded entirely from available free cashflow, it should result in production, cashflow and earnings growth, as well as bring total leverage metrics in line, allowing Peyto to exit its covenant relief period with lenders earlier than originally contemplated. In addition, by the end of 2021, a significant portion of Peyto's production that had been exposed to higher cost AECO-NYMEX basis will be subject to much lower market diversification costs, resulting in improved gas price realizations. The subsequent growth in free cashflow beyond 2021 could then be used for further debt repayment and increased dividends.

As always, Peyto will ensure any capital plans will be nimble with the ability to react to changes in commodity prices and the global economic environment, both of which continue to be volatile and uncertain.

Management Change

Mr. Timothy Louie, Peyto's Vice President of Land, will be retiring at the end of November 2020. On behalf of directors, staff, and shareholders of Peyto, management would like to sincerely thank Mr. Louie for his contributions to Peyto over the last 9 years and wish him all the best in his retirement.

Outlook

The Peyto business model has always been a simple one. Use technical expertise to invest capital into internally generated drilling projects that achieve the highest possible return on that capital. After 22 successful years of deploying this strategy, Peyto has built one of the highest quality, lowest cost natural gas asset bases in the industry. At times, this strategy requires patience as it takes time to build value and quality through the drill bit, but after $6.3 billion in cumulative capital investment to drill 663 vertical wells and over 1,000 horizontal wells, which have delivered $6.4 billion in cumulative funds from operations, this approach has proven to deliver.

Globally, the outlook for natural gas continues to strengthen in recognition that it will be a critical part of any transition to a larger, cleaner, and reliable energy complex. Peyto remains confident that demand for the products it is developing today, will only grow in the future.

(signed) *"Darren Gee"*

Darren Gee
President and CEO
November 11, 2020

Management’s discussion and analysis

This Management's Discussion and Analysis (“MD&A”) should be read in conjunction with the audited financial statements of Peyto Exploration & Development Corp. (“Peyto” or the “Company”) for the years ended December 31, 2019 and 2018. The financial statements have been prepared in accordance with the International Accounting Standards Board’s (“IASB”) most current International Financial Reporting Standards (“IFRS” or “GAAP”) and International Accounting Standards (“IAS”).

This discussion provides management's analysis of Peyto's historical financial and operating results and provides estimates of Peyto's future financial and operating performance based on information currently available. Actual results will vary from estimates and the variances may be significant. Readers should be aware that historical results are not necessarily indicative of future performance. This MD&A was prepared using information that is current as of November 9, 2020. Additional information about Peyto, including the most recently filed annual information form is available at www.sedar.com and on Peyto’s website at www.peyto.com.

This MD&A contains certain forward-looking statements or information (“forward-looking statements”) as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: the impact of economic conditions in North America and globally; industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the adequacy of the Company's critical accounting estimates; the availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: expected royalty rate, earnings, cash flow and revenue fluctuations; the Company's expectation that funds generated from operations, together with credit facility borrowings, are sufficient; the expectation that the majority of the Company's capital program will involve drilling, completing and tie-in of lower risk development gas wells; the Company's risk management; and the Company's critical accounting estimates.

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 September 30, 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 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 (mcfe) using a ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 mcf:1 bbl is based in an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. In addition, given that the value ratio based on the current price of oil as compared with natural gas is significantly different from the energy equivalent of six to one, utilizing a boe conversion ratio of 6 mcf:1 bbl may be misleading as an indication of value.

OVERVIEW

Peyto is a Canadian energy company involved in the development and production of natural gas and oil & natural gas liquids in Alberta's deep basin. As at December 31, 2019, the Company's total Proved plus Probable reserves were 4.9 trillion cubic feet equivalent (815 million barrels of oil equivalent) as evaluated by its independent petroleum engineers. Production is weighted approximately 85 per cent to natural gas and 15 per cent to oil & natural gas liquids.

The Peyto model is designed to deliver a superior total return with growth in value, assets, production and income, all on a debt adjusted per share basis. The model is built around three key strategies:

- Use technical expertise to achieve the best return on capital employed through the development of internally generated drilling projects.
- Build an asset base which is made up of high-quality natural gas reserves.
- Over time, balance dividends paid to shareholders with earnings and cash flow, and balance funding for the capital program with cash flow, equity and available bank lines.

Operating results over the last twenty-two years indicate that these strategies have been successfully implemented. This business model makes Peyto a truly unique energy company.

QUARTERLY FINANCIAL INFORMATION

	2020			2019				2018
($000 except per share amounts)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue and realized hedging gains (losses) (net of royalties) [1]	**86,986**	71,178	92,787	111,389	104,504	115,289	144,987	139,308
Funds from operations	**49,173**	33,012	54,513	75,974	68,106	75,971	103,078	99,635
Per share – basic and diluted	**0.30**	0.20	0.33	0.46	0.41	0.46	0.63	0.60
Earnings (loss)	**(11,285)**	(22,538)	(67,684)	3,492	6,275	98,757	24,970	21,458
Per share – basic and diluted	**(0.07)**	(0.14)	(0.41)	0.02	0.04	0.59	0.15	0.13
Dividends	**1,649**	1,649	9,892	9,892	9,892	9,892	9,892	29,677
Per share – basic and diluted	**0.01**	0.01	0.06	0.06	0.06	0.06	0.06	0.18
Capital expenditures	**61,568**	37,299	68,587	73,351	36,574	34,112	62,395	112,215

[1] excludes revenue from sale of third-party volumes

Funds from Operations

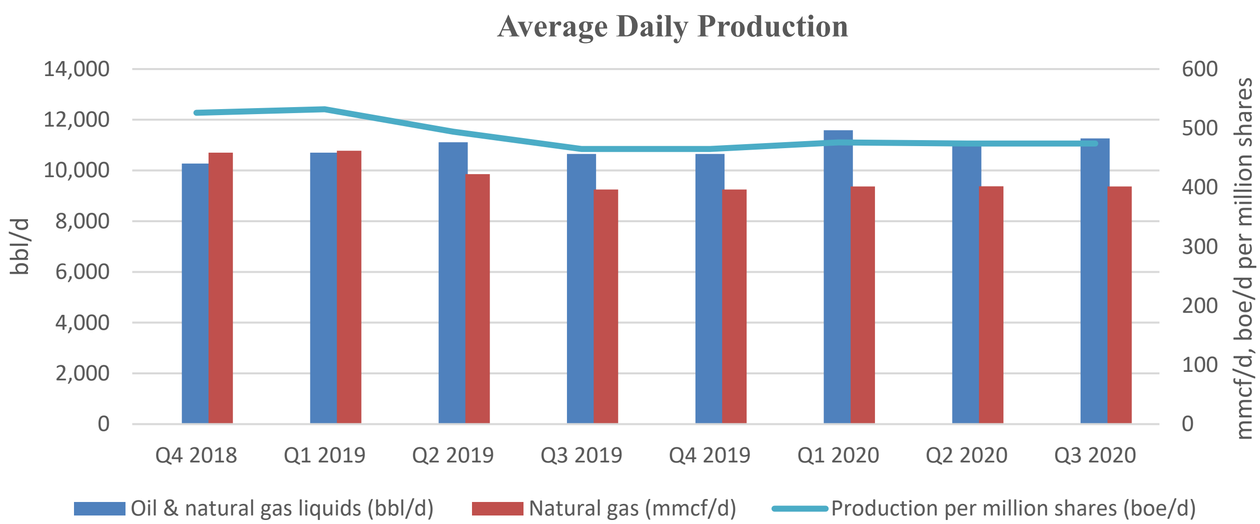
"Funds from operations" is a non-GAAP measure which represents cash flows from operating activities before changes in non-cash operating working capital and provision for future performance-based compensation. Management considers funds from operations and per share calculations of funds from operations to be key measures as they demonstrate the Company's ability to generate the cash necessary to pay dividends, repay debt and make capital investments. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, funds from operations provides a useful measure of Peyto's ability to generate cash that is not subject to short-term movements in operating working capital. The most directly comparable GAAP measure is cash flows from operating activities.

