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Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

Opinion

We have audited the financial statements of Peyto Exploration & Development Corp. (the "Company"), which comprise the balance sheets as at December 31, 2018 and 2017, and the statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

- Management's Discussion and Analysis ("MD&A")

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

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

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 6, 2019

Peyto Exploration & Development Corp.

Balance Sheet

(Amounts in $ thousands)

	December 31 2018	December 31 2017
Assets		
Current assets		
Cash	-	5,652
Accounts receivable (*Note 11)*	60,130	90,242
Derivative financial instruments *(Note 13)*	65,769	135,017
Prepaid expenses	9,332	12,578
	135,231	243,489
Long-term derivative financial instruments *(Note 13)*	12,993	16,233
Property, plant and equipment, net *(Note 4)*	3,540,628	3,584,992
	3,553,621	3,601,225
	3,688,852	3,844,714
Liabilities		
Current liabilities		
Bank overdraft	19,281	-
Accounts payable and accrued liabilities	114,711	132,776
Dividends payable *(Note 7)*	9,892	18,136
Provision for future performance-based compensation *(Note 10)*	-	9,166
Current portion of long-term debt *(Note 5)*	100,000	-
	243,884	160,078
Long-term debt *(Note 5)*	1,050,000	1,285,000
Decommissioning provision *(Note 6)*	153,855	143,805
Deferred income taxes *(Note 12)*	560,651	532,853
	1,764,506	1,961,658
Equity		
Shareholders' capital *(Note 7)*	1,649,537	1,649,537
Retained earnings (deficit)	(29,860)	(40,261)
Accumulated other comprehensive income *(Note 7)*	60,785	113,702
	1,680,462	1,722,978
	3,688,852	3,844,714

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Income Statement

(Amounts in $ thousands)

	Year ended December 31	
	2018	2017
Revenue		
Natural gas and natural gas liquid sales (*Note 11)*	502,146	703,013
Royalties	(26,622)	(34,104)
Natural gas and natural gas liquid sales, net of royalties	**475,524**	668,909
Risk management contracts		
Realized gain on risk management contracts *(Note 13)*	**156,760**	57,943
	632,284	726,852
Expenses		
Operating (*Note 8)*	62,085	60,423
Transportation	34,623	37,640
General and administrative	9,950	8,538
Market and reserves-based bonus *(Note 10)*	13,558	15,684
Provision for future performance-based compensation	(9,165)	(2,187)
Interest *(Note 9)*	51,886	46,530
Accretion of decommissioning provision *(Note 6)*	3,291	3,105
Depletion and depreciation *(Note 4)*	286,899	315,314
Net loss (gain) on disposition of assets *(Note 4)*	2,677	(79)
	455,804	484,968
Earnings before taxes	**176,480**	241,884
Income tax		
Deferred income tax expense *(Note 12)*	47,370	65,309
Earnings for the year	**129,110**	176,575
Earnings per share *(Note 7)*		
Basic and diluted	**$ 0.78**	$ 1.07
Weighted average number of common shares outstanding *(Note 7)*		
Basic and diluted	**164,874,175**	164,856,042

Peyto Exploration & Development Corp.

Statement of Comprehensive Income

(Amounts in $ thousands)

	Year ended December 31	
	2018	2017
Earnings for the year	**129,110**	176,575
Other comprehensive income		
Change in unrealized gain on cash flow hedges	84,272	359,938
Deferred tax (expense) recovery	19,571	(81,539)
Realized (gain) on cash flow hedges	(156,760)	(57,943)
Comprehensive Income	**76,193**	397,031

Peyto Exploration & Development Corp.
Statement of Changes in Equity
(Amounts in $ thousands)

	Year ended December 31	
	2018	2017
Shareholders' capital, Beginning of Year	**1,649,537**	1,641,982
Equity offering	-	7,574
Common shares issued by private placement *(Note 7)*	-	-
Common shares issuance costs (net of tax)	-	(19)
Shareholders' capital, End of Year	**1,649,537**	1,649,537

Common shares to be issued, Beginning of Year	**-**	4,930
Common shares issued *(Note 7)*	**-**	(4,930)
Common shares to be issued *(Note 7)*	-	-
Common shares to be issued, End of Year	**-**	-

Retained earnings (deficit), Beginning of Year	**(40,261)**	776
Earnings for the year	129,110	176,575
Dividends *(Note 7)*	(118,709)	(217,612)
Retained earnings (deficit), End of Year	(29,860)	(40,261)

Accumulated other comprehensive (loss) income, Beginning of Year	**113,702**	(106,754)
Other comprehensive income (loss)	(52,917)	220,456
Accumulated other comprehensive income, End of Year	**60,785**	113,702

Total Equity	**1,680,462**	1,722,978

Peyto Exploration & Development Corp.

