Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	September 30 2019	**December 31 2018**
Assets		
Current assets		
Cash	592	-
Accounts receivable (*Note 9)*	50,299	60,130
Derivative financial instruments *(Note 12)*	-	65,769
Prepaid expenses	11,843	9,332
	62,734	135,231
Long-term derivative financial instruments *(Note 12)*	-	12,993
Property, plant and equipment, net *(Note 4)*	3,524,878	3,540,628
	3,524,878	3,553,621
	3,587,612	3,688,852
Liabilities		
Current liabilities		
Bank overdraft	-	19,281
Accounts payable and accrued liabilities	63,306	114,711
Dividends payable *(Note 8)*	3,297	9,892
Current portion of lease obligation *(Note 7)*	1,059	-
Derivative financial instruments *(Note 12)*	4,667	-
Current portion of long-term debt *(Note 5)*	-	100,000
	72,329	243,884
Long-term debt *(Note 5)*	1,130,000	1,050,000
Long-term derivative financial instruments (Note 12)	338	-
Decommissioning provision (Note 6)	191,392	153,855
Lease obligation *(Note 7)*	7,940	-
Deferred income taxes	464,455	560,651
	1,794,125	1,764,506
Equity		
Share capital *(Note 8)*	1,649,369	1,649,537
Contributed surplus (*Note 11)*	2,814	-
Retained earnings (deficit)	69,522	(29,860)
Accumulated other comprehensive income *(Note 8)*	(547)	60,785
	1,721,158	1,680,462
	3,587,612	3,688,852

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Revenue				
Natural gas and natural gas liquid sales (*Note 9)*	90,162	112,458	336,945	373,820
Royalties	(1,440)	(6,399)	(8,350)	(20,822)
Natural gas and natural gas liquid sales, net of royalties	88,722	106,059	328,595	352,998
Risk management contracts				
Realized gain on risk management contracts *(Note 12)*	15,782	41,131	36,185	139,977
	104,504	147,190	**364,780**	492,975
Expenses				
Operating	13,383	14,503	45,307	45,896
Transportation	7,815	9,036	25,109	25,712
General and administrative	1,818	1,296	6,889	8,093
Market and reserves-based bonus *(Note 10)*	-	-	2,291	-
Future performance-based compensation *(Note 10)*	-	1,198	-	3,464
Stock based compensation *(Note 11)*	1,304	-	2,814	-
Interest *(Note 5)*	13,382	12,806	40,318	39,168
Accretion of decommissioning provision (*Note 6)*	599	880	1,988	2,481
Depletion and depreciation *(Note 4)*	58,053	67,052	183,766	220,692
	96,354	106,771	**308,482**	345,506
Earnings before taxes	**8,150**	40,419	**56,298**	147,469
Income tax				
Deferred income tax expense (recovery)	1,875	10,913	(73,705)	39,817
Earnings for the period	**6,275**	29,506	**130,003**	107,652
Earnings per share (Note 8)				
Basic and diluted	**$0.04**	$0.18	**$0.79**	$0.65

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Earnings for the period	**6,275**	29,506	**130,003**	107,652
Other comprehensive income				
Change in unrealized (loss) gain on cash flow hedges	(12,262)	8,508	(47,581)	10,472
Deferred tax recovery	7,572	8,808	22,434	34,966
Realized (gain) on cash flow hedges	(15,782)	(41,131)	(36,185)	(139,977)
Comprehensive (loss) income	**(14,197)**	5,691	**68,671**	13,113

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Nine months ended September 30	
	2019	**2018**
Share capital, beginning of period	**1,649,537**	1,649,537
Stock option issuance costs (net of tax)	(168)	-
Share capital, end of period	**1,649,369**	1,649,537
Contributed surplus, beginning of period	-	-
Stock based compensation expense	2,814	-
Contributed surplus, end of period	**2,814**	-
Retained earnings (deficit), beginning of period	**(30,804)**	(40,261)
Earnings for the period	130,003	107,652
Dividends *(Note 8)*	(29,677)	(89,032)
Retained earnings (deficit), end of period	**69,522**	(21,641)
Accumulated other comprehensive income, beginning of period	**60,785**	113,702
Other comprehensive loss	(61,332)	(94,539)
Accumulated other comprehensive (loss) income, end of period	**(547)**	19,163
Total equity	**1,721,158**	1,647,059

