Peyto Exploration & Development Corp.

Condensed Balance Sheet *(unaudited)*

(Amount in $ thousands)

	June 30 2019	December 31 2018
Assets		
Current assets		
Cash	662	-
Accounts receivable (*Note 9)*	45,124	60,130
Derivative financial instruments *(Note 12)*	19,850	65,769
Prepaid expenses	14,505	9,332
	80,141	135,231
Long-term derivative financial instruments *(Note 12)*	3,189	12,993
Property, plant and equipment, net *(Note 4)*	3,538,452	3,540,628
	3,541,641	3,553,621
	3,621,782	3,688,852
Liabilities		
Current liabilities		
Bank overdraft	-	19,281
Accounts payable and accrued liabilities	63,559	114,711
Dividends payable *(Note 8)*	3,297	9,892
Current portion of lease obligation *(Note 7)*	1,049	-
Current portion of long-term debt *(Note 5)*	-	100,000
	67,905	243,884
Long-term debt *(Note 5)*	1,150,000	1,050,000
Decommissioning provision *(Note 6)*	181,574	153,855
Lease obligation *(Note 7)*	8,207	-
Deferred income taxes	470,153	560,651
	1,809,934	1,764,506
Equity		
Share capital *(Note 8)*	1,649,369	1,649,537
Contributed surplus (*Note 11)*	1,510	-
Retained earnings (deficit)	73,139	(29,860)
Accumulated other comprehensive income *(Note 8)*	19,925	60,785
	1,743,943	1,680,462
	3,621,782	3,688,852

See accompanying notes to the financial statements.

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.

Condensed Income Statement *(unaudited)*

(Amount in $ thousands except earnings per share amount)

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Revenue				
Natural gas and natural gas liquid sales (*Note 9)*	103,658	106,194	246,782	261,362
Royalties	(237)	(4,879)	(6,910)	(14,422)
Natural gas and natural gas liquid sales, net of royalties	**103,421**	101,315	**239,872**	246,940
Risk management contracts				
Realized gain (loss) on risk management contracts *(Note 12)*	11,868	53,617	20,404	98,846
	115,289	154,932	**260,276**	345,786
Expenses				
Operating	15,299	14,940	31,924	31,393
Transportation	8,333	8,990	17,294	16,676
General and administrative	2,275	2,528	5,071	6,796
Market and reserves-based bonus *(Note 10)*	-	-	2,291	-
Future performance-based compensation *(Note 10)*	-	1,072	-	2,266
Stock based compensation *(Note 11)*	894	-	1,510	-
Interest *(Note 5)*	13,411	12,903	26,937	26,363
Accretion of decommissioning provision (*Note 6)*	654	796	1,388	1,600
Depletion and depreciation *(Note 4)*	60,480	72,062	125,713	153,642
	101,346	113,291	**212,128**	238,736
Earnings before taxes	**13,943**	41,641	**48,148**	107,050
Income tax				
Deferred income tax (recovery) expense	(84,814)	11,244	(75,579)	28,904
Earnings for the period	**98,757**	30,397	**123,727**	78,146
Earnings per share *(Note 8)*				
Basic and Diluted	**$0.59**	$0.18	**$0.75**	$0.47

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

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

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Earnings for the period	**98,757**	30,397	**123,727**	78,146
Other comprehensive income				
Change in unrealized gain (loss) on cash flow hedges	11,651	(21,459)	(35,319)	1,962
Deferred income tax (expense) recovery	(124)	20,271	14,863	26,159
Realized gain on cash flow hedges	(11,868)	(53,617)	(20,404)	(98,846)
Comprehensive income (loss)	**98,416**	(24,408)	**82,867**	7,421

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Changes in Equity *(unaudited)*

(Amount in $ thousands)

	Six months ended June 30	
	2019	**2018**
Share capital, beginning of period	**1,649,537**	1,649,537
Stock option issuance costs (net of tax)	(168)	-
Share capital, end of period	**1,649,369**	1,649,537

Contributed surplus, beginning of period	**-**	-
Stock based compensation expense	**1,510**	-
Contributed surplus, end of period	**1,510**	-

Retained earnings (deficit), beginning of period	**(30,804)**	(40,261)
Earnings for the period	123,727	78,146
Dividends *(Note 8)*	(19,784)	(59,354)
Retained earnings (deficit), end of period	**73,139**	(21,469)

Accumulated other comprehensive income, beginning of period	**60,785**	113,702
Other comprehensive income	(40,860)	(70,725)
Accumulated other comprehensive (loss) income, end of period	**19,925**	42,977

Total equity	**1,743,943**	1,671,045

See accompanying notes to the financial statements.