Statement of Cash Flows

(Amounts in $ thousands)

	Year ended December 31	
	2018	2017
Cash provided by (used in)		
Operating activities		
Earnings	129,110	176,575
Items not requiring cash:		
Deferred income tax	47,370	65,309
Depletion and depreciation	286,899	315,314
Accretion of decommissioning provision	3,291	3,105
Net loss (gain) on disposition of assets	2,677	(79)
Long term portion of future performance-based compensation	-	(4,499)
Change in non-cash working capital related to operating activities	17,131	(20,381)
	486,478	535,344
Financing activities		
Issuance of common shares	-	7,574
Issuance costs	-	(26)
Cash dividends paid	(126,953)	(217,586)
Bank overdraft	19,281	-
Increase (decrease) in bank debt	(235,000)	215,000
Issuance of long-term notes	100,000	-
	(242,672)	4,962
Investing activities		
Additions to property, plant and equipment	(232,363)	(521,210)
Change in prepaid capital	(6,091)	(18,220)
Change in non-cash working capital relating to investing activities	(11,004)	2,674
	(249,458)	(536,756)
Net (decrease) increase in cash	(5,652)	3,550
Cash, beginning of year	5,652	2,102
Cash, end of year	**-**	5,652

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

Cash interest paid	**49,505**	49,020
Cash taxes paid	-	-

1. Nature of operations

Peyto Exploration & Development Corp. ("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 financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 5, 2019.

2. Basis of presentation

These financial statements ("financial statements") as at and for the years ended December 31, 2018 and December 31, 2017 represent the Company's results and financial position in accordance with International Financial Reporting Standards ("IFRS").

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

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

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. By their nature, these estimates of reserves, including the estimates of future prices and costs, and the related future cash flows are subject to measurement uncertainty, and the impact in the financial statements of future periods could be material.

The determination of cash generating units ("CGU") requires judgment in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. CGU are determined by, shared infrastructure, commodity type, similar exposure to market risks and materiality.

The amount of compensation expense accrued for future performance based compensation arrangements are subject to management's best estimate of whether or not the performance criteria will be met and what the ultimate payout amount to be paid out.

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty.

c) Standards issued but not yet effective

In January 2016, the IASB issued IFRS 16, which replaces IAS 17 Leases ("IAS 17") and related interpretations. IFRS 16 requires the recognition of a right-of-use ("ROU") asset and lease liability on the balance sheet for most leases, where the entity is acting as a lessee. For lessees applying IFRS 16, the dual classification model of leases as either operating leases or finance leases no longer exists, effectively treating all leases as finance leases. IFRS 16 allows lessors to continue with the dual classification model for recognized leases with the resultant accounting remaining unchanged from IAS 17.

The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also adopting IFRS 15. IFRS 16 is required to be adopted either retrospectively or using a modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect of IFRS 16 as an adjustment to opening retained earnings and applies the standard prospectively. IFRS 16 will be applied by Peyto on January 1, 2019, using the modified retrospective transition approach.

IFRS 16 is expected to increase the Company's total assets and liabilities and affect Peyto's opening retained earnings at January 1, 2019 as Peyto recognizes leases on its balance sheet that were not recognized prior to adoption. Future net income will be impacted as the finance charges and depreciation charges associated with lease contracts are not expected to correspond in any one period to the amount of related cash flows. Cash flows associated with lease repayments will be allocated between operating and financing activities based on their interest repayment and principal repayment portions.

The Company is expecting an estimated recognition of additional ROU assets and lease liabilities in the range of $8-$10 million, as of January 1, 2019. The difference between the asset and liability amounts will be related to any prepaids which will be recorded as an adjustment to the ROU assets and any lease incentives will be recorded as an adjustment to retained earnings.

The financial statement impact of IFRS 16 is subject to certain management judgments and estimates. Most notably, extension and termination provisions are included in certain lease contracts. In determining the lease term to be recognized, Management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option.

d) Presentation currency

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

e) Cash Equivalents

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

f) Jointly controlled operations and assets

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

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

g) Exploration and evaluation assets

Pre-license costs

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

Exploration and evaluation costs

Once the legal right to explore has been acquired, costs directly associated with an exploration well are capitalized as exploration and evaluation intangible assets until the drilling of the well is complete and the results have been evaluated.