RESULTS OF OPERATIONS

Production

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Natural gas (mmcf/d)	**401.7**	396.3	**401.7**	426.6
Oil & natural gas liquids (bbl/d)	**11,263**	10,650	**11,325**	10,821
Barrels of oil equivalent (boe/d)	**78,210**	76,707	**78,273**	81,929
Thousand cubic feet equivalent (mmcfe/d)	**469.3**	460.2	**469.6**	491.6

Condensate and NGL production increased 6 per cent from 10,650 bbl/d in the third quarter of 2019 to 11,263 bbl/d in the third quarter of 2020. Natural gas production increased 1 per cent to 401.7 mmcf/d from 396.3 mmcf/d. Total third quarter production increased 2 per cent from 460.2 mmcfe/d to 469.3 mmcfe/d. Production increases are attributable to Peyto's capital program which offset natural production declines.



Oil & Natural Gas Liquids Production by Component

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Oil, Condensate and Pentanes+ (bbl/d)	**6,493**	6,041	**6,564**	6,320
Other Natural gas liquids(bbl/d)	**4,770**	4,609	**4,761**	4,501
Oil & Natural gas liquids (bbl/d)	**11,263**	10,650	**11,325**	10,821
Barrels per million cubic feet	**28.0**	26.9	**28.2**	25.4

The liquid production to sales gas ratio increased 4 per cent from 26.9 bbl/mmcf in Q3 2019 to 28.0 bbl/mmcf in Q3 2020. This increase was due to the addition of liquids rich production from new Cardium wells.

Benchmark Commodity Prices

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
AECO 7A monthly ($/GJ)	**2.04**	0.99	**1.96**	1.31
AECO 5A daily ($/GJ)	**2.12**	0.86	**1.98**	1.44
NYMEX (US$/MMbtu)	**1.95**	2.33	**1.79**	2.57
Emerson2 (US$/MMbtu)	**1.78**	1.90	**1.71**	2.32
Ventura daily (US$/MMbtu)	**1.80**	2.00	**1.70**	2.44
Dawn daily (US$/MMbtu)	**1.82**	2.13	**1.74**	2.47
Canadian WTI ($/bbl)	**54.50**	74.55	**51.52**	75.85
Conway C3 (US$/bbl)	**19.54**	15.10	**17.04**	19.96

Q3 2020 average CND/USD exchange rate of 1.332

Commodity Prices

($CAD)	Three Months ended September 30 **2020**	2019	Nine Months ended September 30 **2020**	2019
Oil & natural gas liquids ($/bbl)	**32.86**	37.39	**28.82**	42.40
Hedging – Oil & NGL ($/bbl)	**(1.78)**	2.26	**0.91**	2.47
Oil & NGL – after hedging ($/bbl)	**31.08**	39.65	**29.73**	44.87
Natural gas ($/mcf)	**2.62**	2.17	**2.47**	2.36
Diversification activities ($/mcf)	**(1.01)**	(0.70)	**(0.89)**	(0.54)
Hedging – gas ($/mcf)	**0.03**	0.37	**(0.01)**	0.25
Natural gas – after hedging ($/mcf)	**1.64**	1.84	**1.57**	2.07
Total Hedging ($/mcfe)	**(0.02)**	0.37	**0.02**	0.27
Total Hedging ($/boe)	**(0.13)**	2.24	**0.09**	1.62

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

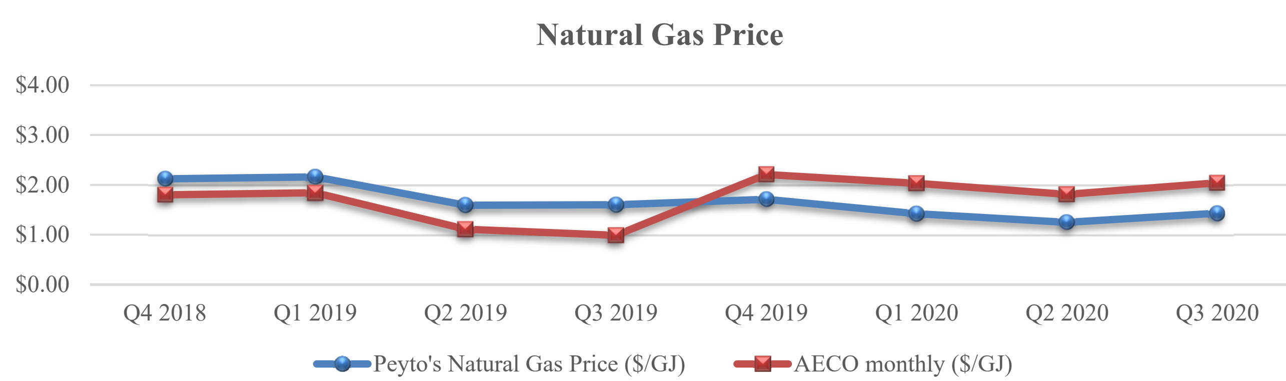
Peyto's natural gas price, before hedging and diversification activities, averaged $2.62/mcf during the third quarter of 2020 compared to $2.17/mcf for the equivalent period in 2019. Oil & natural gas liquids prices, before hedging, averaged $32.86/bbl, a decrease of 12 per cent from $37.39/bbl a year earlier.

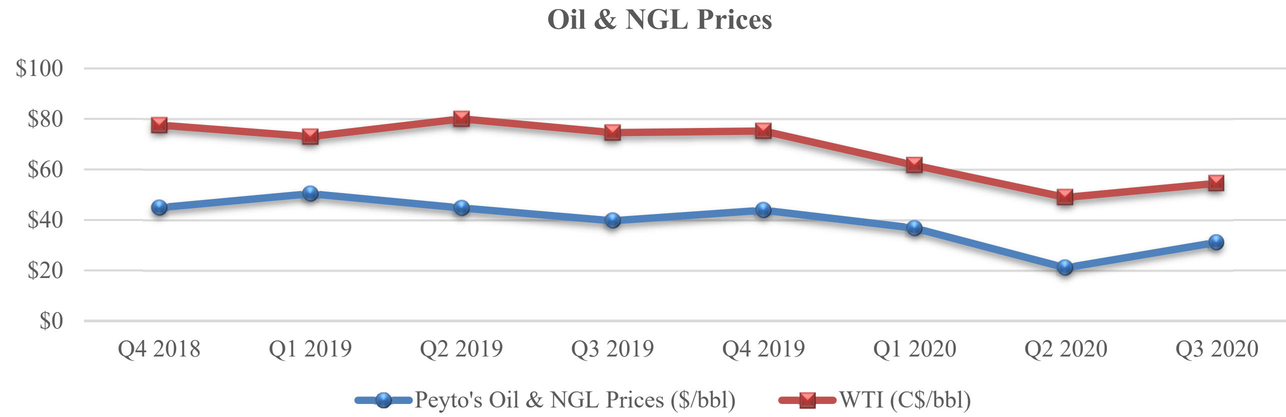
Peyto actively marketed all components of its production stream in the third quarter including natural gas, condensate, pentane, butane and propane. Peyto's market diversification activity resulted in natural gas being sold at various hubs including AECO, Ventura, Emerson 2 and Henry Hub using both physical 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 September 30 **2020**	2019	Nine Months ended September 30 **2020**	2019
Natural gas, after hedging and diversification activities ($/mcf)	**1.64**	1.84	**1.57**	2.07
Oil, Condensate and Pentanes+, after hedging ($/bbl)	**42.09**	67.76	**43.43**	70.21
Other Natural gas liquids ($/bbl)	**15.76**	2.79	**10.78**	9.72
Total Oil and Natural gas liquids ($/bbl)	**31.08**	39.65	**29.73**	44.87