Peyto Exploration & Development Corp.

Condensed Statement of Cash Flows *(unaudited)*

(Amount in $ thousands)

	Three months ended June 30		Six months ended June 30	
	2019	2018	**2019**	2018
Cash provided by (used in) operating activities				
Earnings	**98,757**	30,397	**123,727**	78,146
Items not requiring cash:				
Deferred income tax (recovery)	(84,814)	11,244	(75,579)	28,904
Depletion and depreciation	60,480	72,062	125,713	153,642
Accretion of decommissioning provision	654	796	1,388	1,600
Stock based compensation	894	-	1,510	-
Long term portion of future performance-based compensation	215	(22)	-	93
Change in non-cash working capital related to operating activities	9,383	2,429	322	(1,485)
	85,569	116,906	**177,081**	260,900
Financing activities				
Bank overdraft	(246)	-	(19,281)	-
Stock option issuance costs	(225)	-	(225)	-
Cash dividends paid	(9,892)	(29,677)	(26,380)	(67,597)
Lease interest *(Note 7)*	81	-	164	-
Principal repayment of lease *(Note 7)*	(338)	-	(677)	-
Issuance of senior notes	-	-	100,000	100,000
Repayment of senior note	-	-	(100,000)	-
Increase (decrease) in bank debt	(40,000)	(60,000)	-	(175,000)
	(50,620)	(89,677)	**(46,399)**	(142,597)
Investing activities				
Additions to property, plant and equipment	(34,112)	(14,978)	(96,507)	(50,432)
Change in prepaid capital	760	(5,917)	7,371	(5,624)
Change in non-cash working capital relating to investing activities	(935)	(5,204)	(40,884)	(66,769)
	(34,287)	(26,099)	**(130,020)**	(122,825)
Net increase in cash	**662**	1,130	**662**	(4,522)
Cash, beginning of period	**-**	-	**-**	5,652
Cash, end of period	**662**	1,130	**662**	1,130
The following amounts are included in cash flows from operating activities:				
Cash interest paid	**13,111**	14,668	**26,059**	25,712
Cash taxes paid	**-**	-	**-**	-

See accompanying notes to the financial statements

1. Nature of operations

Peyto Exploration & Development Corp. ("Peyto" or the "Company") is a Calgary based oil and natural gas company. Peyto conducts exploration, development and production activities in Canada. Peyto is incorporated and domiciled in the Province of Alberta, Canada. The address of its registered office is 300, 600 – 3rd Avenue SW, Calgary, Alberta, Canada, T2P 0G5.

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on August 6, 2019.

2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2018 and 2017.

Significant Accounting Policies

(a) Significant Accounting Judgments Estimates and Assumptions

The timely preparation of the condensed financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies, if any, as at the date of the financial statements and the reported amounts of revenue and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future years could require a material change in the condensed financial statements.

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

3. Changes in accounting policies

IFRS 16 "Leases"

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

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

The adoption of IFRS 16 included the following elections:

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

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

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

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

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

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

IFRS 2 "Share based payments"

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

4. Property, plant and equipment, net

Cost	
At December 31, 2018	**5,691,372**
Additions	96,507
ROU asset	8,070
Decommissioning provision additions	26,331
Prepaid capital	(7,371)
At June 30, 2019	**5,814,909**
Accumulated depletion and depreciation	
At December 31, 2018	**(2,150,744)**
Depletion and depreciation	(125,713)
At June 30, 2019	**(2,276,457)**

Carrying amount at December 31, 2018	3,540,628
Carrying amount at June 30, 2019	**3,538,452**

During the three- and six-month periods ended June 30, 2019, Peyto capitalized $1.5 million and $2.1 million (2018 - $0.3 million and $0.9 million) of general and administrative expense directly attributable to exploration and development activities.

At June 30, 2019, the Company evaluated its PP&E for indicators of any potential impairment. As a result of decreases in the outlook of future natural gas prices combined with a further reduction in market capitalization since the time of the last impairment test at December 31, 2018, the Company carried out an impairment test for its cash-generating unit ("CGU"). No impairment was recognized as the estimated recoverable amount of the CGU exceeded its carrying value.

