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Independent Auditor's Report

To the Shareholders of Peyto Exploration & Development Corp.

Opinion

We have audited the consolidated financial statements of Peyto Exploration & Development Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Mandeep Singh.

Deloitte LLP

Chartered Professional Accountants
Calgary, Alberta
March 3, 2020

Peyto Exploration & Development Corp.
Consolidated Balance Sheets
(Amounts in $ thousands)

	December 31 2019	December 31 2018
Assets		
Current assets		
Cash	6,185	-
Accounts receivable (*Note 13)*	61,343	60,130
Derivative financial instruments *(Note 15)*	-	65,769
Prepaid expenses	12,737	9,332
	80,265	135,231
Long-term derivative financial instruments *(Note 15)*	-	12,993
Property, plant and equipment, net *(Note 4)*	3,516,915	3,540,628
	3,516,915	3,553,621
	3,597,180	3,688,852
Liabilities		
Current liabilities		
Bank overdraft	-	19,281
Accounts payable and accrued liabilities	103,627	114,711
Dividends payable *(Note 8)*	3,297	9,892
Current portion of lease obligation *(Note 7)*	981	-
Derivative financial instruments *(Note 15)*	5,537	-
Current portion of long-term debt *(Note 5)*	-	100,000
	113,442	243,884
Long-term debt *(Note 5)*	1,120,000	1,050,000
Long-term derivative financial instruments (Note 15)	552	-
Decommissioning provision (Note 6)	165,513	153,855
Lease obligation *(Note 7)*	7,757	-
Deferred income taxes *(Note 14)*	475,999	560,651
	1,769,821	1,764,506
Equity		
Shareholders' capital *(Note 8)*	1,649,369	1,649,537
Contributed surplus (*Note 12)*	4,462	-
Retained earnings (deficit)	63,122	(29,860)
Accumulated other comprehensive (loss) income *(Note 8)*	(3,036)	60,785
	1,713,917	1,680,462
	3,597,180	3,688,852

Approved by the Board of Directors

(signed) *"Michael MacBean"*
Director

(signed) *"Darren Gee"*
Director

Peyto Exploration & Development Corp.
Consolidated Income Statements
(Amounts in $ thousands)

	Year ended December 31	
	2019	2018
Revenue		
Natural gas and natural gas liquid sales (*Note 13)*	461,548	502,146
Royalties	(13,653)	(26,622)
Sales of natural gas from third parties	8,133	-
Natural gas and natural gas liquid sales, net of royalties	**456,028**	475,524
Risk management contracts		
Realized gain on risk management contracts *(Note 15)*	**28,274**	156,760
	484,302	632,284
Expenses		
Natural gas purchased from third parties	6,893	-
Operating (*Note 9)*	59,674	62,085
Transportation	33,168	34,623
General and administrative	7,883	9,950
Market and reserves-based bonus *(Note 11)*	2,291	13,558
Stock based compensation *(Note 12)*	4,462	(9,165)
Interest *(Note 5)*	53,553	51,886
Accretion of decommissioning provision *(Note 6)*	2,865	3,291
Depletion and depreciation *(Note 4)*	243,583	289,576
	414,372	455,804
Earnings before taxes	**69,930**	176,480
Income tax		
Deferred income tax (recovery) expense *(Note 14)*	(63,565)	47,370
Earnings for the year	**133,495**	129,110
Earnings per share *(Note 8)*		
Basic and diluted	**$0.81**	$ 0.78
Weighted average number of common shares outstanding *(Note 8)*		
Basic and diluted	**164,874,175**	164,874,175

Peyto Exploration & Development Corp.

Consolidated Statements of Comprehensive Income

(Amounts in $ thousands)

	Year ended December 31	
	2019	2018
Earnings for the year	**133,495**	129,110
Other comprehensive income		
Change in unrealized (loss) gain on cash flow hedges	(56,577)	84,272
Deferred tax recovery	21,030	19,571
Realized (gain) on cash flow hedges	(28,274)	(156,760)
Comprehensive Income	**69,674**	76,193

Peyto Exploration & Development Corp.