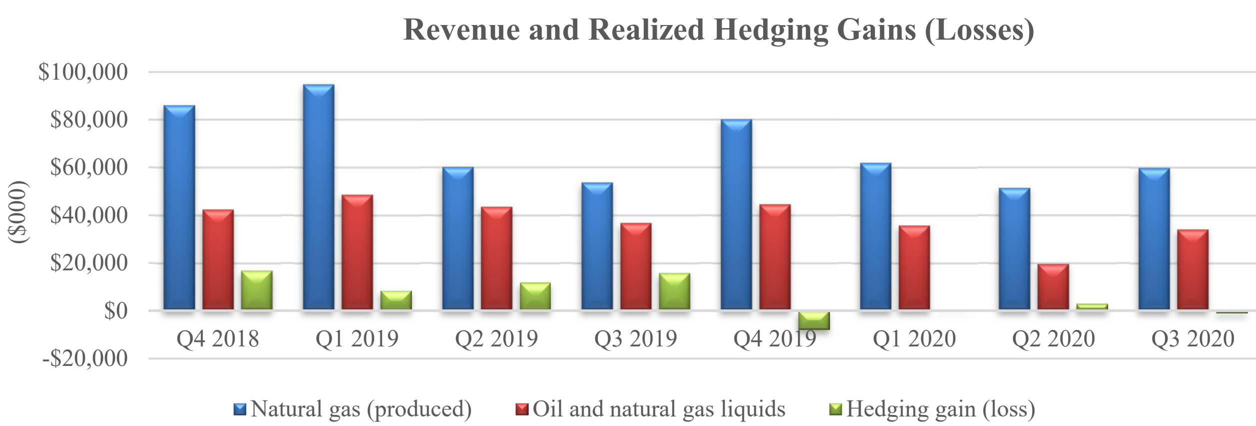




Revenue from Produced Volumes and Realized Hedging Gains (Losses)

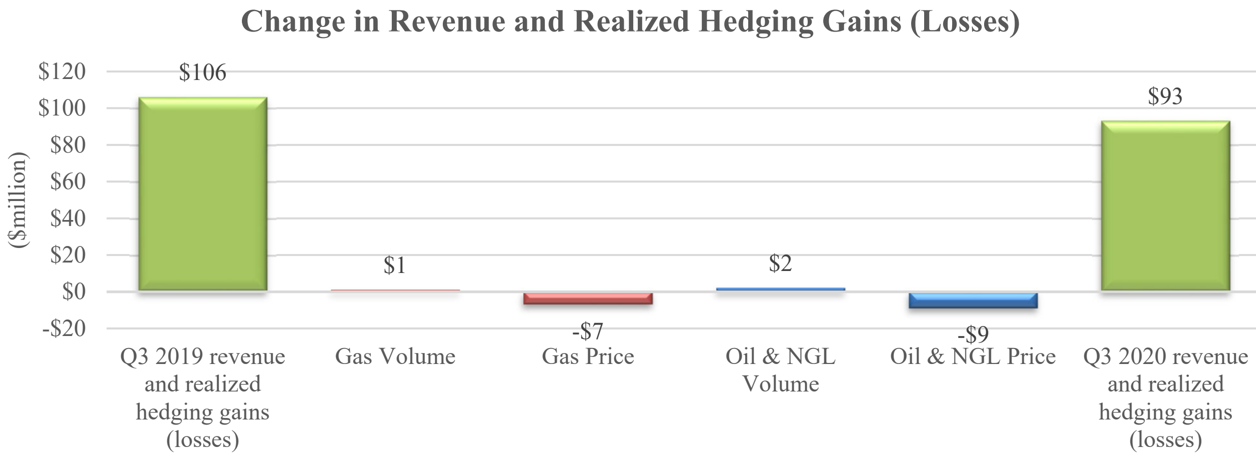
	Three Months ended September 30		Nine Months ended September 30	
($000)	**2020**	2019	**2020**	2019
Natural gas[1]	**59,719**	53,528	**173,021**	208,296
Oil & natural gas liquids	**34,052**	36,634	**89,431**	128,649
Hedging – gas	**930**	13,571	**(819)**	28,893
Hedging – oil and NGL	**(1,848)**	2,211	**2,824**	7,292
	92,853	105,944	**264,457**	373,130

[1] excludes revenue from sale of third-party volumes



For the three months ended September 30, 2020, revenue and realized hedging gains (losses) decreased 12 per cent to $92.9 million from $105.9 million for the same period in 2019. The decrease in revenue and realized hedging gains (losses) for the quarter was a result of a decrease in realized commodity prices partially offset by an increase in production volumes, as detailed in the following table:

	Three Months ended September 30			Nine Months ended September 30		
	2020	2019	**$million**	2020	2019	**$million**
Total Revenue, September 30, 2019			**106**			**373**
Revenue change due to:						
Natural gas						
Volume (mmcf)	36,955	36,464	**1**	110,064	116,475	**(13)**
Price ($/mcf)	$1.64	$1.84	**(7)**	$1.57	$2.07	**(55)**
Oil & NGL						
Volume (mbbl)	1,036	980	**2**	3,103	2,954	**6**
Price ($/bbl)	$31.08	$39.65	**(9)**	$29.73	$44.87	**(47)**
Total Revenue, September 30, 2020			**93**			**264**



Royalties

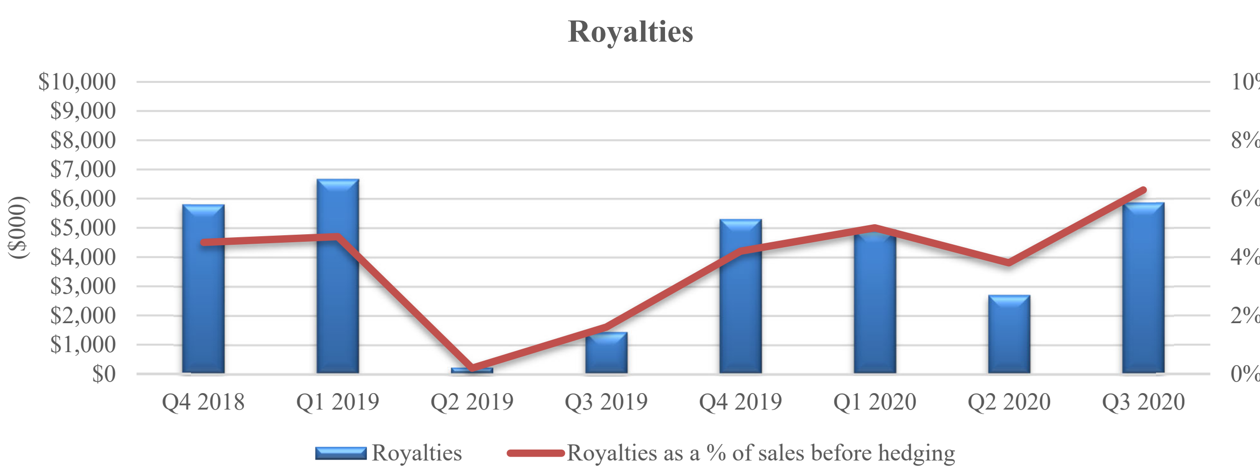
Royalties are paid to the owners of the mineral rights with whom leases are held, including the provincial government of Alberta. Alberta Natural Gas Crown royalties are invoiced on the Crown's share of production based on a monthly established Alberta Reference Price. The Alberta Reference Price is 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 September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Royalties ($000)	**5,867**	1,440	**13,508**	8,350
per cent of sales before hedging	**6.3**	1.6	**5.1**	2.5
per cent of sales after hedging	**6.2**	1.4	**5.2**	2.3
$/mcfe	**0.14**	0.03	**0.11**	0.06
$/boe	**0.82**	0.20	**0.63**	0.37

For the third quarter of 2020, royalties averaged $0.14/mcfe or approximately 6.3 per cent of Peyto's total petroleum and natural gas sales excluding hedging gains.

