

# Peyto Exploration & Development Corp.

## Condensed Balance Sheet *(unaudited)*

(Amount in \$ thousands)

	September 30	December 31
	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	998	5,652
Accounts receivable <i>(Note 9)</i>	65,591	90,242
Derivative financial instruments <i>(Note 10)</i>	17,726	135,017
Prepaid expenses	12,262	12,578
	<b>96,577</b>	<b>243,489</b>
Long-term derivative financial instruments <i>(Note 10)</i>	4,019	16,233
Property, plant and equipment, net <i>(Note 4)</i>	3,483,934	3,584,992
	<b>3,487,953</b>	<b>3,601,225</b>
	<b>3,584,530</b>	<b>3,844,714</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	76,631	132,776
Dividends payable <i>(Note 7)</i>	9,892	18,136
Provision for future performance-based compensation <i>(Note 8)</i>	12,528	9,166
Current portion of long-term debt <i>(Note 5)</i>	100,000	-
	<b>199,051</b>	<b>160,078</b>
Long-term debt <i>(Note 5)</i>	1,060,000	1,285,000
Provision for future performance-based compensation <i>(Note 8)</i>	102	-
Decommissioning provision <i>(Note 6)</i>	140,615	143,805
Deferred income taxes	537,703	532,853
	<b>1,738,420</b>	<b>1,961,658</b>
<b>Equity</b>		
Share capital <i>(Note 7)</i>	1,649,537	1,649,537
Retained earnings (deficit)	(21,641)	(40,261)
Accumulated other comprehensive income <i>(Note 7)</i>	19,163	113,702
	<b>1,647,059</b>	<b>1,722,978</b>
	<b>3,584,530</b>	<b>3,844,714</b>

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	
	2018	2017	2018	2017
<b>Revenue</b>				
Natural gas and natural gas liquid sales <i>(Note 9)</i>	112,458	151,378	373,820	530,511
Royalties	(6,399)	(5,165)	(20,822)	(24,872)
Natural gas and natural gas liquid sales, net of royalties	106,059	146,213	352,998	505,639
<b>Risk management contracts</b>				
Realized gain (loss) on risk management contracts <i>(Note 10)</i>	41,131	30,848	139,977	18,647
	<b>147,190</b>	<b>177,061</b>	<b>492,975</b>	<b>524,286</b>
<b>Expenses</b>				
Operating	14,503	14,844	45,896	43,546
Transportation	9,036	9,149	25,712	28,358
General and administrative	1,296	1,701	8,093	6,659
Future performance-based compensation <i>(Note 8)</i>	1,198	2,109	3,464	9,783
Interest <i>(Note 5)</i>	12,806	12,110	39,168	33,674
Accretion of decommissioning provision <i>(Note 6)</i>	880	847	2,481	2,312
Depletion and depreciation <i>(Note 4)</i>	67,052	74,906	220,692	228,681
	<b>106,771</b>	<b>115,666</b>	<b>345,506</b>	<b>353,013</b>
<b>Earnings before taxes</b>	<b>40,419</b>	<b>61,395</b>	<b>147,469</b>	<b>171,273</b>
<b>Income tax</b>				
Deferred income tax expense	10,913	16,577	39,817	46,244
<b>Earnings for the period</b>	<b>29,506</b>	<b>44,818</b>	<b>107,652</b>	<b>125,029</b>
<b>Earnings per share (Note 7)</b>				
<b>Basic and diluted</b>	<b>\$0.18</b>	<b>\$0.27</b>	<b>\$0.65</b>	<b>\$0.76</b>

See accompanying notes to the financial statements.