All such costs are subject to technical feasibility, commercial viability and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. The Company has no exploration or evaluation assets.

h) Property, plant and equipment

Oil and gas properties and other property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

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

Oil and natural gas asset swaps

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

Depletion and depreciation

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

Other property, plant and equipment are depreciated using a declining balance method over useful life of 20 years.

i) Corporate assets

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

j) Impairment of non-financial assets

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

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

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

k) Leases

Leases or other arrangements entered into for the use of an asset are classified as either finance or operating leases. Finance leases transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased asset. Assets under finance leases are amortized over the shorter of the estimated useful life of the assets and the lease term. All other leases are classified as operating leases and the payments are amortized on a straight-line basis over the lease term.

l) Financial instruments

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

The Company has made the following classifications:

Financial Assets & Liabilities	Category
Cash	Fair value through profit or loss
Accounts Receivable	Amortized cost
Due from Private Placement	Amortized cost
Accounts Payable and Accrued Liabilities	Amortized cost
Provision for Future Performance Based Compensation	Amortized cost
Dividends Payable	Amortized cost
Long Term Debt	Amortized cost
Derivative Financial Instruments	Fair value through profit or loss

Impairment of Financial Assets

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

Derivative instruments and risk management

Derivative instruments are utilized by the Company to manage market risk against volatility in commodity prices. The Company’s policy is not to utilize derivative instruments for speculative purposes. The Company has chosen to designate its existing derivative instruments as cash flow hedges. The Company assesses, on an ongoing basis, whether the derivatives that are used as cash flow hedges are highly effective in offsetting changes in cash flows of hedged items. All derivative instruments are recorded on the balance sheet at their fair value. The effective portion of the gains and losses is recorded in other comprehensive income until the hedged transaction is recognized in earnings. When the earnings impact of the underlying hedged transaction is recognized in the income statement, the fair value of the associated cash flow hedge is reclassified from other comprehensive income into earnings. Any hedge ineffectiveness is immediately recognized in earnings. The fair values of forward contracts are based on forward market prices.

Embedded derivatives

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

Normal purchase or sale exemption
Contracts that were entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements fall within the exemption from IAS 32 *Financial Instruments: Presentation* ("IAS 32"), which is known as the 'normal purchase or sale exemption'. The Company recognizes such contracts in its balance sheet only when one of the parties meets its obligation under the contract to deliver either cash or a non-financial asset.

m) Hedging
The Company uses derivative financial instruments from time to time to hedge its exposure to commodity price fluctuations. All derivative financial instruments are initiated within the guidelines of the Company's hedging policy. This includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company enters into hedges of its exposure to commodity prices by entering into fixed price contracts, when it is deemed appropriate. These derivative contracts, accounted for as hedges, are recognized on the balance sheet. Realized gains and losses on these contracts are recognized in revenue and cash flows in the same period in which the revenues associated with the hedged transaction are recognized. For derivative financial contracts settling in future periods, a financial asset or liability is recognized in the balance sheet and measured at fair value, with changes in fair value recognized in other comprehensive income.

In addition to derivative financial instruments, as part of Peyto's commodity risk management program, Peyto also enters into physical delivery commodity contracts which are accounted for in the normal purchase or sale exemption on deliveries.

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

o) Provisions

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

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

p) Taxes

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

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

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

q) Revenue recognition

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

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

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

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

s) Share-based payments
Cash-settled share-based payments to employees are measured at the fair value of the liability award at the grant date. A liability equal to fair value of the payments is accrued over the vesting period measured at fair value using the Black-Scholes option pricing model.

The fair value determined at the grant date of the cash-settled share-based payments is expensed on a graded basis over the vesting period, based on the Company's estimate of liability instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of liability instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in the income statement such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the related liability on the balance sheet.

t) Earnings per share
Basic and diluted earnings per share is computed by dividing the net earnings available to common shareholders by the weighted average number of shares outstanding during the reporting period. The Company has no dilutive instruments outstanding which would cause a difference between the basic and diluted earnings per share.

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

3. Changes in Accounting Policies

IFRS 9 "Financial instruments"

On January 1, 2018, Peyto adopted IFRS 9 "Financial Instruments" as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model. There were no adjustments to the comparative financial statements.

The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets and financial liabilities. There is no difference in the measurement of these instruments under IFRS 9. The following table summarizes the change in classification categories for Peyto financial assets and liabilities.

Financial Assets & Liabilities	IAS 39	IFRS 9
Cash	Fair value through profit or loss	Fair value through profit or loss
Accounts Receivable	Loans & receivables	Amortized cost
Due from Private Placement	Loans & receivables	Amortized cost
Accounts Payable and Accrued Liabilities	Other liabilities	Amortized cost
Provision for Future Performance Based Compensation	Other liabilities	Amortized cost
Dividends Payable	Other liabilities	Amortized cost
Long Term Debt	Other liabilities	Amortized cost
Derivative Financial Instruments	Fair value through profit or loss	Fair value through profit or loss

IFRS 15 "Revenue from contracts with customers″

On January 1, 2018, Peyto adopted IFRS 15 "Revenue from Contracts with Customers". IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Peyto's revenue relates to the sale of natural gas and natural gas liquids to customers at specified delivery points at benchmark prices. Peyto adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients such as the right to invoice method of measuring the Company’s progress towards complete satisfaction of its performance obligations, no changes or adjustments to the comparative financial statements were required. Refer to Note 11 for more information including additional disclosures required under IFRS 15.