The royalty rate expressed as a percentage of sales revenue 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 $6.3 billion in capital projects, found and developed 4.9 TCFe of natural gas reserves and paid over $886 million in royalties.

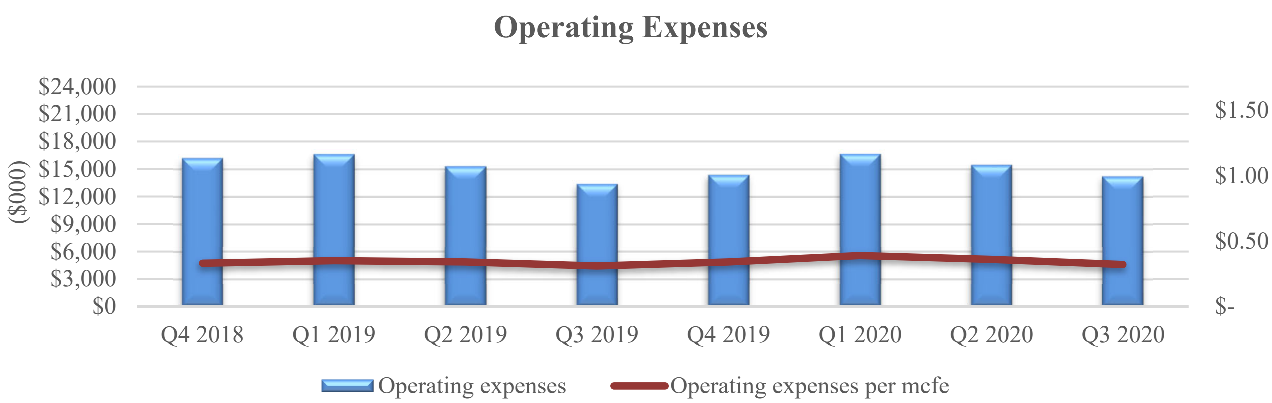


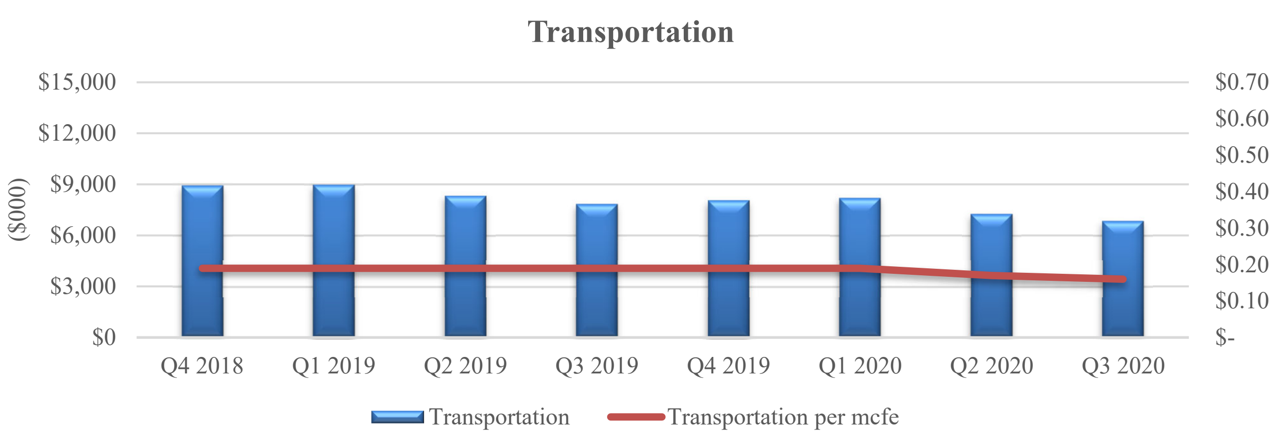
Operating Costs & Transportation
Peyto's operating expenses include all costs with respect to day-to-day well and facility operations.

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Payments to Government	**4,007**	4,443	**12,831**	13,649
Other expenses	**10,184**	8,940	**33,493**	31,658
Operating costs ($000)	**14,191**	13,383	**46,324**	45,307
$/mcfe	**0.32**	0.31	**0.36**	0.34
$/boe	**1.97**	1.90	**2.16**	2.03
Transportation ($000)	**6,840**	7,815	**22,285**	25,109
$/mcfe	**0.16**	0.19	**0.17**	0.19
$/boe	**0.95**	1.11	**1.04**	1.12

For the third quarter, operating expenses increased 6% compared to the same quarter in 2019. Although there was a reduction in government fees and taxes, this was offset by an increase in power, well optimization and chemical costs. On a unit-of-production basis, operating costs increased 3 per cent from $0.31/mcfe to $0.32/mcfe. Approximately 25% - 30% of operating expenses are related to government fees, taxes and levies. Peyto focuses on being the industry leader in operating costs and strives to achieve incremental cost reductions on a continuous basis.

Transportation expenses decreased 16 per cent on a unit-of production basis from $0.19/mcfe in the third quarter 2019 to $0.16/mcfe in the third quarter 2020 due to a decrease in unutilized firm transportation.

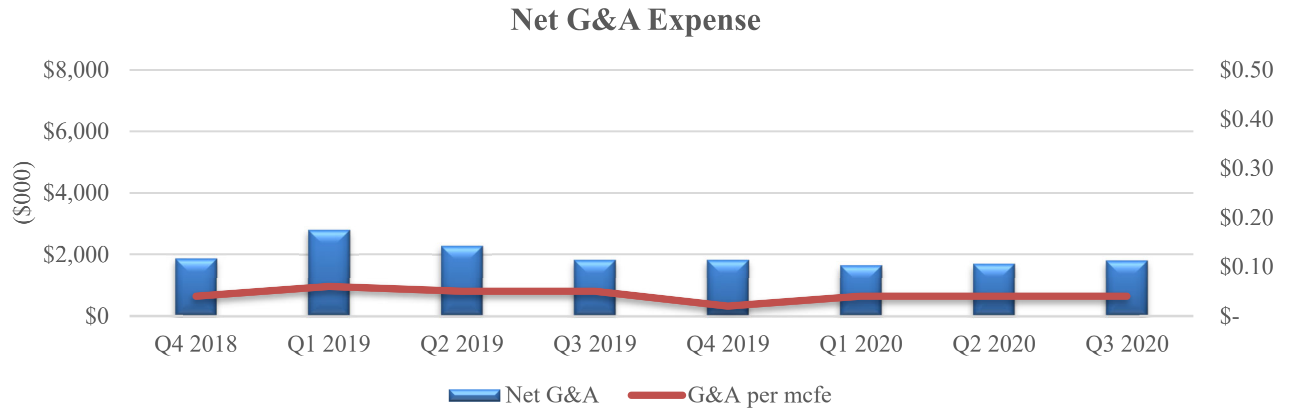




General and Administrative Expenses

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
G&A expenses ($000)	**3,615**	3,672	**10,854**	12,179
Overhead recoveries ($000)	**(1,823)**	(1,854)	**(5,726)**	(5,290)
Net G&A expenses ($000)	**1,792**	1,818	**5,128**	6,889
$/mcfe	**0.04**	0.05	**0.04**	0.05
$/boe	**0.25**	0.26	**0.23**	0.31

For the third quarter, general and administrative expenses before overhead recoveries were $3.6 million compared to $3.7 million for the same quarter of 2019. General and administrative expenses averaged $0.08/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.04/mcfe in the third quarter of 2020 ($0.09/mcfe before overhead recoveries of $0.04/mcfe for net general and administrative expenses of $0.05/mcfe in the third quarter of 2019).