**Peyto Exploration & Development Corp.**  
**Condensed Statement of Comprehensive Income (Loss) (unaudited)**

(Amount in \$ thousands)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2018</b>	2017	<b>2018</b>	2017
<b>Earnings for the period</b>	<b>29,506</b>	44,818	<b>107,652</b>	125,029
<b>Other comprehensive income</b>				
Change in unrealized gain on cash flow hedges	8,508	73,612	10,472	242,451
Deferred (expense) tax recovery	8,808	(11,546)	34,966	(60,427)
Realized (gain) on cash flow hedges	(41,131)	(30,848)	(139,977)	(18,647)
<b>Comprehensive income</b>	<b>5,691</b>	76,036	<b>13,113</b>	288,406

See accompanying notes to the financial statements.

**Peyto Exploration & Development Corp.**  
**Condensed Statement of Changes in Equity (unaudited)**

(Amount in \$ thousands)

	<b>Nine months ended September 30</b>	
	<b>2018</b>	2017
<b>Share capital, beginning of period</b>	<b>1,649,537</b>	1,641,982
Common shares issued by private placement	-	7,574
Common shares issuance costs (net of tax)	-	(19)
<b>Share capital, end of period</b>	<b>1,649,537</b>	1,649,537
<b>Shares to be issued, beginning of period</b>	-	4,930
Shares issued	-	(4,930)
<b>Shares to be issued, end of period</b>	-	-
<b>Retained earnings (deficit), beginning of period</b>	<b>(40,261)</b>	776
Earnings for the period	107,652	125,029
Dividends ( <i>Note 7</i> )	(89,032)	(163,204)
<b>Retained earnings (deficit), end of period</b>	<b>(21,641)</b>	(37,399)
<b>Accumulated other comprehensive income, beginning of period</b>	<b>113,702</b>	(106,754)
Other comprehensive income (loss)	(94,539)	163,377
<b>Accumulated other comprehensive (loss) income, end of period</b>	<b>19,163</b>	56,623
<b>Total equity</b>	<b>1,647,059</b>	1,668,761

See accompanying notes to the financial statements.

## Peyto Exploration & Development Corp.

### Condensed Statement of Cash Flows *(unaudited)*

(Amount in \$ thousands)

	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
<b>Cash provided by (used in)</b>				
<b>operating activities</b>				
Earnings	29,506	44,818	107,652	125,029
Items not requiring cash:				
Deferred income tax	10,913	16,577	39,817	46,244
Depletion and depreciation	67,052	74,906	220,692	228,681
Accretion of decommissioning provision	880	847	2,481	2,312
Gain on disposition of assets	-	-	-	-
Long term portion of future performance based compensation	10	1,100	102	3,448
Change in non-cash working capital related to operating activities	14,658	4,411	13,176	(13,938)
	<b>123,019</b>	<b>142,659</b>	<b>383,920</b>	<b>391,776</b>
<b>Financing activities</b>				
Issuance of common shares	-	-	-	7,574
Issuance costs	-	-	-	(26)
Cash dividends paid	(29,677)	(54,408)	(97,276)	(163,178)
Decrease in bank debt	(50,000)	30,000	(225,000)	165,000
Issuance of senior unsecured notes	-	-	100,000	-
	<b>(79,677)</b>	<b>(24,408)</b>	<b>(222,276)</b>	<b>9,370</b>
<b>Investing activities</b>				
Additions to property, plant and equipment	(69,716)	(135,187)	(120,148)	(386,799)
Change in prepaid capital	466	(17,050)	(5,157)	(19,879)
Change in non-cash working capital relating to investing activities	25,776	31,311	(40,993)	4,990
	<b>(43,474)</b>	<b>(120,926)</b>	<b>(166,298)</b>	<b>(401,688)</b>
<b>Net decrease in cash</b>	<b>(132)</b>	<b>(2,675)</b>	<b>(4,654)</b>	<b>(542)</b>
<b>Cash, beginning of period</b>	<b>1,130</b>	<b>4,235</b>	<b>5,652</b>	<b>2,102</b>
<b>Cash, end of period</b>	<b>998</b>	<b>1,560</b>	<b>998</b>	<b>1,560</b>

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

Cash interest paid	<b>10,143</b>	7,963	<b>35,855</b>	32,991
Cash taxes paid	-	-	-	-

See accompanying notes to the financial statements

**Peyto Exploration & Development Corp.**  
**Notes to Condensed Financial Statements** *(unaudited)*  
**As at September 30, 2018 and 2017**

(Amount in \$ thousands, except as otherwise noted)

**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 – 3<sup>rd</sup> Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on November 6, 2018.

