Peyto Exploration & Development Corp.

Balance Sheet

(Amounts in $ thousands)

	December 31 2017	December 31 2016
Assets		
Current assets		
Cash	5,652	2,102
Accounts receivable	90,242	94,813
Due from private placement *(Note 6)*	-	4,930
Derivative financial instruments *(Note 11)*	135,017	-
Prepaid expenses	12,578	13,385
	243,489	115,230
Long-term derivative financial instruments *(Note 11)*	16,233	-
Property, plant and equipment, net *(Note 3)*	3,584,992	3,347,859
	3,601,225	3,347,859
	3,844,714	3,463,089
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	132,776	158,173
Dividends payable *(Note 6)*	18,136	18,109
Provision for future performance based compensation *(Note 9)*	9,166	6,854
Derivative financial instruments *(Note 11)*	-	119,280
	160,078	302,416
Long-term debt *(Note 4)*	1,285,000	1,070,000
Long-term derivative financial instruments *(Note 11)*	-	31,465
Provision for future performance based compensation *(Note 9)*	-	4,499
Decommissioning provision *(Note 5)*	143,805	127,763
Deferred income taxes *(Note 10)*	532,853	386,012
	1,961,658	1,619,739
Equity		
Shareholders' capital *(Note 6)*	1,649,537	1,641,982
Shares to be issued *(Note 6)*	-	4,930
Retained earnings (deficit)	(40,261)	776
Accumulated other comprehensive income (loss) *(Note 6)*	113,702	(106,754)
	1,722,978	1,540,934
	3,844,714	3,463,089

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	
	2017	2016
Revenue		
Oil and gas sales	703,013	559,915
Realized gain on hedges *(Note 11)*	57,943	118,473
Royalties	(34,104)	(28,330)
Petroleum and natural gas sales, net	**726,852**	650,058
Expenses		
Operating (*Note 7)*	60,423	53,231
Transportation	37,640	34,550
General and administrative	8,538	8,304
Market and reserves based bonus *(Note 9)*	15,684	25,770
Provision for future performance based compensation	(2,187)	9,354
Interest *(Note 8)*	46,530	39,380
Accretion of decommissioning provision *(Note 5)*	3,105	2,456
Depletion and depreciation *(Note 3)*	315,314	330,745
Net gain on disposition of assets *(Note 3)*	(79)	(7,885)
	484,968	495,905
Earnings before taxes	**241,884**	154,153
Income tax		
Deferred income tax expense *(Note 10)*	65,309	41,805
Earnings for the year	**176,575**	112,348
Earnings per share *(Note 6)*		
Basic and diluted	**$ 1.07**	$ 0.69
Weighted average number of common shares outstanding *(Note 6)*		
Basic and diluted	**164,856,042**	162,573,515

Peyto Exploration & Development Corp.

Statement of Comprehensive (Loss) Income

(Amounts in $ thousands)

	Year ended December 31	
	2017	2016
Earnings for the year	**176,575**	112,348
Other comprehensive income		
Change in unrealized gain (loss) on cash flow hedges	359,938	(95,142)
Deferred tax (expense) recovery	(81,539)	57,676
Realized (gain) on cash flow hedges	(57,943)	(118,473)
Comprehensive Income (Loss) Income	**397,031**	(43,591)

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

	Year ended December 31	
	2017	2016
Shareholders' capital, Beginning of Year	**1,641,982**	1,467,264
Equity offering	7,574	172,500
Common shares issued by private placement (Note 6)	-	7,644
Common shares issuance costs (net of tax)	(19)	(5,426)
Shareholders' capital, End of Year	**1,649,537**	1,641,982

Common shares to be issued, Beginning of Year	**4,930**	3,769
Common shares issued (Note 6)	(4,930)	(3,769)
Common shares to be issued (Note 6)	-	4,930
Common shares to be issued, End of Year	**-**	4,930

Retained earnings, Beginning of Year	**776**	103,339
Earnings for the year	176,575	112,348
Dividends *(Note 6)*	(217,612)	(214,911)
Retained earnings (deficit), End of Year	**(40,261)**	776

Accumulated other comprehensive (loss) income, Beginning of Year	**(106,754)**	49,185
Other comprehensive income (loss)	220,456	(155,939)
Accumulated other comprehensive income (loss), End of Year	**113,702**	(106,754)

Total Equity	**1,722,978**	1,540,934

Peyto Exploration & Development Corp.