Performance Based Compensation

The Company awards performance-based compensation to employees and key consultants annually. The performance-based compensation is comprised of stock options, rights issued under the market based bonus plan, and reserve value based components.

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

Under the market-based component, rights with a three-year vesting period are 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 has been replaced on a going forward basis by the recently adopted stock option plan.

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

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 September 30, 2020, compensation costs related to 1.5 million non-vested rights (1% of the total number of common shares outstanding), with an average grant price of $7.23 are $0.4 million for the third quarter of 2020, 8.3 million non-vested stock options (5% of the total number of common shares outstanding), with an average grant price of $3.53 are $1.1 million for the third quarter of 2020 and 75 thousand vested DSU's (0.05% of the total number of common shares outstanding), with an average grant price of $2.34 are

$0.1 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 9 of the consolidated financial statements for more details). These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

Rights Outstanding Under Market Based Bonus Plan

Valuation and Vesting Date	Rights Granted	Rights Forfeited	Rights Outstanding	Average Grant Price
December 31, 2020	825,000	58,200	766,800	$ 7.23
December 31, 2021	825,000	58,200	766,800	$ 7.23

Stock Options Plan

Valuation and Vesting Date	Stock Options Granted	Stock Options Forfeited	Options Outstanding	Average Grant Price
May 15, 2021	825,000	51,400	773,600	$ 5.72
May 15, 2022	825,000	51,399	773,601	$ 5.72
August 15, 2021	864,167	25,999	838,168	$ 3.18
August 15, 2022	864,167	26,000	838,167	$ 3.18
November 15, 2020	889,633	12,667	876,966	$ 3.07
November 15, 2021	889,633	12,667	876,966	$ 3.07
November 15, 2022	889,633	12,667	876,966	$ 3.07
January 1, 2021	275,000	4,400	270,600	$ 3.75
January 1, 2022	275,000	4,400	270,600	$ 3.75
January 1, 2023	275,000	4,400	270,600	$ 3.75
July 8, 2021	275,000	3,400	271,600	$ 1.91
July 8, 2022	275,000	3,400	271,600	$ 1.91
July 8, 2023	275,000	3,400	271,600	$ 1.91
August 20, 2021	275,000	-	275,000	$ 3.03
August 20, 2022	275,000	-	275,000	$ 3.03
August 20, 2023	275,000	-	275,000	$ 3.03

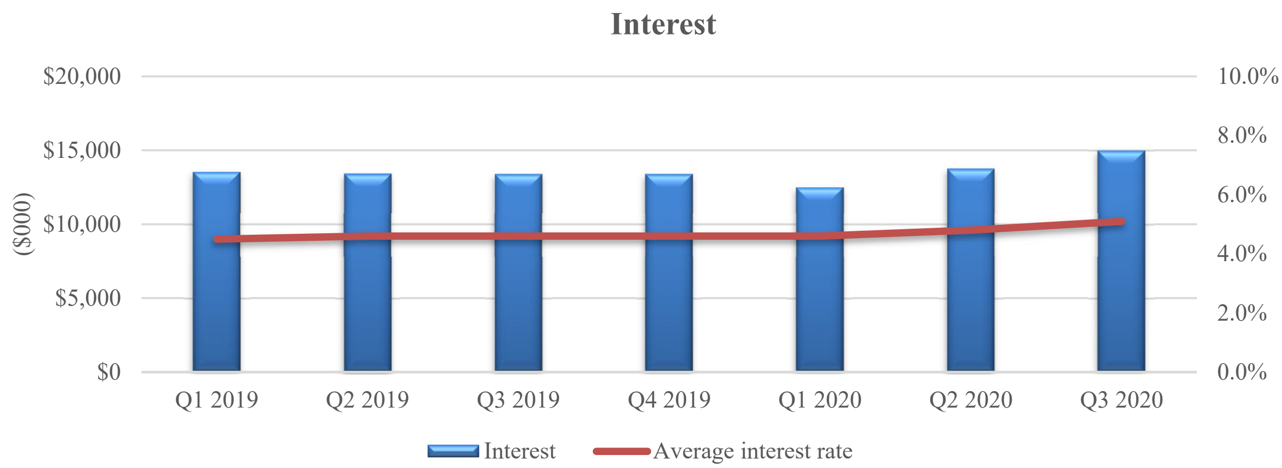
Deferred Share Units

Valuation and Vesting Date	Units Granted	Units Forfeited	Units Outstanding	Average Grant Price
July 8, 2020	46,466	-	46,466	$ 1.91
August 20, 2020	29,290	-	29,290	$ 3.03

Interest Expense

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Interest expense ($000)	**14,990**	13,382	**41,237**	40,318
$/mcfe	**0.35**	0.31	**0.32**	0.30
$/boe	**2.08**	1.90	**1.92**	1.80
Average interest rate	**5.1%**	4.6%	**4.8%**	4.6%

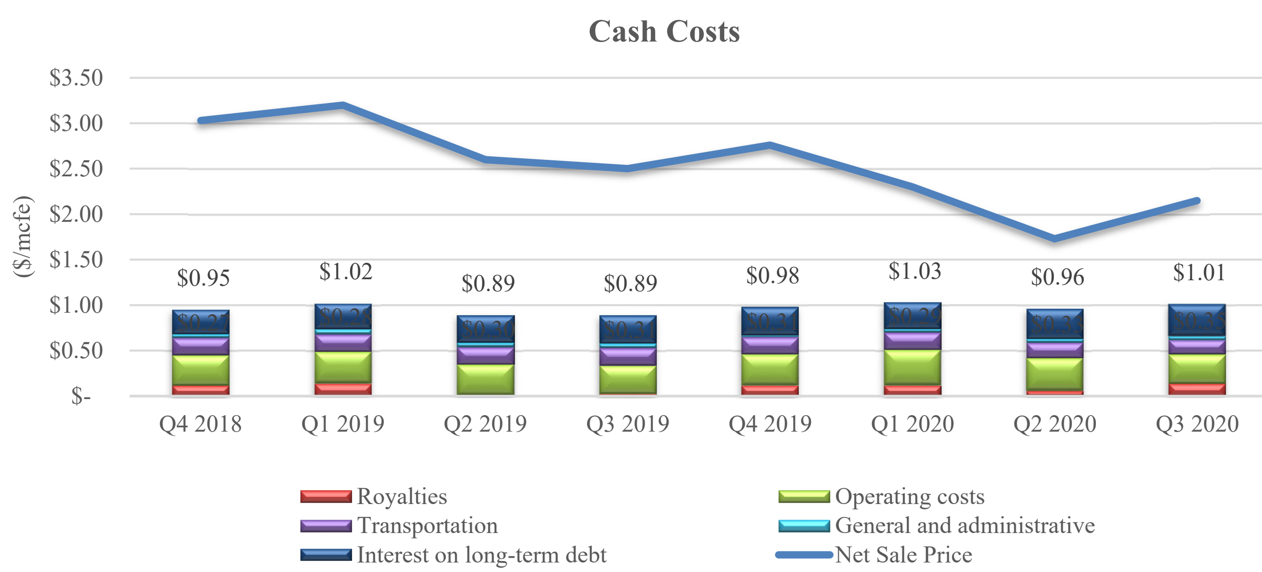
Third quarter 2020 interest expense was $15.0 million or $0.35/mcfe compared to $13.4 million or $0.31/mcfe for the third quarter 2019. This increase is due to higher stamping fees and interest costs under the amended Credit Facility and Note Purchase Agreements dated June 29, 2020 (refer to Note 4 of the consolidated financial statements for more details).