**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, 2017 and 2016.

**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.

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, 2017 and 2016.

**(b) Standards issued but not yet effective**

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.

**3. Changes in Accounting Policies**

**IFRS 9 "Financial instruments"**

On January 1, 2018, Peyto adopted IFRS 9 "Financial Instruments" as issued by the IASB. IFRS 9 includes a new classification and measurement approach for financial assets and a forward-looking 'expected credit loss' model.

Peyto has revised the description of its accounting policy for financial instruments to reflect the new classification approach as follows:

### *Financial instruments*

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on the classification of the financial instrument as described below:

- Fair value through profit or loss: Financial instruments under this classification include cash and derivative assets and liabilities.
- Amortized cost: Financial instruments under this classification include accounts receivable, accounts payable, accrued liabilities, dividends payable, and long-term debt.

The standard also provides a simplified approach to measuring expected credit losses using a lifetime expected loss allowance for all trade receivables and contract assets. The credit loss model groups receivables based on similar credit risk characteristics and days past due in order to estimate bad debts. The adoption of this approach did not result in a material impact to the Peyto's financial statements due to the high credit quality of Peyto's customers.

### **IFRS 15 "Revenue from contracts with customers"**

On January 1, 2018, Peyto adopted IFRS 15 "Revenue from Contracts with Customers". IFRS 15 establishes a comprehensive framework for determining whether, how much, and when revenue from contracts with customers is recognized. Peyto's revenue relates to the sale of natural gas and natural gas liquids to customers at specified delivery points at benchmark prices. Peyto adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. As a result of applying the requirements of IFRS 15, including the application of certain practical expedients such as the right to invoice method of measuring the Company's progress towards complete satisfaction of its performance obligations, no changes or adjustments to the comparative financial statements were required. Refer to Note 8 for more information including additional disclosures required under IFRS 15.

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

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

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

#### **4. Property, plant and equipment, net**

##### **Cost**

<b>At December 31, 2017</b>	<b>5,453,072</b>
Additions	120,148
Decommissioning provision additions	(5,671)
Prepaid capital	5,157
<b>At September 30, 2018</b>	<b>5,572,706</b>
Accumulated depletion and depreciation	
<b>At December 31, 2017</b>	<b>(1,868,080)</b>
Depletion and depreciation	(220,692)
<b>At September 30, 2018</b>	<b>(2,088,772)</b>
Carrying amount at December 31, 2017	3,584,992
<b>Carrying amount at September 30, 2018</b>	<b>3,483,934</b>

During the three and nine month periods ended September 30, 2018, Peyto capitalized \$1.0 million and \$1.9 million (2017 - \$2.2 million and \$5.7 million) of general and administrative expense directly attributable to exploration and development activities.

## 5. Long-term debt

	September 30, 2018	December 31, 2017
Current senior unsecured notes	100,000	-
Senior unsecured notes	520,000	520,000
Bank credit facility	540,000	765,000
<b>Balance, end of the period</b>	<b>1,160,000</b>	<b>1,285,000</b>

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.

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.

Peyto is in compliance with all financial covenants at September 30, 2018.

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.

Outstanding senior notes are as follows:

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

Total interest expense for the three- and nine-month periods ended September 30, 2018 was \$12.8 million and \$39.2 million (2017 - \$12.1 million and \$33.7 million) and the average borrowing rate for the period was 4.3% and 4.2% (2017– 3.9% and 3.8%).