Statement of Cash Flows

(Amounts in $ thousands)

	Year ended December 31	
	2017	2016
Cash provided by (used in)		
Operating activities		
Earnings	176,575	112,348
Items not requiring cash:		
Deferred income tax	65,309	41,805
Depletion and depreciation	315,314	330,745
Accretion of decommissioning provision	3,105	2,456
Net gain on disposition of assets	(79)	(7,885)
Long term portion of future performance based compensation	(4,499)	4,499
Change in non-cash working capital related to operating activities	(20,381)	24,661
	535,344	508,629
Financing activities		
Issuance of common shares	7,574	180,144
Issuance costs	(26)	(7,432)
Cash dividends paid	(217,586)	(214,287)
Increase (decrease) in bank debt	215,000	(75,000)
Issuance of long term notes	-	100,000
	4,962	(16,575)
Investing activities		
Additions to property, plant and equipment	(521,210)	(469,375)
Change in prepaid capital	(18,220)	(4,525)
Change in non-cash working capital relating to investing activities	2,674	(16,052)
	(536,756)	(489,952)
Net increase in cash	3,550	2,102
Cash, beginning of year	2,102	-
Cash, end of year	**5,652**	2,102

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

Cash interest paid	**49,020**	34,714
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 February 27, 2018.

2. Basis of presentation

These financial statements ("financial statements") as at and for the years ended December 31, 2017 and December 31, 2016 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 July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Peyto on January 1, 2018. The impact of the standard has been evaluated and is expected to not have a material impact on the Company's financial statements.

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted for fiscal years beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 15 will be applied by Peyto on January 1, 2018. IFRS 15 provides clarification for recognizing revenue from contracts with customers and establishes a single revenue recognition and measurement framework. The impact of the standard has been evaluated and is expected to have no material impact on the Company's financial statements. Additional disclosure may be required upon implementation of IFRS 15 in order to provide sufficient information to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from the contracts with customers.

In January 2016, the IASB issued IFRS 16 "Leases", which replaces IAS 17 "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the standard on the Company's financial statements.

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 pre-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 lease 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
Financial instruments within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") are initially recognized at fair value on the balance sheet. The Company has classified each financial instrument into the

following categories: “fair value through profit or loss”; “loans & receivables”; and “other liabilities”. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on fair value through profit or loss financial instruments are recognized in earnings. The other categories of financial instruments are recognized at amortized cost using the effective interest method. The Company has made the following classifications:

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

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”) and IAS 39, 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 petroleum and natural gas commodity prices by entering into propane and natural gas 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.

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 from the sale of oil, natural gas and natural gas liquids is recognized when the significant risks and rewards of ownership have been transferred, which is when title passes to the purchaser. This generally occurs when product is physically transferred into a pipe or other delivery system.

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. Property, plant and equipment, net

Cost	
At December 31, 2015	**4,416,643**
Additions	473,930
Decommissioning provision net additions	6,425
Prepaid capital	4,525
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**
Accumulated depletion and depreciation	
At December 31, 2015	**(1,226,584)**
Depletion and depreciation	(327,080)
At December 31, 2016	**(1,553,664)**
Depletion and depreciation	(314,416)
At December 31, 2017	**(1,868,080)**
Carrying amount at December 31, 2016	**3,347,859**
Carrying amount at December 31, 2017	**3,584,992**

The Company closed various asset swap arrangements during the year ended December 31, 2017. For purposes of determining a gain on disposition, the estimated fair value was based on the fair value of the assets received. The Company recorded a gain of $1.6 million for the year ended December 31, 2017 (2016- $12.7 million gain). The gain is offset by a loss relating to 2017 land expiries in the amount of $1.5 million (2016- $4.8 million loss).