Netbacks

	Three Months ended September 30		Nine Months ended September 30	
($/mcfe)	**2020**	2019	**2020**	2019
Gross Sale Price	**2.17**	2.13	**2.04**	2.51
Realized hedging gain (loss)	**(0.02)**	0.37	**0.02**	0.27
Net Sale Price	**2.15**	2.50	**2.06**	2.78
Less: Royalties	**0.14**	0.03	**0.11**	0.06
Operating costs	**0.32**	0.31	**0.36**	0.34
Transportation	**0.16**	0.19	**0.17**	0.19
Field netback	**1.53**	1.97	**1.42**	2.19
General and administrative	**0.04**	0.05	**0.04**	0.05
Interest on long-term debt	**0.35**	0.31	**0.32**	0.30
Cash netback ($/mcfe)	**1.14**	1.61	**1.06**	1.84
Cash netback ($/boe)	**6.83**	9.65	**6.37**	11.05

Netbacks are a non-GAAP measure that represent the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low-cost structure and the high heat content of its natural gas that results in higher commodity prices.



Depletion, Depreciation and Impairment

Under IFRS, Peyto uses proved plus probable reserves as its depletion base to calculate depletion expense. The 2020 third quarter provision for depletion, depreciation and amortization totaled $57.8 million ($1.34/mcfe) compared to $58.1 million ($1.37/mcfe) in the third quarter 2019. As finding and development costs decrease, associated depletion and depreciation costs also decrease.

For the period ended March 31, 2020, Peyto identified external indicators of impairment following the decrease in demand for crude oil as a result of the COVID-19 pandemic, and the adequacy of supply management efforts by OPEC and non-OPEC partners to address such dramatic changes. Peyto performed an impairment test using after-tax discounted future cash flows of proved and probable reserves, utilizing an after tax discount rate of 10%, which resulted in an impairment charge of $79.7 million ($61.4 million net of tax) recorded as additional depreciation, depletion and amortization ("DD&A"). For further information regarding the impairment recognized as at March 31, 2020, refer to Note 3 in the financial statements for the three months and nine months ended September 30, 2020.

Income Taxes

The current provision for deferred income tax expense recovery is $3.4 million recovery compared to an expense of $1.9 million in the third quarter of 2019. In 2019, corporate income tax rates in Alberta were reduced from 12 per cent to 8 percent. Resource pools are generated from the capital program, which are available to offset current and deferred income tax liabilities.

Income Tax Pool type ($ millions)	September 30, 2020	December 31, 2019	Annual deductibility
Canadian Oil and Gas Property Expense	164.9	175.5	10% declining balance
Canadian Development Expense	624.4	589.6	30% declining balance
Canadian Exploration Expense	103.9	98.0	100%
Undepreciated Capital Cost	265.4	296.6	Primarily 25% declining balance
Tax Losses Carried Forward	82.9	48.5	100%
Other	0.6	1.9	20% declining balance
Total Federal Tax Pools	**1,242.1**	**1,210.1**	
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 third quarter of 2020, a realized hedging loss of $0.9 million was recorded as compared to a $15.8 million gain for the equivalent period in 2019. A summary of contracts outstanding in respect of the hedging activities are as follows:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	$2.02
April 1, 2020 to October 31, 2020	Fixed Price	65,000 GJ	$1.55
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	55,000 GJ	$2.76
April 1, 2022 to October 31, 2022	Fixed Price	35,000 GJ	$2.20

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.68
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	$1.85

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Average 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	$2.43
November 1, 2020 to March 31, 2021	Fixed Price	152,500 mmbtu	$2.85
April 1, 2021 to October 31, 2021	Fixed Price	120,000 mmbtu	$2.60
November 1, 2021 to March 31, 2022	Fixed Price	15,000 mmbtu	$2.97

Crude Oil Period Hedged - WTI	Type	Daily Volume	Average Price (WTI USD/bbl)
October 1, 2020 to December 31, 2020	Fixed Price	2,300 bbl	$41.63
January 1, 2021 to March 31, 2021	Fixed Price	800 bbl	$42.99

Propane Period Hedged	Type	Daily Volume	Average Price (USD/bbl)
October 1, 2020 to March 31, 2021	Fixed Price	1,250 bbl	$20.74

Natural Gas Period – NYMEX Covered Call Options	Type	Daily Volume	Strike Price Nymex USD/mmbtu
April 1, 2021 to October 31, 2021	Call	40,000 mmbtu	$2.81

As at September , 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 $2.59per mcf, 65,552,500 mmbtu of natural gas 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. Subsequent to September 30, 2020 Peyto entered into the following contracts:

Natural Gas Period Hedged - Monthly Index	Type	Daily Volume	Average Price (AECO CAD/GJ)
November 1, 2021 to March 31, 2022	Fixed Price	25,000 GJ	$2.98
April 1, 2022 to October 31, 2022	Fixed Price	70,000 GJ	$2.19

Natural Gas Period Hedged - NYMEX	Type	Daily Volume	Average Price (Nymex USD/mmbtu)
April 1, 2021 to October 31, 2021	Fixed Price	35,000 mmbtu	$2.93
November 1, 2021 to March 31, 2022	Fixed Price	30,000 mmbtu	$3.12

Crude Oil Period Hedged - WTI	Type	Daily Volume	Average Price (WTI USD/bbl)
January 1, 2021 to March 31, 2021	Fixed Price	500 bbl	$41.58

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

Commodity Price Sensitivity

Peyto's earnings are largely determined by commodity prices for crude oil and natural gas including the US/Canadian dollar exchange rate. Volatility in these oil and gas prices can cause fluctuations in Peyto's earnings and cash flow. Low operating costs and a long reserve life reduce Peyto's sensitivity to changes in commodity prices.

Currency Risk Management
The Company is exposed to fluctuations in the Canadian/US dollar exchange ratio since commodities are effectively priced in US dollars and converted to Canadian dollars. In the short term, this risk is mitigated indirectly as a result of a commodity hedging strategy that is primarily conducted in Canadian dollar currency. Over the long term, the Canadian dollar tends to rise as commodity prices rise. There is a similar correlation between oil and gas prices. Currently Peyto has not entered into any agreements to further manage its currency risks.

Interest Rate Risk Management
The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility while interest rates on the senior notes are fixed. Currently there are no agreements to manage the risk on the credit facility. At September 30, 2020, the increase or decrease in earnings for each 100 bps (1 per cent) change in interest rate paid on the outstanding revolving demand loan amounts to approximately $1.9 million per quarter. Average debt outstanding for the quarter was $1.16 billion (including $415 million fixed rate debt).

LIQUIDITY AND CAPITAL RESOURCES

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

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2020**	2019	**2020**	2019
Cash flows from operating activities	**48,074**	64,913	**150,169**	241,993
Change in non-cash working capital	**1,099**	3,193	**(13,472)**	2,873
Performance based compensation	**-**	-	**-**	2,291
Funds from operations	**49,173**	68,106	**136,697**	247,157
Funds from operations per share	**0.30**	0.41	**0.83**	1.50

For the third quarter ended September 30, 2020, funds from operations totaled $49.2 million or $0.30 per share, compared to $68.1 million or $0.41 per share during the same quarter in 2019. The decrease in funds from operation was due to a decrease in commodity prices and realized hedging gains.