4. Property, plant and equipment, net

Cost	
At December 31, 2016	**4,901,523**
Additions	520,394
Decommissioning provision net additions	12,935
Prepaid capital	18,220
At December 31, 2017	**5,453,072**
Additions	225,450
Decommissioning provision net additions	6,759
Prepaid capital	6,091
At December 31, 2018	**5,691,372**

Accumulated depletion and depreciation	
At December 31, 2016	**(1,553,664)**
Depletion and depreciation	(314,416)
At December 31, 2017	**(1,868,080)**
Depletion and depreciation	(282,664)
At December 31, 2018	**(2,150,744)**

Carrying amount at December 31, 2017	3,584,992
Carrying amount at December 31, 2018	**3,540,628**

The Company closed various asset swap arrangements during the year ended December 31, 2018. For purposes of determining a loss on disposition, the estimated fair value was based on the fair value of the assets received. The Company recorded a loss of $0.8 million for the year ended December 31, 2018 (2017- $1.6 million gain). In addition, a loss relating to the 2018 land expiries in the amount of $1.9 million was recorded (2017- $1.5 million loss).

During, 2018 Peyto capitalized $6.4 million (2017 - $7.9 million) of general and administrative expense directly attributable to exploration and development activities.

As Peyto's net asset value was greater than its market capitalization at December 31, 2018 an impairment test was performed at the CGU level. The Company determined that oil and natural gas properties were not impaired at December 31, 2018 or 2017. The recoverable amount (fair value of the assets less cost of disposal) was determined using a discounted cash flow approach based on Proved Plus Probable Reserves at December 31, 2018, current commodity prices and a risk adjusted after tax discount rate of 9%.

The benchmark prices used in the Company's forecast at December 31, 2018 are outlined as follows:

	2019	2020	2021	2022	2023	2024	2025
AECO natural gas (Cdn$/MMBtu)	1.90	2.29	2.71	3.03	3.21	3.33	3.44

	2019	2020	2021	2022	2023	2024	2025
Henry Hub (US$/MMBtu)	3.00	3.15	3.35	3.50	3.62	3.70	3.78
Cdn$/US$ (1)	0.76	0.78	0.80	0.80	0.80	0.80	0.80

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

Prices subsequent to 2025 have been adjusted for estimated annual inflation of 2%.

All else being equal, a 1% increase in the assumed discount rate or a 10% decrease in future planned cash flows would not result in an impairment for the years ended December 31, 2018 and 2017.

5. Current & Long-term debt

	December 31, 2018	December 31, 2017
Bank credit facility	530,000	765,000
Current senior unsecured notes	100,000	-
Long-term senior unsecured notes	520,000	520,000
Balance, end of the year	**1,150,000**	1,285,000

The Company has a syndicated $1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2021. The bank facility is made up of a $40 million working capital sub-tranche and a $1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

On January 2, 2018, the Company closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of a private placement, pursuant to a note purchase agreement and a note purchase and private shelf agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 3.95% and mature on January 2, 2028. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay a portion of Peyto's outstanding bank debt.

Peyto is in compliance with all financial covenants at December 31, 2018.

Outstanding senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$100 million	January 3, 2012	4.39%	January 3, 2019
$120 million	December 4, 2013	4.50%	December 4, 2020
$50 million	July 3, 2014	3.79%	July 3, 2022
$50 million	September 6, 2012	4.88%	September 6, 2022
$100 million	October 24, 2016	3.70%	October 24, 2023
$100 million	May 1, 2015	4.26%	May 1, 2025
$100 million	January 2, 2018	3.95%	January 2, 2028

Peyto's total borrowing capacity is $1.92 billion and Peyto's credit facility is $1.3 billion.

The fair value of all senior notes as at December 31, 2018, is $612.0 million compared to a carrying value of $620.0 million.

Peyto is subject to the following financial covenants as defined in the credit facility and note purchase agreements:

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve month net income before non-cash items, interest and income taxes;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of the book value of shareholders' equity and long-term debt and subordinated debt.

Total interest expense for 2018 was $51.9 million (2017 - $46.5 million) and the average borrowing rate for 2018 was 4.3% (2017 – 3.9%).