Consolidated Statements of Changes in Equity

(Amounts in $ thousands)

	Year ended December 31	
	2019	2018
Shareholders' capital, Beginning of Year	**1,649,537**	1,649,537
Stock option issuance costs (net of tax)	(168)	-
Shareholders' capital, End of Year	**1,649,369**	1,649,537

Contributed surplus, beginning of Year	**-**	**-**
Stock based compensation expense	4,462	**-**
Contributed surplus, end of Year	**4,462**	**-**

Retained earnings (deficit), Beginning of Year	**(29,860)**	(40,261)
Impact of change in accounting policy (*Note 3*)	(943)	-
Earnings for the year	133,495	129,110
Dividends *(Note 8)*	(39,570)	(118,709)
Retained earnings (deficit), End of Year	**63,122**	(29,860)

Accumulated other comprehensive income, Beginning of Year	**60,785**	113,702
Other comprehensive loss	(63,821)	(52,917)
Accumulated other comprehensive (loss) income, End of Year	**(3,036)**	60,785

Total Equity	**1,713,917**	1,680,462

Peyto Exploration & Development Corp.

Consolidated Statements of Cash Flows

(Amounts in $ thousands)

	Year ended December 31	
	2019	2018
Cash provided by (used in)		
Operating activities		
Earnings	133,495	129,110
Items not requiring cash:		
Deferred income tax	(63,565)	47,370
Depletion and depreciation	243,583	289,576
Accretion of decommissioning provision	2,865	3,291
Stock based compensation	4,462	-
Change in non-cash working capital related to operating activities	(3,904)	17,131
	316,936	486,478
Financing activities		
Bank overdraft	(19,281)	19,281
Stock option issuance costs	(225)	-
Cash dividends paid	(46,165)	(126,953)
Lease interest *(Note 7)*	322	-
Principal repayment of lease *(Note 7)*	(1,354)	-
Increase (decrease) in bank debt	175,000	(235,000)
Repayment of senior notes	(205,000)	-
Issuance of senior notes	-	100,000
	(96,703)	(242,672)
Investing activities		
Additions to property, plant and equipment	(206,431)	(232,363)
Change in prepaid capital	3,423	(6,091)
Change in non-cash working capital relating to investing activities	(11,040)	(11,004)
	(214,048)	(249,458)
Net (decrease) increase in cash	6,185	(5,652)
Cash, beginning of year	-	5,652
Cash, end of year	6,185	-

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

Cash interest paid	**56,914**	49,020
Cash taxes paid	-	-

1. Nature of operations

Peyto Exploration & Development Corp and its subsidiary (together "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 consolidated financial statements were approved and authorized for issuance by the Board of Directors of Peyto on March 3, 2020.

2. Basis of presentation

These consolidated financial statements ("consolidated financial statements") as at and for the years ended December 31, 2019 and December 31, 2018 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 consolidated financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates. The consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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) Presentation currency

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

d) Cash Equivalents

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

e) 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.

f) 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.

g) 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.

h) 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.

i) Impairment of non-financial assets

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

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

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

j) Lease obligations and right of use assets

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. At the lease commencement date, a lease obligation is recognized at the present value of future lease payments, typically using the applicable incremental borrowing rate. A corresponding right-of-use asset is recognized at the amount of the lease obligation, adjusted for lease incentives received and initial direct costs. Peyto does not recognize leases for short-term leases with a lease term of 12 months or less, or leases for low-value assets.

Right of use assets are depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. Depreciation on lease assets is recognized in DD&A and impairment.

k) Financial instruments

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

The Company has made the following classifications:

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

Impairment of Financial Assets

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

Derivative instruments and risk management

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

Embedded derivatives

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

Normal purchase or sale exemption

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

l) Hedging

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

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

m) 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.

n) 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.

o) 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 consolidated 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.

p) Revenue recognition

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

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

q) 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

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.

t) Earnings per share

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

u) Share capital

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

3. Changes in Accounting Policies

IFRS 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 consolidated 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.