During, 2017 Peyto capitalized $7.9 million (2016 - $7.1 million) of general and administrative expense directly attributable to exploration and development activities.

At December 31, 2017, an impairment test was performed at the CGU level due to the decline in commodity prices. The Company determined that oil and natural gas properties were not impaired at December 31, 2017 and 2016. 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, 2017, current commodity prices and a risk adjusted before tax discount rate of 12%.

The benchmark prices used in the Company's forecast at December 31, 2017 are outlined as follows:

	2018	2019	2020	2021	2022	2023	2024
AECO natural gas ($/MMBtu)	2.52	2.93	3.22	3.51	3.75	3.85	3.95

Prices subsequent to 2024 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, 2017 and 2016.

4. Long-term debt

	December 31, 2017	December 31, 2016
Bank credit facility	765,000	550,000
Senior unsecured notes	520,000	520,000
Balance, end of the year	**1,285,000**	1,070,000

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 April 26, 2016, the amended and restated note purchase and private shelf agreement dated January 3, 2012 and restated as of April 26, 2013 was amended to increase the shelf facility from $150 million to $250 million.

On October 24, 2016 Peyto closed an issuance of CDN $100 million of senior unsecured notes. The notes were issued by way of private placement pursuant to the amended and restated 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 3.7% and mature on October 24, 2023. Interest will be paid semi-annually in arrears.

Peyto is in compliance with all financial covenants at December 31, 2017.

Outstanding senior notes are as follows:

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

Peyto's total borrowing capacity is $1.82 billion and Peyto's credit facility is $1.3 billion.

The fair value of all senior notes as at December 31, 2017, is $529.0 million compared to a carrying value of $520.0 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 2017 was $46.5 million (2016 - $39.3 million) and the average borrowing rate for 2017 was 3.9% (2016 – 3.7%).

5. 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, 2015	**118,882**
New or increased provisions	16,285
Accretion of discount	2,456
Change in discount rate and estimates	(9,860)
Balance, December 31, 2016	**127,763**
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**
Current	-
Non-current	**143,805**

The Company has estimated the net present value of its total decommissioning provision to be $143.8 million as at December 31, 2017 (2016 – $127.8 million) based on a total future undiscounted liability of $289.7 million (2016 – $258.2 million). At December 31, 2017 management estimates that these payments are expected to be made over the next 49 years (2016 – 48 years) with the majority of payments being made in years 2046 to 2067. The Bank of Canada's long term bond rate of 2.26 per cent (2016 – 2.31 per cent) and an inflation rate of 2.0 per cent (2016 – 2.0 per cent) were used to calculate the present value of the decommissioning provision.

6. 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, 2015	**158,958,273**	**1,467,264**
Common shares issued by private placement	281,270	7,644
Equity offering	5,390,625	172,500
Common share issuance costs (net of tax)	-	(5,426)
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**

On March 15, 2016, Peyto completed a private placement of 132,240 common shares to employees and consultants for net proceeds of $3.9 million ($29.30 per common share).

On May 18, 2016, Peyto completed a public offering for 5,390,625 common shares at a price of $32.00 per common share, for net proceeds of $165.6 million.

On December 31, 2016, Peyto completed a private placement of 146,755 common shares to employees and consultants for net proceeds of $4.9 million ($33.59 per share). These common shares were issued January 6, 2017.

On March 14, 2017, Peyto completed a private placement of 97,252 common shares to employees and consultants for net proceeds of $2.6 million ($27.19 per common share).

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, 2017 of 164,856,042 (2016 – 162,573,515). There are no dilutive instruments outstanding.

Dividends
During the year ended December 31, 2017, Peyto declared and paid dividends of $1.32 per common share or $0.11 per common share for the months of January to December 2017 totaling $217.6 million (2016 - $1.32 or $0.11 per common share for the months of January to December totaling $214.9 million).