## 6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

<b>Balance, December 31, 2017</b>	<b>143,805</b>
New or increased provisions	3,405
Accretion of decommissioning provision	2,481
Change in discount rate and estimates	(9,076)
<b>Balance, September 30, 2018</b>	<b>140,615</b>
Current	-
Non-current	140,615

Peyto has estimated the net present value of its total decommissioning provision to be \$140.6 million as at September 30, 2018 (\$143.8 million at December 31, 2017) based on a total future undiscounted liability of \$296.7 million (\$289.7 million at December 31, 2017). At September 30, 2018 management estimates that these payments are expected to be made over the next 49 years with the majority of payments being made in years 2046 to 2075. The Bank of Canada's long term bond rate of 2.41 per cent (2.26 per cent at December 31, 2017) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2017) were used to calculate the present value of the decommissioning provision.

## 7. Share capital

**Authorized:** Unlimited number of voting common shares

### Issued and Outstanding

	Number of Common Shares	Amount
<b>Common Shares (no par value)</b>		
<b>Balance, December 31, 2017</b>	<b>164,874,175</b>	<b>1,649,537</b>
Common shares issued by private placement	-	-
Common share issuance costs, (net of tax)	-	-
<b>Balance, September 30, 2018</b>	<b>164,874,175</b>	<b>1,649,537</b>

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

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
Weighted average common shares basic and diluted	<b>164,874,175</b>	164,874,175	<b>164,874,175</b>	164,849,932

### Dividends

During the three- and nine-month periods ended September 30, 2018, Peyto declared and paid dividends of \$0.18 and \$0.54 per common share, totaling \$29.7 million and \$89.0 million respectively (2017 - \$0.33 and \$0.99, totaling \$56.9 million and \$163.2 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 10.

## 8. Future performance-based compensation

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

	September 30, 2018	September 30, 2017
Share price	\$11.13-\$33.80	\$20.40-\$33.80
Exercise price (net of dividend)	\$14.04- \$32.48	\$22.77- \$33.02
Expected volatility	37.4%	28.9%
Option life	0.25 years	0.25 years
Risk-free interest rate	2.19%	1.51%

## 9. Revenue and receivables

	Three Months ended September 30		Nine Months ended September 30	
	2018	2017	2018	2017
Natural Gas Sales	60,740	113,539	214,635	414,548
Natural Gas Liquid sales	51,718	37,839	159,187	115,963
<b>Natural gas and natural gas liquid sales</b>	<b>112,458</b>	<b>151,378</b>	<b>373,822</b>	<b>530,511</b>

	September 30, 2018	December 31, 2017
Accounts receivable from customers	39,834	67,294
Accounts receivable from realized risk management contracts	15,987	10,746
Accounts receivable from joint venture partners and other	9,770	12,202
	<b>65,591</b>	<b>90,242</b>

## 10. 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, 2018.

The Company's areas of financial risk management and risks related to financial instruments remained unchanged from December 31, 2017.

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, 2018 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, 2018:

Natural Gas			Price
Period Hedged- Monthly Index	Type	Daily Volume	(AECO CAD)
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
April 1, 2017 to October 31, 2018	Fixed Price	10,000 GJ	\$2.585/GJ to \$2.745/GJ
November 1, 2017 to October 31, 2018	Fixed Price	5,000 GJ	\$2.92/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	105,000 GJ	\$1.30/GJ to \$2.565/GJ
April 1, 2018 to March 31, 2019	Fixed Price	185,000 GJ	\$1.54/GJ to \$2.625/GJ
April 1, 2018 to March 31, 2020	Fixed Price	10,000 GJ	\$1.43/GJ to \$1.44/GJ
November 1, 2018 to March 31, 2019	Fixed Price	90,000 GJ	\$1.75/GJ to \$1.9525/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	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	30,000 GJ	\$1.915/GJ to \$2.05/GJ

April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	\$1.30/GJ
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	\$1.64/GJ to \$1.653/GJ
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	\$1.48/GJ to \$1.64/GJ