The estimated recoverable amounts incorporated the net present value of the after-tax cash flows from proved plus probable oil and gas reserves of the CGU based on reserves estimated by the Company's independent reserves evaluator at December 31, 2018, updated using forward commodity price estimates at July 1, 2019 provided by Company's independent reserves evaluator. The estimated recoverable amounts were based on fair value less costs of disposal calculations using after-tax discount rates that are based on an estimated weighted average cost of capital of the Company at 7%.

The benchmark prices used in the Company's forecast at June 30, 2019 are outlined as follows:

	2019	2020	2021	2022	2023	2024	2025
AECO natural gas (Cdn$/MMBtu)	1.52	1.90	2.36	2.66	2.85	2.94	3.07

	2019	2020	2021	2022	2023	2024	2025
Henry Hub (US$/MMBtu)	2.60	2.85	3.05	3.25	3.40	3.47	3.54
Cdn$/US$ (1)	0.76	0.78	0.80	0.80	0.80	0.80	0.80

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective June 30, 2019.

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

5. Current and Long-term debt

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

The Company has a syndicated $1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2022. The bank facility is made up of a $40 million working capital sub-tranche and a $1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 25 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 125 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 25 to 63 basis points.

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

- Long-term debt plus bank overdraft and letters of credit not to exceed 3.25 times trailing twelve-month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 4.0 times trailing twelve-month net income before non-cash items, interest and income taxes;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus bank overdraft and letters of credit not to exceed 55% of shareholders' equity and long-term debt and subordinated debt plus bank overdraft and letters of credit.

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

Outstanding senior notes are as follows:

Senior Unsecured Notes	Date Issued	Rate	Maturity Date
$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
$100 million	January 2, 2018	3.95%	January 2, 2028
$100 million	January 3, 2019	4.39%	January 3, 2026

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

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

Total interest expense for the three- and six-month periods ended June 30, 2019 was $13.4 million and $26.9 million

(2018 - $12.9 million and $26.4 million) and the average borrowing rate for the period was 4.6% and 4.5% (2018– 4.2% and 4.2%).

6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2018	**153,855**
New or increased provisions	2,140
Accretion of decommissioning provision	1,388
Change in discount rate and estimates	24,191
Balance, June 30, 2018	**181,574**
Current	-
Non-current	**181,574**

Peyto has estimated the net present value of its total decommissioning provision to be $181.6 million as at June 30, 2019 ($153.9 million at December 31, 2018) based on a total future undiscounted liability of $305.6 million ($301.8 million at December 31, 2018). At June 30, 2019 management estimates that these payments are expected to be made over the next 50 years with the majority of payments being made in years 2023 to 2069. The Bank of Canada's long-term bond rate of 1.68 per cent (2.18 per cent at December 31, 2018) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2018) were used to calculate the present value of the decommissioning provision.

7. Leases

The ROU asset and lease obligation recognized at January 1, 2019 relates to the Company's head office lease in Calgary.

Right of use Asset

Balance as at January 1, 2019	**8,070**
Depreciation	(504)
Balance at June 30, 2019	**7,566**

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

Lease Obligation

Operating lease commitment at December 31, 2018 as disclosed in the Company's financial statements [(1)]	11,204
Discounted using the incremental borrowing rate at January 1, 2019	(1,434)
Present value of lease payments at January 1, 2019	**9,770**
Current portion of lease obligation at January 1, 2019	**1,032**
Non-current portion of lease obligation at January 1, 2019	**8,738**

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

Lease obligation at January 1, 2019	**9,770**
Lease interest expense	164
Principal repayment of lease	(678)
Lease obligation at June 30, 2019	**9,256**

Current portion of lease obligation at June 30, 2019	**1,049**
Non-current portion of lease obligation at June 30, 2019	**8,207**

The variable lease payments not included in the measurement of the office lease obligation is $0.2 million and $0.4 million for the three and six months ended June 30, 2019. The variable lease payments are recognized through general and administration expense.

During the period ended June 30, 2019, $3.0 million was capitalized in relation to short-term leases.

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

	As at June 30, 2019
Less than 1 year	676
1-3 years	4,137
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	2,857
Total lease payment	10,527
Amount representing interest	(1,271)
Present value of lease payments	9,256
Current portion of lease obligation	1,049
Non-current portion of lease obligation	8,207

8. Share capital

Authorized: Unlimited number of voting common shares

Issued and Outstanding

Common Shares (no par value)	**Number of Common Shares**	**Amount $**
Balance, December 31, 2018	**164,874,175**	**1,649,537**
Common shares issued by private placement	-	-
Stock option issuance costs (net of tax)	-	(168)
Balance, June 30, 2019	**164,874,175**	**1,649,369**

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

	Three Months ended June 30		Six Months ended June 30	
	2019	2018	**2019**	2018
Weighted average common shares basic and diluted	**164,874,175**	164,874,175	**164,874,175**	164,837,609

Dividends

During the three- and six-month periods ended June 30, 2019, Peyto declared and paid dividends of $0.06 and $0.12 per common share totaling $9.9 million and $19.8 million respectively (2018 - $0.18 and $0.36 totaling $29.7 million and $59.4 million respectively).