On January 15, 2018, Peyto declared dividends of $0.06 per common share that were paid on February 15, 2018. On February 15, 2018, Peyto declared dividends of $0.06 per common share to be paid to shareholders of record on February 28, 2018. These dividends will be paid on March 15, 2018.

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 11.

7. 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	
	2017	**2016**
Gross field expenses	72,238	65,984
Cost recoveries related to processing and gathering of partner production	(11,815)	(12,753)
Total operating expenses	**60,423**	53,231

8. Finance costs

	Years ended December 31	
	2017	**2016**
Interest expense	46,530	39,380
Accretion of decommissioning provisions	3,105	2,456
Total finance costs	**49,635**	41,836

9. 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	
	2017	**2016**
Market based compensation	13,867	17,020
Reserve based compensation	1,817	8,750
Total market and reserves based compensation	**15,684**	**25,770**

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

	December 31 2017	December 31 2016
Share price	$33.80	$33.80
Exercise price (net of dividend)	$22.77	$22.77
Expected volatility	0%	0%
Option life	1 year	1 - 2 years
Forfeiture rate	3%	5%
Risk-free interest rate	0%	0%

The changes in total rights outstanding and related weighted average exercise prices for the years ended December 31, 2017 and 2016 were as follows:

	Rights (number of shares)	Weighted Average Grant Price ($)
Balance, December 31, 2015	**1,004,717**	**$34.23**
Granted	3,798,500	$24.09
Cancelled	(14,000)	$24.67
Paid out	(2,265,550)	$27.78
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**

Subsequent to December 31, 2017, 3.9 million rights were granted at a price of $14.68 to be valued at the ten day weighted average market price at December 31, 2017 and vesting 1/3 on each of December 31, 2018, December 31, 2019 and December 31, 2020.

10. Income taxes

	2017	2016
Earnings before income taxes	241,884	154,153
Statutory income tax rate	27.00%	27.00%
Expected income taxes	65,309	41,622
Increase (decrease) in income taxes from:		
True-up tax pools	-	-
Rate change	-	-
Other	-	183
Total income tax expense	**65,309**	**41,805**
Deferred income tax expense	65,309	41,805
Current income tax expense	-	-
Total income tax expense	**65,309**	**41,805**
Differences between tax base and reported amounts for depreciable assets	(535,809)	(474,918)
Derivative financial instruments	(40,838)	40,701
Share issuance costs	2,388	3,545
Future performance based bonuses	2,475	2,728
Provision for decommission provision	38,827	34,496
Cumulative eligible capital	-	5,331
Charitable donations	-	62
Tax loss carry-forwards recognized	104	2,043
Deferred income taxes	**(532,853)**	**(386,012)**

At December 31, 2017 the Company has tax pools of approximately $1,550.4 million (2016 - $1,579.9 million) available for deduction against future income.

11. 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, 2017.

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, 2017 and 2016, 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 4) 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

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, 2017:

Natural Gas Period Hedged – Monthly Index	**Type**	**Daily Volume**	**Price (CAD)**
January 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.54/GJ
April 1, 2016 to March 31, 2018	Fixed Price	60,000 GJ	$2.42/GJ to $2.75/GJ
April 1, 2016 to October 31, 2018	Fixed Price	35,000 GJ	$2.10/GJ to $2.60/GJ
May 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.20/GJ to $2.35/GJ
July 1, 2016 to October 31, 2018	Fixed Price	20,000 GJ	$2.28/GJ to $2.45/GJ
August 1, 2016 to October 31, 2018	Fixed Price	25,000 GJ	$2.3175/GJ to $2.5525/GJ