4. Property, plant and equipment, net

Cost	
At December 31, 2017	**5,453,072**
Additions	225,450
Decommissioning provision net additions	6,759
Prepaid capital	6,091
At December 31, 2018	**5,691,372**
Additions	205,455
ROU asset	8,070
Decommissioning provision additions	8,793
Prepaid capital	(3,423)
At December 31, 2019	**5,910,267**
Accumulated depletion and depreciation	
At December 31, 2017	**(1,868,080)**
Depletion and depreciation	(282,664)
At December 31, 2018	**(2,150,744)**
Depletion and depreciation	(242,608)
At December 31, 2019	**(2,393,352)**
Carrying amount at December 31, 2018	**3,540,628**
Carrying amount at December 31, 2019	**3,516,915**

During 2019 Peyto capitalized $4.2 million (2018 - $6.4 million) of general and administrative expense directly attributable to exploration and development activities.

As a result of decreases in the outlook of future natural gas prices combined with a further reduction in market capitalization 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 it carrying value. The Company determined that oil and natural gas properties were not impaired at December 31, 2019 or 2018. 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 industry weighted average cost of capital of 9 per cent.

The benchmark prices used in the Company's forecast at December 31, 2019 are outlined as follows:

	2020	2021	2022	2023	2024	2025	2026
AECO natural gas (Cdn$/MMBtu)	2.05	2.32	2.60	2.69	2.81	2.94	3.00

	2020	2021	2022	2023	2024	2025	2026
Henry Hub (US$/MMBtu)	2.50	2.75	3.00	3.15	3.25	3.35	3.42
Cdn$/US$ (1)	0.76	0.77	0.78	0.80	0.80	0.80	0.80

(1) Source: Insite Petroleum Consultants Ltd. price forecast, effective December 31, 2019.

Prices subsequent to 2037 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, 2019 and 2018.

5. Current & Long-term debt

	December 31, 2019	**December 31, 2018**
Bank credit facility	705,000	530,000
Current senior unsecured notes	-	100,000
Long-term senior unsecured notes	415,000	520,000
Balance, end of the year	**1,120,000**	**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 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

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

On October 25, 2019, the Company voluntarily repaid $120 million of senior unsecured notes due December 4, 2020. Further, on December 18, 2019 the Company voluntarily repaid $50 million of senior unsecured notes due July 3, 2022, and $35 million of senior unsecured notes due May 1, 2025. In addition, Peyto's senior debt to EBITDA covenant was amended effective December 31, 2019 to 3.5 times. This covenant is scheduled to revert to 3.25 for the fiscal quarter ending December 31, 2021.

Peyto is in compliance with all financial covenants at December 31, 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
$100 million	October 24, 2016	3.70%	October 24, 2023
$65 million	May 1, 2015	4.26%	May 1, 2025
$100 million	January 3, 2012	4.39%	January 3, 2026
$100 million	January 2, 2018	3.95%	January 2, 2028

*In any fiscal quarter where Debt to EBITDA exceeds 3.0 times but is less than 3.25 times the interest rate is increased by 100 basis points per annum. In any fiscal quarter where Debt to EBITDA exceeds 3.25 times the interest rate is increased by 150 basis points per annum.

Peyto's total borrowing capacity is $1.715 billion and Peyto's credit facility is $1.3 billion.

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

- Long-term debt plus bank overdraft and letters of credit not to exceed 3.5 times trailing twelve-month net income before non-cash items, interest and income taxes (this covenant is scheduled to revert to 3.25 times for the fiscal quarter ending December 31, 2021);
- 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.

Total interest expense for 2019 was $53.6 million (2018 - $51.9 million) and the average borrowing rate for 2019 was 4.6% (2018 – 4.3%).

6. Decommissioning provision

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

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

The following table reconciles the change in decommissioning provision:

Balance, December 31, 2017	**143,805**
New or increased provisions	6,338
Accretion of discount	3,291
Change in discount rate and estimates	421
Balance, December 31, 2018	**153,855**
New or increased provisions	5,253
Accretion of discount	2,865
Change in discount rate and estimates	3,540

Balance, December 31, 2019	165,513
Current	-
Non-current	165,513

The Company has estimated the net present value of its total decommissioning provision to be $165.5 million as at December 31, 2019 (2018 – $153.9 million) based on a total future undiscounted liability of $327.1.6 million (2018 – $301.8 million). At December 31, 2019 management estimates that these payments are expected to be made over the next 50 years (2018 – 50 years) with the majority of payments being made in years 2024 to 2070. The Bank of Canada's long-term bond rate of 2.22 per cent (2018 – 2.18 per cent) and an inflation rate of 2.0 per cent (2018 – 2.0 per cent) 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	(1,009)
Balance at December 31, 2019	**7,061**

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 consolidated 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	322
Principal repayment of lease	(1,354)
Lease obligation at December 31, 2019	**8,738**

Current portion of lease obligation at December 31, 2019	**981**
Non-current portion of lease obligation at December 31, 2019	**7,757**

The variable lease payments not included in the measurement of the office lease obligation is $0.9 million for the period ended December 31, 2019. The variable lease payments are recognized through general and administration expense.