Comprehensive income

Comprehensive income consists of earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge. "Accumulated other comprehensive income" is an equity category comprised of the cumulative amounts of OCI.

Accumulated hedging gains

Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement with gains and losses being recognized as a component of net revenue. Further information on these contracts is set out in Note 12.

9. Revenue and receivables

	Three Months ended June 30		Six Months ended June 30	
	2019	**2018**	**2019**	**2018**
Natural Gas Sales	58,470	52,664	153,075	153,894
Natural Gas Liquid sales	45,188	53,530	93,707	107,468
Natural gas and natural gas liquid sales	**103,658**	106,194	**246,782**	261,362

	June 30, 2019	December 31, 2018
Accounts receivable from customers	31,781	52,759
Accounts receivable from realized risk management contracts	6,458	1,979
Accounts receivable from joint venture partners and other	6,885	5,392
	45,124	60,130

A substantial portion of the Company's accounts receivable is with petroleum and natural gas marketing entities. Industry standard dictates that commodity sales are settled on the 25th day of the month following the month of production.

10. Performance-based compensation

Reserve based component

The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%. For six months ended June 30, 2019, $2.3 million was expensed.

Future market-based component

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

11. Stock based compensation

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

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

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Granted rights under market-based bonus plan	2,475,000	7.23
Forfeited	(128,301)	(7.23)
Balance, June 30, 2019	**2,346,699**	**7.23**

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

	June 30, 2019
Share price	$7.23
Exercise price (net of dividends)	$7.17
Expected volatility	39.60%
Average life	2 year
Risk-free interest rate	1.85%
Forfeiture rate	0.17%

The rights granted under the 2019 market-based bonus plan vest one-third on each of December 31, 2019, 2020 and 2021.

The following tables summarize the stock options outstanding at June 30, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Granted stock options	2,475,000	5.72
Forfeited	(89,199)	5.72
Balance, June 30, 2019	**2,385,801**	**5.72**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the six months ended June 30, 2019 the weighted-average fair value of the rights was $1.64. The following tables summarize the assumptions used in the Black-Scholes model:

	June 30, 2019
Share price	$5.72
Exercise price	$5.72
Expected volatility	35.86%
Average option life	2 year
Risk-free interest rate	1.57%
Forfeiture rate	0.17%

Options are granted throughout the year and vest 1/3 on each of the first, second and third anniversaries from the date of grant.

The following tables summarizes the Company’s equity compensation arrangements:

		Weighted Average Exercise price $	Weighted Average Remaining Contractual life- Years
Rights under market-based bonus plan	2,346,699	7.23	1.50
Stock options	2,385,801	5.73	1.87

At June 30, 2019, no stock options are exercisable.

12. Financial instruments

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

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

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

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company’s cash and financial derivative instruments have been assessed on the fair value hierarchy described above and classified as Level 1.

Fair values of financial assets and liabilities
The Company’s financial instruments include cash, accounts receivable, financial derivative instruments, due from private placement, current liabilities, provision for future performance-based compensation and long-term debt. At June 30, 2019 cash and financial derivative instruments are carried at fair value. Accounts receivable, current liabilities and provision for future performance-based compensation approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

Commodity price risk management
Peyto uses derivative instruments to reduce its exposure to fluctuations in commodity prices. Peyto considers all of these transactions to be effective economic hedges for accounting purposes.