6. Decommissioning provision

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

The decommissioning provision represents the present value of the decommissioning costs related to the above infrastructure, which are expected to be incurred over the economic life of the assets. The provisions have been based on the Company's internal estimates on the cost of decommissioning, the discount rate, the inflation rate and the economic life of the infrastructure. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon the future market prices for the necessary decommissioning work required which will reflect market conditions at the relevant time. Furthermore, the timing of the decommissioning is likely to depend on when production activities ceases to be economically viable. This in turn will depend and be directly related to the current and future commodity prices, which are inherently uncertain.

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2016	**127,764**
New or increased provisions	14,087
Accretion of discount	3,105
Change in discount rate and estimates	(1,151)
Balance, December 31, 2017	**143,805**
New or increased provisions	6,338
Accretion of discount	3,291
Change in discount rate and estimates	421
Balance, December 31, 2018	**153,855**
Current	-
Non-current	**153,855**

The Company has estimated the net present value of its total decommissioning provision to be $153.9 million as at December 31, 2018 (2017 – $143.8 million) based on a total future undiscounted liability of $301.8 million (2017 – $289.7 million). At December 31, 2018 management estimates that these payments are expected to be made over the next 50 years (2017 – 49 years) with the majority of payments being made in years 2023 to 2069. The Bank of Canada's long-term bond rate of 2.18 per cent (2017 – 2.26 per cent) and an inflation rate of 2.0 per cent (2017 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

7. Equity

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, 2016	**164,630,168**	**1,641,982**
Common shares issued by private placement	244,007	7,574
Common share issuance costs (net of tax)	-	(19)
Balance, December 31, 2017	**164,874,175**	**1,649,537**
Common shares issued by private placement	-	-
Common share issuance costs (net of tax)	-	-
Balance, December 31, 2018	**164,874,175**	**1,649,537**

Per share amounts
Earnings per share or unit have been calculated based upon the weighted average number of common shares outstanding for the year ended December 31, 2018 of 164,874,175 (2017 – 164,856,042). There are no dilutive instruments outstanding.

Dividends
During the year ended December 31, 2018, Peyto declared and paid dividends of $0.72 per common share or $0.06 per common share for the months of January to December 2018 totaling $118.7 million (2017 - $1.32 or $0.11 per common share for the months of January to December totaling $217.6 million).

On January 15, 2019, Peyto declared dividends of $0.02 per common share that were paid on February 15, 2019. On February 15, 2019, Peyto declared dividends of $0.02 per common share to be paid to shareholders of record on February 28, 2019. These dividends will be paid on March 15, 2019.

Accumulated other 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 13.

8. Operating expenses

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

	Years ended December 31	
	2018	**2017**
Gross field expenses	71,478	72,238
Cost recoveries related to processing and gathering of partner production	(9,393)	(11,815)
Total operating expenses	**62,085**	60,423

9. Finance costs

	Years ended December 31	
	2018	**2017**
Interest expense	**51,886**	46,530
Accretion of decommissioning provisions	**3,291**	3,105
Total finance costs	**55,177**	49,635

10. Future performance-based compensation

The Company awards performance based compensation to employees annually. The performance based compensation is comprised of reserve and market value based components.

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%.

Market based component
Under the market based component, rights with a three year vesting period are allocated to employees and key consultants. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

The total amount expensed under these plans was as follows:

	Years ended December 31	
	2018	**2017**
Market based compensation	13,558	13,867
Reserve based compensation	-	1,817
Total market and reserves based compensation	**13,558**	**15,684**

The fair values were calculated using a Black-Scholes valuation model. The principal inputs to the option valuation model were:

	December 31 2018	**December 31 2017**
Share price	-	$33.80
Exercise price (net of dividend)	-	$22.77
Expected volatility	-	0%
Option life	-	1 year
Forfeiture rate	-	3%
Risk-free interest rate	-	0%

The changes in total rights outstanding and related weighted average exercise prices for the years ended December 31, 2018 and 2017 were as follows:

	Rights (number of shares)	Weighted Average Grant Price ($)
Balance, December 31, 2016	**2,523,667**	**$24.09**
Granted	3,918,500	$33.64
Cancelled	(17,867)	$29.98
Paid out	(5,166,900)	$31.32
Balance, December 31, 2017	**1,257,400**	**$24.09**
Granted	3,942,400	$14.68
Cancelled	(46,000)	$20.41
Paid out	(5,153,800)	$16.96
Balance, December 31, 2018	**-**	**-**

Subsequent to December 31, 2018, 2.5 million rights were granted at a price of $7.23 to be valued at the ten-day weighted average market price at December 31, 2018 and vesting 1/3 on each of December 31, 2019, December 31, 2020 and December 31, 2021.