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Cash provided by (used in) operating activities				
Earnings	6,275	29,506	130,003	107,652
Items not requiring cash:				
Deferred income tax (recovery)	1,875	10,913	(73,705)	39,817
Depletion and depreciation	58,053	67,052	183,766	220,692
Accretion of decommissioning provision	599	880	1,988	2,481
Stock based compensation	1,304	-	2,814	-
Long term portion of future performance based compensation	-	10	-	102
Change in non-cash working capital related to operating activities	(3,193)	14,658	(2,873)	13,176
	64,913	123,019	**241,993**	383,920
Financing activities				
Bank overdraft	-	-	(19,281)	-
Stock option issuance costs	-	-	(225)	-
Cash dividends paid	(9,892)	(29,677)	(36,273)	(97,276)
Lease interest *(Note 7)*	80	-	244	-
Principal repayment of lease *(Note 7)*	(338)	-	(1,015)	-
Issuance of senior notes	-	-	100,000	100,000
Repayment of senior notes	-	-	(100,000)	-
Decrease in bank debt	(20,000)	(50,000)	(20,000)	(225,000)
	(30,150)	(79,677)	**(76,550)**	(222,276)
Investing activities				
Additions to property, plant and equipment	(36,574)	(69,716)	(133,080)	(120,148)
Change in prepaid capital	1,313	466	8,684	(5,157)
Change in non-cash working capital relating to investing activities	428	25,776	(40,455)	(40,993)
	(34,833)	(43,474)	**(164,851)**	(166,298)
Net decrease in cash	**(70)**	(132)	**592**	(4,654)
Cash, beginning of period	**662**	1,130	**-**	5,652
Cash, end of period	**592**	998	**592**	998
The following amounts are included in cash flows from operating activities:				
Cash interest paid	**14,101**	10,143	**40,160**	35,855
Cash taxes paid	**-**	-	**-**	-

See accompanying notes to the financial statements

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 Audit Committee of Peyto on November 5, 2019.

2. Basis of presentation

The condensed 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 financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2018 and 2017.

Significant Accounting Policies

(a) Significant Accounting Judgments, Estimates and Assumptions

The timely preparation of the condensed 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 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 financial statements.

Except for the impact of adoption of new accounting standards as discussed in note 3 below, all accounting policies and methods of computation followed in the preparation of these financial statements are the same as those disclosed in Note 2 of Peyto's financial statements as at and for the years ended December 31, 2018 and 2017.

3. Changes in Accounting Policies

IFRS 16 "Leases"

On January 1, 2019, Peyto adopted IFRS 16 "Leases" as issued by IASB. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset ("ROU Asset") and lease obligation to be recognized on the balance sheet for contracts that are, or contain, a lease. The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company's balance sheet, income statement, statement of comprehensive income, statements of changes in equity and statement of cash flows have not been restated. The following table detailed the impact of the adoption of IFRS 16 on the Company's balance sheet, as at January 1, 2019.

	Impact on Balance Sheet Item	000's
ROU Asset	Increase	8,070
Current portion of lease obligation	Increase	(1,032)
Long -term portion of lease obligation	Increase	(8,738)
Other liabilities	Decrease	757
Retained earnings	Increase	943

The adoption of IFRS 16 included the following elections:

- Peyto elected to retain the classification of contracts previously identified as leases under IAS 17 and IFRIC 4;
- Peyto has elected to apply the practical expedient and not to apply the recognition requirements of IFRS 16, Leases, to short-term leases in arrangements where it is the lessee;
- Peyto has elected to account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of a low dollar value;
- Initial measurements of the ROU assets have excluded initial direct costs where applicable;
- Peyto elected to use hindsight in determining lease term;
- At January 1, 2019, Peyto recognized its ROU asset for the lease of its head office space having measured it as if IFRS 16 had been applied since inception, using the incremental borrowing rate at January 1, 2019. This resulted in the recognition of a ROU asset that is not equal to its corresponding lease obligation on transition.

As a result of this adoption, Peyto has revised the description of its accounting policy for leases as follows:

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease obligation, Depreciation is recognized on the right-of-use asset over the lease term. The ROU asset may be adjusted for certain remeasurements of the lease liability and impairment losses. The preparation of the financial statements in accordance with IFRS requires management to make judgments, estimates, and assumptions that affect the reported amount of assets, liabilities, income, and expenses. Actual results could differ significantly from these estimates. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

• Incremental borrowing rate: The Incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest and depletion and depreciation expense, may differ due to changes in the market conditions and lease term.

• Lease term: Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

Refer to Note 7 for additional disclosures required under IFRS 16.

IFRS 2 "Share based payments”

Peyto's share-based compensation plan is equity-settled awards. Compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the period that the awards vest, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus is recognized in shareholders' capital.