November 1, 2016 to March 31, 2018	Fixed Price	5,000 GJ	$2.51/GJ
April 1, 2017 to March 31, 2018	Fixed Price	110,000 GJ	$2.6050/GJ to $3.1075/GJ
April 1, 2017 to October 31, 2018	Fixed Price	10,000 GJ	$2.585/GJ to $2.745/GJ
October 1, 2017 to March 31, 2018	Fixed Price	25,000 GJ	$2.365/GJ- $2.455/GJ
November 1, 2017 to March 31, 2018	Fixed Price	185,000 GJ	$2.285/GJ to $3.27/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	$2.92/GJ
December 1, 2017 to March 31, 2018	Fixed Price	45,000 GJ	$1.95/GJ to $2.465/GJ
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	$2.00/GJ to $2.040/GJ
April 1, 2018 to October 31, 2018	Fixed Price	90,000 GJ	$1.59/GJ to $2.565/GJ
April 1, 2018 to March 31, 2019	Fixed Price	180,000 GJ	$1.54/GJ to $2.625/GJ
April 1, 2018 to October 31, 2019	Fixed Price	5,000 GJ	$1.90/GJ
April 1, 2019 to March 31, 2020	Fixed Price	45,000 GJ	$1.60/GJ to $2.50/GJ
November 1, 2019 to March 31, 2020	Fixed Price	15,000 GJ	$2.02/GJ to $2.05/GJ

Natural Gas **Period Hedged – Daily Index**	**Type**	**Daily Volume**	**Price** **(CAD)**
April 1, 2018 to October 31, 2018	Fixed Price	15,000 GJ	$1.54/GJ to $1.63/GJ
April 1, 2018 to October 31, 2019	Fixed Price	30,000 GJ	$1.50/GJ to $1.67/GJ

As at December 31, 2017, Peyto had committed to the future sale of 217,245,000 gigajoules (GJ) of natural gas at an average price of $2.29 per GJ or $2.63 per mcf. Had these contracts been closed on December 31, 2017, Peyto would have realized a gain in the amount of $151.3 million. If the AECO gas price on December 31, 2017 were to increase by $0.10/GJ, the unrealized loss would decrease by approximately $21.7 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to December 31, 2017 Peyto entered into the following contracts:

Natural Gas **Period Hedged – Monthly Index**	**Type**	**Daily Volume**	**Price** **(CAD)**
April 1, 2018 to October 31, 2018	Fixed Price	15,000 GJ	$1.30/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	60,000 GJ	$1.75/GJ to $1.9525/GJ
November 1, 2018 to March 31, 2020	Fixed Price	5,000 GJ	$1.5725/GJ
April 1, 2019 to October 31, 2019	Fixed Price	15,000 GJ	$1.30/GJ
April 1, 2019 to March 31, 2020	Fixed Price	25,000 GJ	$1.45/GJ to $1.51/GJ
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.30/GJ

Natural Gas **Period Hedged – Daily Index**	**Type**	**Daily Volume**	**Price** **(CAD)**
April 1, 2018 to March 31, 2019	Fixed Price	10,000 GJ	$1.40/GJ to $1.53/GJ

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, 2017 would decrease by $6.5 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, 2017, approximately 41% was received from three companies (15%,14% and 12%) (December 31, 2016 – 72% was received from five companies (18%, 17%, 14%, 12%, and 11%). Of the Company's accounts receivable at December 31, 2017, approximately 25% was receivable from two companies (11% and 14%) (December 31, 2016 approximately 70% was receivable from five companies (18%, 15%, 14%, 12% and 11%). 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, 2017:

	December 31, 2017
Current (less than 30 days)	87,957
31-60 days	1,859
61-90 days	78
Past due (more than 90 days)	348
Balance, December 31, 2017	**90,242**

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, 2017, 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, 2017:

	< 1 Year	**1-2 Years**	**3-5 Years**	**Thereafter**
Accounts payable and accrued liabilities	132,776	-	-	-
Dividends payable	18,136	-	-	-
Provision for future market and reserves based bonus	9,166	-	-	-
Long-term debt(1)	-	-	765,000	-
Unsecured senior notes	-	100,000	220,000	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 2017	**December 31 2016**
Equity	1,722,978	1,540,934
Long-term debt	1,285,000	1,070,000
Working capital deficit (surplus)	(83,411)	187,186
	2,924,567	2,798,120

12. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in transactions with. Such services are provided in the normal course of business and at market rates. These directors are not involved in the day to day operational decision making of the Company 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	
2017	2016	**2017**	2016
671.7	1007.0	**549.2**	700.0

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 $7.2 million in market and reserves based bonus relating to key management personnel for the year 2017 (2016 - $2.0 million in general and administrative and $12.4 million in market and reserves based bonus).