11. Revenue and receivables

	Years ended December 31	
	2018	2017
Natural Gas Sales	300,590	532,561
Natural Gas Liquid sales	201,556	170,452
Natural gas and natural gas liquid sales	**502,146**	703,013

	December 31, 2018	December 31, 2017
Accounts receivable from customers	52,759	67,294
Accounts receivable from realized risk management contracts	1,979	10,746
Accounts receivable from joint venture partners and other	5,392	12,202
Accounts Receivable	**60,130**	90,242

12. Income taxes

	2018	2017
Earnings before income taxes	**176,480**	241,884
Statutory income tax rate	27.00%	27.00%
Expected income taxes	47,650	65,309
Increase (decrease) in income taxes from:		
True-up tax pools	(3)	-
Rate change	-	-
Other	(277)	-
Total income tax expense	**47,370**	65,309
Deferred income tax expense	**47,370**	65,309
Current income tax expense	-	-
Total income tax expense	**47,370**	65,309
Differences between tax base and reported amounts for depreciable assets	(582,320)	(535,809)
Derivative financial instruments	(21,266)	(40,838)
Share issuance costs	1,205	2,388
Future performance based bonuses	-	2,475
Provision for decommission provision	41,541	38,827
Cumulative eligible capital	-	-
Charitable donations	9	-
Tax loss carry-forwards recognized	180	104
Deferred income taxes	**(560,651)**	(532,853)

At December 31, 2018, the Company has tax pools of approximately $1,323.0 million (2017 - $1,550.4 million) available for deduction against future income.

13. Financial instruments

Financial instrument classification and measurement
Financial instruments of the Company carried on the balance sheet are carried at amortized cost with the exception of cash derivative financial 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 December 31, 2018.

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

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant 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, derivative financial instruments, due from private placement, current liabilities, provision for future performance based compensation and long term debt. At December 31, 2018 and 2017, cash and derivative financial instruments, are carried at fair value. Accounts receivable, due from private placement, current liabilities and provision for future performance based compensation approximate their fair value due to their short term nature. The carrying value of the long-term debt excluding senior notes (Note 5) approximates its fair value due to the floating rate of interest charged under the credit facility.

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

Commodity price risk management

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

Following is a summary of all risk management contracts in place as at December 31, 2018:

Natural Gas Period Hedged- Monthly Index	**Type**	**Daily Volume**	**Price (AECO CAD)**
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	$2.00/GJ to $2.04/GJ
April 1, 2018 to March 31, 2019	Fixed Price	185,000 GJ	$1.54/GJ to $2.63/GJ
April 1, 2018 to March 31, 2020	Fixed Price	10,000 GJ	$1.43/GJ to $1.44/GJ
November 1, 2018 to March 31, 2019	Fixed Price	90,000 GJ	$1.75/GJ to $1.95/GJ
November 1, 2018 to March 31, 2020	Fixed Price	5,000 GJ	$1.57/GJ
April 1, 2019 to October 31, 2019	Fixed Price	50,000 GJ	$1.29/GJ to $1.45/GJ
April 1, 2019 to March 31, 2020	Fixed Price	80,000 GJ	$1.45/GJ to $2.50/GJ
November 1, 2019 to March 31, 2020	Fixed Price	55,000 GJ	$1.92/GJ to $2.05/GJ
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.30/GJ
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	$1.64/GJ to $1.65/GJ
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	$1.48/GJ to $1.64/GJ

Natural Gas Period Hedged – Daily Index	**Type**	**Daily Volume**	**Price (AECO CAD)**
April 1, 2018 to March 31, 2019	Fixed Price	40,000 GJ	$1.40/GJ to $1.67/GJ

Crude Oil Period Hedged	**Type**	**Daily Volume**	**Price (WTI CAD)**
July 1, 2018 to June 30, 2019	Fixed Price	400 bbl	$85.34/bbl to $88.05/bbl
August 1, 2018 to July 31, 2019	Fixed Price	600 bbl	$81.90/bbl to $89.25/bbl
September 1, 2018 to August 31, 2019	Fixed Price	400 bbl	$85.00/bbl to $87.66/bbl
October 1, 2018 to September 30, 2019	Fixed Price	500 bbl	$85.00/bbl to $87.05/bbl
November 1, 2018 to October 31, 2019	Fixed Price	500 bbl	$87.25/bbl to $92.00/bbl
December 1, 2018 to November 30, 2019	Fixed Price	300 bbl	$88.00/bbl to $94.15/bbl

As at December 31, 2018, Peyto had committed to the future sale of 121,560,000 gigajoules (GJ) of natural gas at an average price of $1.80 per GJ or $2.07 per mcf, and 688,500 bbl of crude at an average price of $87.23 per bbl. Had these contracts been closed on December 31, 2018, Peyto would have realized a net gain in the amount of $78.8 million. If the AECO gas price on December 31, 2018 were to decrease by $0.10/GJ, the financial derivative asset would decrease by approximately $12.2 million. An opposite change in commodity prices rates would result in an opposite impact.