4. Property, plant and equipment, net

Cost	
At December 31, 2018	**5,691,372**
Additions	133,080
ROU asset	8,070
Decommissioning provision additions	35,549
Prepaid capital	(8,685)
At September 30, 2019	**5,859,388**
Accumulated depletion and depreciation	
At December 31, 2018	**(2,150,744)**
Depletion and depreciation	(183,766)
At September 30, 2019	**(2,334,510)**
Carrying amount at December 31, 2018	3,540,628
Carrying amount at September 30, 2019	**3,524,878**

During the three- and nine-month periods ended September 30, 2019, Peyto capitalized $0.4 million and $2.5 million (2018 - $1.0 million and $1.9 million) of general and administrative expense directly attributable to exploration and development activities.

5. Long-term debt

	September 30, 2019	December 31, 2018
Bank credit facility	510,000	530,000
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	620,000	520,000
Balance, end of the period	**1,130,000**	1,150,000

The Company has a syndicated $1.3 billion extendible unsecured 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 $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 25 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 125 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 25 to 63 basis points.

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

- Long-term debt plus bank overdraft and letters of credit not to exceed 3.25 times trailing twelve-month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus bank overdraft and letters of credit 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 bank overdraft and letters of credit not to exceed 55% of shareholders' equity and long-term debt and subordinated debt plus bank overdraft and letters of credit.

Peyto is in compliance with all financial covenants at September 30, 2019.

Outstanding senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$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
$100 million	January 3, 2019	4.39%	January 3, 2026

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.

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 October 25, 2019, the Company voluntarily repaid the $120 million senior unsecured notes due December 4, 2020. The funds were repaid from the unsecured revolving credit facility.

Total interest expense for the three- and nine-month periods ended September 30, 2019 was $13.4 million and $40.3 million (2018 - $12.8 million and $39.2 million) and the average borrowing rate for the period was 4.6% and 4.6% (2018– 4.3% and 4.2%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2018	**153,855**
New or increased provisions	3,390
Accretion of decommissioning provision	1,988
Change in discount rate and estimates	32,159
Balance, September 30, 2019	**191,392**
Current	-
Non-current	191,392

Peyto has estimated the net present value of its total decommissioning provision to be $191.4 million as at September 30, 2019 ($153.9 million at December 31, 2018) based on a total future undiscounted liability of $307.6 million ($301.8 million at December 31, 2018). At September 30, 2019 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2023 to 2069. The Bank of Canada’s long-term bond rate of 1.53 per cent (2.18 per cent at December 31, 2018) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2018) were used to calculate the present value of the decommissioning provision.

7. 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 January 1, 2019	**8,070**
Depreciation	(757)
Balance at September 30, 2019	**7,313**

The ROU asset is included in Property plant & equipment, refer to Note 4.

Lease Obligation

Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements [(1)]	11,204
Discounted using the incremental borrowing rate at January 1, 2019	(1,434)
Present value of lease payments at January 1, 2019	**9,770**

Current portion of lease obligation at January 1, 2019	**1,032**
Non-current portion of lease obligation at January 1, 2019	**8,738**

(1) This amount represents the fixed portion of the office lease. The commitment for the variable lease payment at December 31, 2018 is $7.1 million. The incremental borrowing rate used to determine the lease obligation is 3.5%.

Lease obligation at January 1, 2019	**9,770**
Lease interest expense	244
Principal repayment of lease	(1,015)
Lease obligation at September 30, 2019	**8,999**

Current portion of lease obligation at September 30, 2019	**1,059**
Non-current portion of lease obligation at September 30, 2019	**7,940**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million and $0.6 million for the three and nine months ended September 30, 2019. The variable lease payments are recognized through general and administration expense.

During the period ended September 30, 2019, $9.8 million was capitalized in relation to short-term leases.

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

	As at September 30, 2019
Less than 1 year	338
1-3 years	4,137
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	2,857
Total lease payment	10,189
Amount representing interest	(1,190)
Present value of lease payments	8,999
Current portion of lease obligation	1,059
Non-current portion of lease obligation	7,940

8. 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, 2018	**164,874,175**	**1,649,537**
Common shares issued by private placement	-	-
Stock option issuance costs (net of tax)	-	(168)
Balance, September 30, 2019	**164,874,175**	**1,649,369**

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

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Weighted average common shares basic and diluted	**164,874,175**	164,874,175	**164,874,175**	164,874,175

Dividends
During the three- and nine-month periods ended September 30, 2019, Peyto declared and paid dividends of $0.06 and $0.18 per common share, totaling $9.9 million and $29.7 million respectively (2018 - $0.18 and $0.54, totaling $29.7 million and $89.0 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 12.