13. Commitments

In addition to those recorded on the Company's balance sheet, the following is a summary of Peyto's contractual obligations and commitments as at December 31, 2017:

	2018	2019	2020	2021	2022	Thereafter
Interest payments (1)	22,085	19,890	17,695	12,295	12,295	14,350
Transportation commitments	39,199	34,467	24,049	20,522	20,238	59,251
Operating leases	2,242	2,242	2,242	2,242	2,317	9,269
Methanol	1,279	-	-	-	-	-
Total	64,805	56,599	43,986	35,059	34,850	82,870

(1) Fixed interest payments on senior unsecured notes

14. Contingencies

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Company, as a successor to new Open Range Energy Corp. ("New Open Range") (the "Poseidon Shareholder Application"). The proposed action contains various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not New Open Range), which claims are also alleged in class action lawsuits filed in Alberta, Ontario, and Quebec earlier in 2013 against Poseidon and certain of its current and former directors and officers, and underwriters involved in the public offering of common shares of Poseidon completed in February 2012. The proposed class action seeks various declarations and damages including compensatory damages which the Plaintiffs estimate at $651 million and punitive damages which the Plaintiffs estimate at $10 million, which damage amounts appear to be duplicative of damage amounts claimed in the class actions against Poseidon, certain of its current and former directors and officers, and underwriters.

New Open Range was incorporated on September 14, 2011 solely for purposes of participating in a plan of arrangement with Poseidon (formerly named Open Range Energy Corp. ("Old Open Range")), which was completed on November 1, 2011. Pursuant to such arrangement, Poseidon completed a corporate reorganization resulting in two separate publicly-traded companies: Poseidon, which continued to carry on the energy service and supply business; and New Open Range, which carried on Poseidon's former oil and gas exploration and production business. Peyto acquired all of the issued and outstanding common shares of New Open Range on August 14, 2012. On April 9, 2013, Poseidon obtained creditor protection under the Companies' Creditor Protection Act.

On October 31, 2013, Poseidon filed a lawsuit with the Court naming the Company as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of Old Open Range and the former directors and officers of New Open Range (the "Poseidon Action"). Poseidon claims, among other things, that the Company is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range.

On September 24, 2014 Poseidon amended its claim in the Poseidon Action to add Poseidon's auditor, KPMG LLP ("KPMG"), as a defendant.

On May 4, 2016, KPMG issued a third party claim in the Poseidon Action against Poseidon's former officers and directors and Peyto for any liability KPMG is determined to have to Poseidon. Peyto is not required to deliver a defence to this claim at this time.

On July 3, 2014, the Plaintiffs filed a lawsuit with the Court against KPMG LLP, Poseidon's and Old Open Range's former auditors, making allegations substantially similar to those in the other claims (the "KPMG Poseidon Shareholder KPMG Action"). On July 29, 2014, KPMG LLP filed a statement of defence and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim seeks, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP.

The allegations against New Open Range contained in the claims described above are based on factual matters that pre-existed the Company's acquisition of New Open Range. The Company has not yet been required to defend either of the actions. If it is required to defend the actions, the Company intends to aggressively protect its interests and the interests of its Shareholders and will seek all available legal remedies in defending the actions.

15. Subsequent Events

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.

Officers

Darren Gee
President and Chief Executive Officer

Scott Robinson
Executive Vice President New Ventures & Director

Kathy Turgeon
Vice President, Finance and Chief Financial Officer

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 & COO

Stephen Chetner
Corporate Secretary

Directors

Don Gray, Chairman
Stephen Chetner
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Scott Robinson

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

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Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank of Nova Scotia
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