Following is a summary of all risk management contracts in place as at June 30, 2019:

Natural Gas **Period Hedged- Monthly Index**	**Type**	**Daily Volume**	**Price** **(AECO CAD)**
January 1, 2018 to December 31, 2020	Fixed Price	20,000 GJ	$2.00/GJ to $2.04/GJ
April 1, 2018 to March 31, 2020	Fixed Price	10,000 GJ	$1.43/GJ to $1.44/GJ
November 1, 2018 to March 31, 2020	Fixed Price	5,000 GJ	$1.57/GJ
April 1, 2019 to October 31, 2019	Fixed Price	50,000 GJ	$1.29/GJ to $1.45/GJ
April 1, 2019 to March 31, 2020	Fixed Price	80,000 GJ	$1.45/GJ to $2.50/GJ
November 1, 2019 to March 31, 2020	Fixed Price	60,000 GJ	$1.92/GJ to $2.07/GJ
April 1, 2020 to October 31, 2020	Fixed Price	15,000 GJ	$1.30/GJ
April 1, 2020 to March 31, 2021	Fixed Price	10,000 GJ	$1.64/GJ to $1.65/GJ
April 1, 2021 to October 31, 2021	Fixed Price	10,000 GJ	$1.48/GJ to $1.64/GJ

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

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

Subsequent to June 30, 2019 Peyto entered into the following contracts:

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

As at June 30, 2019, Peyto had committed to the future sale of 73,340,000 gigajoules (GJ) of natural gas at an average price of $1.70 per GJ or $1.96 per mcf and 199,800 barrels of crude at $87.96 per bbl. Had these contracts been closed on June 30, 2019, Peyto would have realized a gain in the amount of $23.0 million. If the AECO gas price on June 30, 2019 were to increase by $0.10/GJ, the unrealized gain would increase by approximately $7.3 million. An opposite change in commodity prices would result in an opposite impact on other comprehensive income.

Physical volume contracts with fixed pricing

The Company is a party to certain physical delivery contracts. The Company enters into these contracts with well-established counterparties for the purpose of protecting a portion of its future revenues from the volatility of oil and natural gas prices. A summary of contracts outstanding at June 30, 2019 are as follows:

Natural Gas - Fixed Price	**Daily Volume (mmbtu)**	**Average Price** **(USD/mmbtu)**
April 1, 2019 to October 31, 2019	180,000	$1.35
November 1, 2019 to March 31, 2020	50,000	$1.81
April 1, 2020 to October 31, 2020	35,000	$1.15

Natural Gas - Henry Hub/AECO Basis	Daily Volume (mmbtu)	Fixed Basis (USD/mmbtu)
November 1, 2019 to March 31, 2020	137,500	$1.33
April 1, 2020 to October 31, 2020	247,500	$1.42
November 1, 2020 to March 31, 2021	192,500	$1.40
April 1, 2021 to October 31, 2021	257,500	$1.42
November 1, 2021 to March 31, 2022	97,500	$1.40
April 1, 2022 to October 31, 2022	142,500	$1.40

Natural Gas - Henry Hub/Empress Basis	Daily Volume (mmbtu)	Average Price (USD/mmbtu)
November 1, 2021 to October 31, 2024	37,500	$1.04

Physical volume contracts based on benchmark pricing at delivery point:

Natural Gas - Export	Daily Volume (mmbtu)	Market
April 1, 2019 to October 31, 2019	15,000	Emerson
April 1, 2019 to October 31, 2019	25,000	Dawn
November 1, 2019 to October 31, 2021	40,000	Emerson
November 1, 2019 to March 31, 2027	20,000	Ventura
November 1, 2021 to March 31, 2023	110,000	Emerson

13. Related party transactions

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

Expense				Accounts Payable	
Three Months ended June 30		Six Months ended June 30		As at June 30	
2019	**2018**	**2019**	**2018**	**2019**	**2018**
4.2	121.3	**224.8**	277.3	**146.7**	236.2

14. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at June 30, 2019.

	2019	2020	2021	2022	2023	Thereafter
Interest payments [(1)]	13,018	26,035	20,635	20,635	16,300	35,140
Transportation commitments	16,299	29,628	26,420	42,282	27,369	242,092
Operating leases	1,120	2,240	2,240	2,315	2,315	6,946
Other	733	-	-	-	-	-
Total	31,170	57,903	49,295	65,232	45,984	284,178

(1) Fixed interest payments on senior unsecured notes

Officers

Darren Gee
President and CEO

Kathy Turgeon
Vice President, Finance and CFO

Lee Curran
Vice President, Drilling and Completions

Todd Burdick
Vice President, Production

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Engineering and COO

Stephen Chetner
Corporate Secretary

Directors
Don Gray, Chairman
Brian Davis
Michael MacBean, Lead Independent Director
Darren Gee
Gregory Fletcher
Kathy Turgeon
John Rossall

Auditors
Deloitte LLP

Solicitors
Burnet, Duckworth & Palmer LLP

Bankers
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Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
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MUFG Bank, Ltd., Canada Branch
National Bank of Canada
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