9. Revenue and receivables

	Three Months ended September 30		Nine Months ended September 30	
	2019	2018	**2019**	2018
Natural Gas Sales	53,528	60,740	208,296	214,633
Natural Gas Liquid sales	36,634	51,718	128,649	159,187
Natural gas and natural gas liquid sales	**90,162**	112,458	**336,945**	373,820

	September 30, 2019	December 31, 2018
Accounts receivable from customers	36,115	52,759
Accounts receivable from realized risk management contracts	4,146	1,979
Accounts receivable from joint venture partners and other	10,038	5,392
	50,299	60,130

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.

10. 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 nine months ended September 30, 2019, $2.3 million was expensed.

Future market-based component

All liabilities related to future market-based compensation have been settled in cash in January of 2019.

11. Stock based compensation

In 2019, the Company adopted a stock option plan allowing for the granting of stock options to officers, employees and consultants of the Company. In addition, the shareholders of the Company approved the issuance of commons shares to fulfill the Company’s obligation under previously granted rights pursuant to its market-based bonus plan, as a transition between the market-based bonus and the newly adopted stock option plan. The stock option plan will replace the market-based bonus plan on a go forward basis. These plans limit the number of common shares that may be granted to 10% of the outstanding common shares at the date of the Board's adoption of these plans, being 16,487,418 common shares.

The following tables summarize the rights outstanding under the market-based bonus plan at September 30, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Rights under market-based bonus plan granted	2,475,000	7.23
Forfeited	(147,200)	(7.23)
Balance, September 30, 2019	**2,327,800**	**7.23**

The Company estimates the fair value of rights under the market-based bonus plan using the Black-Scholes pricing model. During the nine months ended September 30, 2019 the fair value per right was $2.10. The following tables summarizes the assumptions used in the Black-Scholes model:

	September 30, 2019
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, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Stock options granted	5,067,501	4.42
Forfeited	(164,200)	5.10
Balance, September 30, 2019	**4,903,301**	**4.40**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the nine months ended September 30, 2019 the weighted-average fair value per option was $1.32. The following tables summarize the assumptions used in the Black-Scholes model:

	September 30, 2019
Share price	$4.42
Exercise price	$4.66
Expected volatility	44.47%
Average option life	2 year
Risk-free interest rate	1.42%
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	2,327,800	7.23	2.25
Stock options	4,903,301	4.40	1.32

At September 30, 2019, no stock options are exercisable

12. Financial instruments

Financial instrument classification and measurement

Financial instruments of the Company carried on the condensed balance sheet are carried at amortized cost with the exception of cash and financial derivative instruments, specifically fixed price contracts, which are carried at fair value. There are no significant differences between the carrying amount of financial instruments and their estimated fair values as at September 30, 2019.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2018.

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 value drivers are observable in active markets.

- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or 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, due from private placement, current liabilities, provision for future performance-based compensation and long-term debt. At September 30, 2019 cash and financial derivative instruments are carried at fair value. Accounts receivable, 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 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 of 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, 2019:

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, 2020	Fixed Price	10,000 GJ	$1.43/GJ to $1.44/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	60,000 GJ	$1.92/GJ to $2.07/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, 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

Crude Oil **Period Hedged**	**Type**	**Daily Volume**	**Price** **(WTI CAD)**
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
August 1, 2019 to December 31, 2019	Fixed Price	300 bbl	$60.00/bbl to $60.25/bbl

As at September 30, 2019, Peyto had committed to the future sale of 53,100,000 gigajoules (GJ) of natural gas at an average price of $1.75 per GJ or $2.02 per mcf and 64,400 barrels of crude at $85.52 per bbl. Had these contracts been closed on September 30, 2019, Peyto would have realized a loss in the amount of $5.0 million. If the AECO gas price on September 30, 2019 were to increase by $0.10/GJ, the unrealized loss would increase by approximately $5.3 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

13. 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	
2019	2018	**2019**	2018	**2019**	2018
2.7	155.6	**226.7**	432.8	**150.6**	387.9

14. 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, 2019:

	2019	2020	2021	2022	2023	Thereafter
Interest payments [1]	6,680	26,035	20,635	20,635	16,300	32,945
Transportation commitments	7,861	31,970	42,590	69,699	52,535	443,797
Operating leases	537	2,147	2,147	2,222	2,222	6,665
Methanol	2,130	-	-	-	-	-
Total	17,208	60,152	65,372	92,556	71,057	483,407

(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
Canadian Western Bank
ATB Financial

Transfer Agent

Computershare

Head Office

300, 600 – 3 Avenue SW
Calgary, AB
T2P 0G5
Phone: 403.261.6081
Fax: 403.451.4100
Web: www.peyto.com
Stock Listing Symbol: PEY.TO
Toronto Stock Exchange