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged – Daily Index</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD)</b>
April 1, 2018 to October 31, 2018	Fixed Price	15,000 GJ	\$1.54/GJ to \$1.63/GJ
April 1, 2018 to March 31, 2019	Fixed Price	40,000 GJ	\$1.40/GJ to \$1.67/GJ

<b>Propane</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(Conway USD)</b>
June 1, 2018 to October 31, 2018	Fixed Price	600 bbl	\$32.34/bbl to \$32.865/bbl

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI CAD)</b>
July 1, 2018 to December 31, 2018	Fixed Price	300 bbl	\$84.03/bbl to \$90.00/bbl
July 1, 2018 to June 30, 2019	Fixed Price	400 bbl	\$85.34/bbl to \$88.05/bbl
August 1, 2018 to July 31, 2019	Fixed Price	600 bbl	\$81.90/bbl to \$89.25/bbl
September 1, 2018 to August 31, 2019	Fixed Price	400 bbl	\$85.00/bbl to \$87.66/bbl
October 1, 2018 to September 30, 2019	Fixed Price	500 bbl	\$85.00/bbl to \$87.05/bbl
November 1, 2018 to October 31, 2019	Fixed Price	500 bbl	\$87.25/bbl to \$92.00/bbl

As at September 30, 2018, Peyto had committed to the future sale of 158,115,000 gigajoules (GJ) of natural gas at an average price of \$1.87 per GJ or \$2.15 per mcf, 18,600 barrels (bbl) of propane at an average price of \$32.52 USD per bbl, and 818,200 bbl of crude at an average price of \$86.64 per bbl. Had these contracts been closed on September 30, 2018, Peyto would have realized a net gain in the amount of \$21.8 million. If the AECO gas price on September 30, 2018 were to decrease by \$0.10/GJ, the financial derivative asset would decrease by approximately \$15.8 million. An opposite change in commodity prices rates would result in an opposite impact.

Subsequent to September 30, 2018 Peyto entered into the following contracts:

<b>Natural Gas</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(AECO CAD)</b>
November 1, 2019 to March 31, 2020	Fixed Price	20,000 GJ	\$2.005/GJ to 2.05/GJ

<b>Crude Oil</b>			<b>Price</b>
<b>Period Hedged</b>	<b>Type</b>	<b>Daily Volume</b>	<b>(WTI CAD)</b>
November 1, 2018 to December 31, 2019	Fixed Price	300 bbl	\$88.00/bbl to \$94.15/bbl

## 11. 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:

<b>Expense</b>				<b>Accounts Payable</b>	
<b>Three Months ended September 30</b>		<b>Nine Months ended September 30</b>		<b>As at September 30</b>	
<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>155.6</b>	244.7	<b>432.8</b>	460.4	<b>387.9</b>	477.1

## 12. 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, 2018:

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>Thereafter</b>
Interest payments <sup>(1)</sup>	6,680	23,840	21,645	16,245	16,245	36,075
Transportation commitments	12,783	53,300	41,374	32,007	28,198	254,529
Operating leases	561	2,242	2,242	2,242	2,317	9,269
Methanol	-	4,819	-	-	-	-
<b>Total</b>	<b>20,024</b>	<b>84,201</b>	<b>65,261</b>	<b>50,494</b>	<b>46,760</b>	<b>299,873</b>

<sup>(1)</sup> Fixed interest payments on senior unsecured notes

**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  
Kathy Turgeon

**Auditors**

Deloitte LLP

**Solicitors**

Burnet, Duckworth & Palmer LLP

**Bankers**

Bank of Montreal  
MUFG Bank, Ltd., Canada Branch  
Royal Bank of Canada  
Canadian Imperial Bank of Commerce  
The Toronto-Dominion Bank  
Bank of Nova Scotia  
Alberta Treasury Branches  
Canadian Western Bank  
National Bank  
Wells Fargo

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