Peyto's policy is to balance dividends to shareholders with earnings and cash flow, and to balance funding for the capital program with cash flow, equity and available bank lines. Earnings and cash flow are sensitive to changes in commodity prices, exchange rates and other factors that are beyond Peyto's control. Current volatility in commodity prices creates uncertainty as to the funds from operations and capital expenditure budget. Accordingly, results are assessed throughout the year and operational plans revised as necessary to reflect the most current information.

Revenues will be impacted by drilling success and production volumes as well as external factors such as the market prices for commodities and the exchange rate of the Canadian dollar relative to the US dollar.

Current and Long-Term Debt

($000)	**September 30, 2020**	December 31, 2019
Long-term senior secured notes	415,000	415,000
Bank credit facility	755,000	705,000
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 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.

Financial covenant	Limit	**September 30, 2020**	December 31, 2019
Total Debt to EBITDA	Less than 5.75	4.44	2.99
Senior Debt to EBITDA	Less than 5.25	4.44	2.99
Interest coverage	Greater than 2.5	4.87	7.0
Total Debt to (Total Debt + Equity)	Less than 0.55	0.43	0.40

Peyto is in compliance with all financial covenants and has no subordinated debt or letters of credit outstanding as at September 30, 2020.

Outstanding secured 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's total borrowing capacity is $1.365 billion of which the credit facility is $950 million.

The total amount of capital invested in 2020 will be driven by the number and quality of projects generated. Capital will only be invested if it meets the long-term objectives of the Company. The majority of the capital program will involve drilling, completion and tie-in of lower risk development gas wells. Peyto's rapidly scalable business model has the flexibility to match planned capital expenditures to actual cash flow.

Net Debt

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

($000)	**As at September 30, 2020**	As at December 31, 2019	As at September 30, 2019
Bank credit facility - drawn	**755,000**	705,000	510,000
Senior secured notes	**415,000**	415,000	620,000
Current assets	**(83,119)**	(80,265)	(62,734)
Current liabilities	**139,511**	113,442	72,329
Financial derivative instruments	**(41,541)**	(5,537)	(4,667)
Current portion of lease obligation	**(1,097)**	(981)	(1,059)
Net debt	**1,183,754**	1,146,659	1,133,869

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	57,667	233
Common share issuance costs, (net of tax)	-	-
Balance, September 30, 2020	**164,931,842**	**1,649,602**

Capital Expenditures

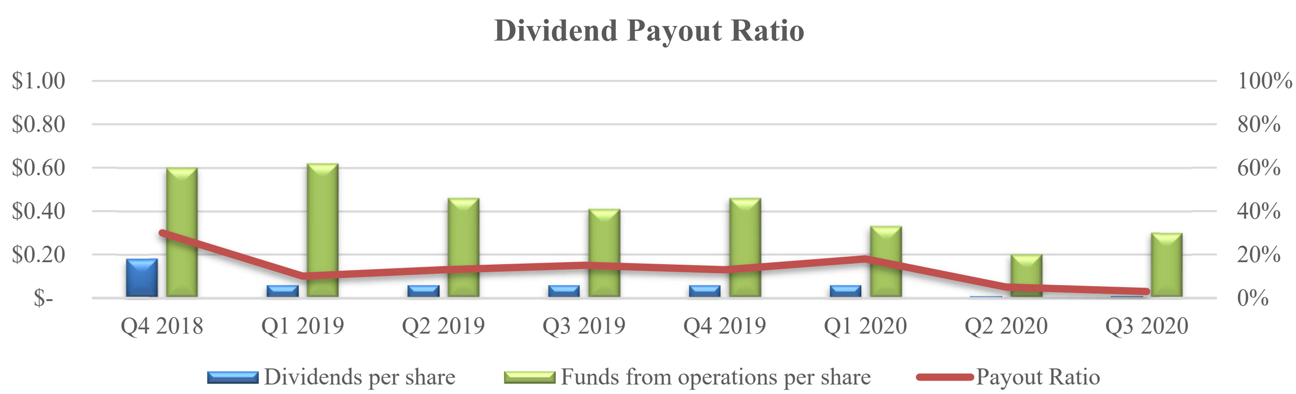
Net capital expenditures for the third quarter of 2020 totaled $61.6 million. Exploration and development related activity represented $48.1 million (78 per cent), while expenditures on facilities, gathering systems and equipment totaled $11.0 million (18 per cent) and land, acquisitions and seismic totaled $2.5 million (4 per cent). The following table summarizes capital expenditures for the period:

	Three Months ended September 30		Nine Months ended September 30	
($000)	**2020**	2019	**2020**	2019
Land	**-**	80	**100**	2,531
Seismic	**1,007**	945	**6,203**	2,988
Drilling	**27,974**	14,424	**76,061**	49,728
Completions	**20,121**	10,086	**48,440**	43,847
Equipping & Tie-ins	**6,019**	3,157	**15,841**	11,188
Facilities & Pipelines	**4,947**	7,861	**19,009**	21,742
Acquisitions	**1,500**	21	**1,800**	1,071
Dispositions	**-**	-	**-**	(15)
Total Capital Expenditures	**61,568**	36,574	**167,454**	133,080

Dividends

	Three Months ended September 30		Nine Months ended September 30	
	2020	2019	**2020**	2019
Funds from operations ($000)	**49,173**	68,106	**136,697**	247,157
Total dividends ($000)	**1,649**	9,892	**13,191**	29,677
Total dividends per common share ($)	**0.01**	0.06	**0.08**	0.18
Payout ratio (%)	**3**	15	**10**	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 bank lines. The Board of Directors is prepared to adjust the payout ratio levels (dividends declared divided by funds from operations) to achieve the desired dividends while maintaining an appropriate capital structure.



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

($000)	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 lease	525	2,101	2,176	2,176	2,176	4,352
Methanol	-	1,742	-	-	-	-
Total	12,066	67,524	90,958	66,635	45,796	377,516

(1) 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 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

RISK MANAGEMENT

Investors who purchase shares are participating in the total returns from a portfolio of western Canadian natural gas producing properties. As such, the total returns earned by investors and the value of the shares are subject to numerous risks inherent in the oil and natural gas industry.

Expected returns depend largely on the volume of petroleum and natural gas production and the price received for such production, along with the associated costs. The price received for oil depends on a number of factors, including West Texas Intermediate oil prices, Canadian/US currency exchange rates, quality differentials and Edmonton par oil prices. The price received for natural gas production is dependent on current Alberta, Henry Hub and Dawn market prices and Canadian/US currency exchange rates. Peyto's marketing strategy is designed to smooth out short term fluctuations in the price of natural gas through future sales. It is meant to be methodical and consistent and to avoid speculation.

Although Peyto's focus is on internally generated drilling programs, any acquisition of oil and natural gas assets depends on an assessment of value at the time of acquisition. Incorrect assessments of value can adversely affect dividends to shareholders and the value of the shares. Peyto employs experienced staff and performs appropriate levels of due diligence on the analysis of acquisition targets, including a detailed examination of reserve reports; if appropriate, re-engineering of reserves for a large portion of the properties to ensure the results are consistent; site examinations of facilities for environmental liabilities; detailed examination of balance sheet accounts; review of contracts; review of prior year tax returns and modeling of the acquisition to attempt to ensure accretive results to the shareholders.