Subsequent to December 31, 2018, Peyto entered into the following contracts:

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (AECO CAD)
April 1, 2019 to October 31, 2019	Fixed Price	30,000 GJ	$1.20/GJ to $1.33/GJ
November 1, 2019 to March 31, 2020	Fixed Price	10,000 GJ	$1.845/GJ to $1.99/GJ

Natural Gas Period Hedged – Monthly Index	Type	Daily Volume	Price (AECO CAD)
November 1, 2019 to March 31, 2020	Fixed Price	5,000 GJ	$2.07/GJ

Physical volume contracts

The Company is a party to certain physical delivery contracts. The Company enters into these 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. A summary of contracts outstanding at December 31, 2018 are as follows:

Natural Gas Period Hedged – Fixed Price	Daily Volume	Average Price (USD/mmbtu)
January 1, 2019 – March 31, 2019	20,000 mmbtu	$4.00/mmbtu
April 1, 2019 to October 31, 2019	105,000 mmbtu	$1.34/mmbtu

Natural Gas Period Hedged – Floating Price	Daily Volume	Price (USD/mmbtu)
January 1, 2019 – March 31, 2019	5,000 mmbtu	Emerson
January 1, 2019 – March 31, 2019	15,000 mmbtu	Dawn
April 1, 2019 to October 31, 2019	55,000 mmbtu	Henry Hub/AECO - $1.43
April 1, 2019 to October 31, 2019	15,000 mmbtu	Emerson
April 1, 2019 to October 31, 2019	25,000 mmbtu	Dawn
November 1, 2019 to March 31, 2020	95,000 mmbtu	Henry Hub/AECO - $1.23
November 1, 2019 to March 31, 2020	40,000 mmbtu	Emerson
April 1, 2020 to October 31, 2020	160,000 mmbtu	Henry Hub/AECO - $1.43
April 1, 2020 to October 31, 2020	40,000 mmbtu	Emerson
November 1, 2020 to March 31, 2021	95,000 mmbtu	Henry Hub/AECO - $1.23
November 1, 2020 to March 31, 2021	40,000 mmbtu	Emerson
April 1, 2021 to October 31, 2021	160,000 mmbtu	Henry Hub/AECO - $1.43
April 1, 2021 to October 31, 2021	40,000 mmbtu	Emerson
November 1, 2021 to October 31, 2024	27,500 mmbtu	Henry Hub/Empress - $0.90
April 1, 2022 to October 31, 2022	50,000 mmbtu	Henry Hub/AECO - $1.41

Subsequent to December 31, 2018 Peyto fixed the price on the following contracts which were floating at December 31, 2018:

Natural Gas Period Hedged – Fixed Price	Daily Volume	Average Price (USD/mmbtu)
April 1, 2019 to October 31, 2019	65,000 mmbtu	$1.37/mmbtu
November 1, 2019 to March 31, 2020	45,000 mmbtu	$1.80/mmbtu

Subsequent to December 31, 2018 Peyto entered into the following contracts:

Natural Gas Period Hedged – Floating Price	Daily Volume	Price (USD/mmbtu)
April 1, 2019 to October 31, 2019	10,000 mmbtu	Ventura
November 1, 2019 to March 31, 2020	72,500 mmbtu	Henry Hub/AECO - $1.43
November 1, 2019 to October 31, 2027	20,000 mmbtu	Ventura
April 1, 2020 to October 31, 2020	87,500 mmbtu	Henry Hub/AECO - $1.43
November 1, 2020 to March 31, 2021	87,500 mmbtu	Henry Hub/AECO - $1.43
April 1, 2021 to October 31, 2021	87,500 mmbtu	Henry Hub/AECO - $1.43
November 1, 2021 to March 31, 2022	87,500 mmbtu	Henry Hub/AECO - $1.43
April 1, 2022 to October 31, 2022	72,500 mmbtu	Henry Hub/AECO - $1.42

Interest rate risk

The Company is exposed to interest rate risk in relation to interest expense on its revolving credit facility. Currently, the Company has not entered into any agreements to manage this risk. If interest rates applicable to floating rate debt were to have increased by 100 bps (1%) it is estimated that the Company's earnings before income tax for the year ended December 31, 2018 would decrease by $6.0 million. An opposite change in interest rates would result in an opposite impact on earnings before income tax.