Inherent in development of the existing oil and gas reserves are the risks, among others, of drilling dry holes, encountering production or drilling difficulties or experiencing high decline rates in producing wells. To minimize these risks, Peyto employs experienced staff to evaluate and operate wells and utilize appropriate technology in operations. In addition, prudent work practices and procedures, safety programs and risk management principles, including insurance coverage protect Peyto against certain potential losses.

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

The value of Peyto's shares is based on among other things, the underlying value of the oil and natural gas reserves. Geological and operational risks can affect the quantity and quality of reserves and the cost of ultimately recovering those reserves. Lower oil and gas prices increase the risk of write-downs on oil and gas property investments. In order to mitigate this risk, proven and probable oil and gas reserves are evaluated each year by a firm of independent reservoir engineers. The reserves committee of the Board of Directors reviews and approves the reserve report.

Access to markets may be restricted at times by pipeline or processing capacity. These risks are minimized by controlling as much of the processing and transportation activities as possible and ensuring transportation and processing contracts are in place with reliable cost efficient counterparties.

The petroleum and natural gas industry is subject to extensive controls, regulatory policies and income and resource taxes imposed by various levels of government. These regulations, controls and taxation policies are amended from time to time. Peyto has no control over the level of government intervention or taxation in the petroleum and natural gas industry. Peyto operates in such a manner to ensure, to the best of its knowledge that it is in compliance with all applicable regulations and are able to respond to changes as they occur.

The petroleum and natural gas industry is subject to both environmental regulations and an increased environmental awareness. Peyto has reviewed its environmental risks and is, to the best of its knowledge, in compliance with the appropriate environmental legislation and have determined that there is no current material impact on operations. Peyto employs environmentally responsible business operations, and looks to both Alberta provincial authorities and Canada's federal authorities for direction and regulation regarding environmental and climate change legislation.

Peyto is subject to financial market risk. In order to maintain substantial rates of growth, Peyto must continue reinvesting in, drilling for or acquiring petroleum and natural gas. The capital expenditure program is funded primarily through funds from operations, debt and, if appropriate, equity.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures
The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's disclosure controls and procedures at the year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial period end of the Company for the foregoing purposes.

Internal Control over Financial Reporting
The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's internal control over financial reporting at the financial period end of the Company and concluded that the Company's internal control over financial reporting is effective, at the financial period end of the Company, for the foregoing purpose.

Peyto is required to disclose herein any change in Peyto's internal control over financial reporting that occurred during the period ended September 30, 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 there from may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of Peyto's oil and natural gas properties and the rate of depletion of the oil and natural gas properties as well as the calculation of the reserve value based compensation. Actual production, revenues and expenditures with respect to Peyto's reserves will likely vary from estimates, and such variances may be material.

Peyto's estimated quantities of proved and probable reserves at December 31, 2019 were evaluated by independent petroleum engineers InSite Petroleum Consultants Ltd. InSite has been evaluating reserves in this area and for Peyto since inception.

Depletion and Depreciation Estimate
All costs of exploring for and developing petroleum and natural gas reserves, together with the costs of production equipment, are capitalized and then depleted and depreciated on the unit-of-production method based on proved plus probable reserves. Petroleum and natural gas reserves and production are converted into equivalent units based upon estimated relative energy content (6 mcf to 1 barrel of oil). Costs for gas plants and other facilities are capitalized and depreciated on a declining balance basis.

Impairment of Long-Lived Assets
Impairment is indicated if the carrying value of the long-lived asset or oil and gas cash generating unit exceeds its recoverable amount under IFRS. If impairment is indicated, the amount by which the carrying value exceeds the estimated fair value of the long-lived asset is charged to earnings. The determination of the recoverable amount for impairment purposes under IFRS involves the use of numerous assumptions and judgments including future net cash flows from oil and gas reserves, future third-party pricing, inflation factors, discount rates and other uncertainties. Future revisions to these assumptions impact the recoverable amount.

Decommissioning Provision
The decommissioning provision is estimated based on existing laws, contracts or other policies. The fair value of the obligation is based on estimated future costs for abandonment and reclamation discounted at a credit adjusted risk free rate. The liability is adjusted each reporting period to reflect the passage of time and for revisions to the estimated future cash flows, with the accretion charged to earnings. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements could be material.

Reserve Value Performance Based Compensation
The reserve value-based compensation is calculated using the year end independent reserves evaluation which was completed in February 2020. A quarterly provision for the reserve value based compensation is calculated using estimated proved producing reserve additions adjusted for changes in debt, equity and dividends. Actual proved producing reserves additions and forecasted commodity prices could vary significantly from those estimated and may have a material effect on the calculation.

Income Taxes
The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability may differ significantly from that estimated and recorded.

Accounting Changes
Voluntary changes in accounting policy are made only if they result in financial statements which provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period or cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting

estimates are applied prospectively by including these changes in earnings. When the Company has not applied a new primary source of GAAP that has been issued, but is not effective, the Company will disclose the fact along with information relevant to assessing the possible impact that application of the new primary source of GAAP will have on the financial statements in the period of initial application.

ADDITIONAL INFORMATION

Additional information relating to Peyto Exploration & Development Corp. can be found on SEDAR at www.sedar.com and www.peyto.com.

Quarterly information

	2020			2019	
	Q3	Q2	Q1	Q4	Q3
Operations					
Production					
Natural gas (mcf/d)	401,680	401,825	401,572	397,419	396,343
Oil & NGLs (bbl/d)	11,263	11,126	11,585	11,221	10,650
Barrels of oil equivalent (boe/d @ 6:1)	78,210	78,097	78,514	77,457	76,707
Thousand cubic feet equivalent (mcfe/d @ 6:1)	469,259	468,583	471,083	464,745	460,243
Liquid to gas ratio (bbl per mmcf)	28.0	27.7	28.8	28.2	26.9
Average product prices					
Natural gas ($/mcf)	1.64	1.44	1.63	1.96	1.84
Oil & natural gas liquids ($/bbl)	31.08	21.07	36.73	43.85	39.65
$/mcfe					
Average sale price ($/mcfe)	2.15	1.73	2.30	2.76	2.50
Average royalties paid ($/mcfe)	0.14	0.06	0.12	0.12	0.03
Average operating expenses ($/mcfe)	0.32	0.36	0.39	0.34	0.31
Average transportation costs ($/mcfe)	0.16	0.17	0.19	0.19	0.19
Field netback ($/mcfe)	1.53	1.14	1.58	2.11	1.97
General & administrative expense ($/mcfe)	0.04	0.04	0.04	0.02	0.05
Interest expense ($/mcfe)	0.35	0.33	0.29	0.31	0.31
Cash netback ($/mcfe)	1.14	0.77	1.27	1.78	1.61
Financial ($000 except per share)					
Revenue and realized hedging gains (losses) [1]	92,853	73,883	97,723	116,691	105,944
Royalties	5,867	2,705	4,936	5,303	1,440
Funds from operations	49,173	33,012	54,513	75,974	68,106
Funds from operations per share	0.30	0.20	0.33	0.46	0.41
Total dividends	1,649	1,649	9,892	9,892	9,892
Total dividends per share	0.01	0.01	0.06	0.06	0.06
Payout ratio	3%	5%	18%	13%	15%
Earnings (loss)	(11,285)	(22,538)	(67,684)	3,492	6,275
Earnings (loss) per diluted share	(0.07)	(0.14)	(0.41)	0.02	0.04
Capital expenditures	61,568	37,299	68,587	73,351	36,574
Weighted average shares outstanding	164,892,979	164,874,175	164,874,175	164,874,175	164,874,175

[1] excludes revenue from sale of third party volumes

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
Wells Fargo Bank, N.A., Canadian Branch
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