Credit risk

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production. The Company generally extends unsecured credit to purchasers, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which they extend credit. Credit limits exceeding $2,000,000 per month are not granted to non-investment grade counterparties unless the Company receives either i) a parental guarantee from an investment grade parent; or ii) an irrevocable letter of credit for two months revenue. The Company has not previously experienced any material credit losses on the collection of accounts receivable. Of the Company's revenue for the year ended December 31, 2018, approximately 24% was received from two companies (11% and 13%) (December 31, 2017 – 41% was received from three companies (15%, 14% and 12%). Of the Company's accounts receivable at December 31, 2018, approximately 41% was receivable from three companies (10%, 10% and 20%) (December 31, 2017 approximately 25% was receivable from two companies (11% and 14%). The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due and no accounts have been written off.

The Company's accounts receivable was aged as follows at December 31, 2018:

	December 31, 2018	December 31, 2017
Current (less than 30 days)	54,119	87,957
31-60 days	1,009	1,859
61-90 days	104	78
Past due (more than 90 days) [1]	4,898	348
Balance, December 31, 2018	**60,130**	90,242

[1] substantially all collected

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

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

The Company assesses quarterly if there should be any impairment of financial assets. At December 31, 2018, there was no impairment of any of the financial assets of the Company.

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

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

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

The following are the contractual maturities of financial liabilities as at December 31, 2018:

	< 1 Year	1-2 Years	3-5 Years	Thereafter
Bank overdraft	19,281	-	-	-
Accounts payable and accrued liabilities	114,711	-	-	-
Dividends payable	9,892	-	-	-
Provision for future market and reserves based bonus	-	-	-	-
Long-term debt(1)		-	530,000	-
Unsecured senior notes	100,000	120,000	200,000	200,000

(1) Revolving credit facility renewed annually (*see Note 5*)

Capital disclosures

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company considers its capital structure to include equity, debt and working capital. To maintain or adjust the capital structure, the Company may from time to time, issue common shares, raise debt, adjust its capital spending or change dividends paid to manage its current and projected debt levels. The Company monitors capital based on the following measures: current and projected debt to earnings before interest, taxes, depreciation, depletion and amortization ("EBITDA") ratios, payout ratios and net debt levels. To facilitate the management of these ratios, the Company prepares annual budgets, which are updated depending on varying factors such as general market conditions and successful capital deployment. Currently, all ratios are within acceptable parameters. The annual budget is approved by the Board of Directors.

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

	December 31 2018	December 31 2017
Equity	1,680,462	1,722,978
Current portion of long-term debt	100,000	-
Long-term debt	1,050,000	1,285,000
Working capital deficit (surplus)	8,653	(83,411)
	2,839,115	2,924,567

14. Related party transactions

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

Expense		Accounts Payable	
Year ended December 31		As at December 31	
2018	2017	**2018**	**2017**
716.4	671.7	**650.5**	**549.2**

The Company has determined that the key management personnel consists of key employees, officers and directors. In addition to the salaries and directors' fees paid to these individuals, the Company also provides compensation in the form of market and reserve based bonus to some of these individuals. Compensation expense of $2.0 million is included in general and administrative expenses and $6.5 million in market based bonus relating to key management personnel for the year 2018 (2017 - $2.0 million in general and administrative and $7.2 million in market and reserves-based bonus).

15. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at December 31, 2018:

	2019	2020	2021	2022	2023	Thereafter
Interest payments (1)	23,840	21,645	16,245	16,245	11,910	24,165
Transportation commitments	52,132	42,670	31,779	28,909	27,950	249,471
Operating leases	2,240	2,240	2,240	2,315	2,315	6,946
Methanol	3,727	-	-	-	-	-
Total	81,939	66,555	50,264	47,469	42,175	280,582

(1) Fixed interest payments on senior unsecured notes

16. Subsequent events

On January 3, 2019, the Company closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of a private placement, pursuant to a note purchase agreement and rank equally with Peyto's obligations under its bank facility and existing note purchase agreements. The notes have a coupon rate of 4.39% and mature on January 3, 2026. Interest will be paid semi-annually in arrears. Proceeds from the notes were used to repay the senior notes of Peyto which matured on January 3, 2019.

On March 1, 2019, the Company extended the revolving credit facility by one year with a new stated term date of October 13, 2022. The definition of debt and the Senior Debt to EBITDA (twelve-month net income before non-cash items, interest and income taxes) covenant ratio were changed to be in accordance with industry standards. The changes are outlined below:

- Definition of debt has changed to long-term debt including current portion of senior unsecured notes and letters of credit,
- Long-term debt at the end of each fiscal quarter not to exceed 3.25 times trailing twelve-month net income before non-cash items, interest and income taxes.

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
Stephen Chetner
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Kathy Turgeon

Auditors
Deloitte LLP

Solicitors
Burnet, Duckworth & Palmer LLP

Bankers
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Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
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