During the period ended December 31, 2019, $15.1 million was capitalized in relation to short-term leases.

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

	As at December 31, 2019
Less than 1 year	1,354
1-3 years	4,211
4-5 years	2,857
After 5 years (lease term date December 31, 2026)	1,428
Total lease payment	9,850
Amount representing interest	(1,112)
Present value of lease payments	8,738
Current portion of lease obligation	981
Non-current portion of lease obligation	7,757

8. 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, 2017	**164,874,175**	**1,649,537**
Common shares issued by private placement	-	-
Common share issuance costs (net of tax)	-	-
Balance, December 31, 2018	**164,874,175**	**1,649,537**
Common shares issued by private placement	-	-
Stock option issuance costs (net of tax)	-	(168)
Balance, December 31, 2018	**164,874,175**	**1,649,369**

Per share amounts
Earnings per share basic and diluted have been calculated based upon the weighted average number of common shares outstanding for the year ended December 31, 2019 of 164,874,175 (2018 – 164,874,175).

Dividends
During the year ended December 31, 2019, Peyto declared and paid dividends of $0.24 per common share or $0.02 per common share for the months of January to December 2019 totaling $39.6 million (2018 - $0.72 or $0.06 per common share for the months of January to December totaling $118.7 million).

On January 15, 2020, Peyto declared dividends of $0.02 per common share that were paid on February 14, 2020. On February 18, 2020, Peyto declared dividends of $0.02 per common share to be paid to shareholders of record on February 29, 2020. These dividends will be paid on March 13, 2020.

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 15.

9. 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	
	2019	**2018**
Gross field expenses	67,978	71,478
Cost recoveries related to processing and gathering of partner production	(8,304)	(9,393)
Total operating expenses	**59,674**	62,085

10. Finance costs

	Years ended December 31	
	2019	2018
Interest expense	53,553	51,886
Accretion of decommissioning provisions	2,865	3,291
Total finance costs	**56,418**	55,177

11. 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 the period ended December 31, 2019, $2.3 million was expensed.

12. 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.

Equity compensation arrangements

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	1,551,867	7.23	1.65
Stock options	7,572,201	3.93	1.88

Market based bonus plan

The following tables summarize the rights outstanding under the market-based bonus plan at December 31, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Rights under market-based bonus plan granted	2,475,000	7.23
Forfeited	(147,200)	(7.23)
Vested and cancelled	(775,933)	(7.23)
Balance, December 31, 2019	**1,551,867**	**7.23**

The Company estimates the fair value of rights under the market-based bonus plan using the Black-Scholes pricing model. During the period ended December 31, 2019 the fair value per right was $2.10. The following tables summarizes the assumptions used in the Black-Scholes model:

	December 31, 2019
Share price	$7.23
Exercise price (net of dividends)	$7.21
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.

Stock option plans
The following tables summarize the stock options outstanding at December 31, 2019:

		Weighted average exercise price $
Balance, December 31, 2018	**-**	**-**
Stock options granted	7,736,401	3.95
Forfeited	(164,200)	5.10
Balance, December 31, 2019	**7,572,201**	**3.93**

The Company estimates the fair value of stock options using the Black-Scholes pricing model. During the period ended December 30, 2019 the weighted-average fair value per option was $1.12. The following tables summarize the assumptions used in the Black-Scholes model:

	December 30, 2019
Share price	$3.95
Exercise price	$4.10
Expected volatility	44.39%
Average option life	2 year
Risk-free interest rate	1.46%
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.

At December 31, 2019, no stock options are exercisable.

13. Revenue and receivables

	Years ended December 31	
	2019	2018
Natural Gas Sales	288,381	300,590
Natural Gas Liquid sales	173,167	201,556
Natural gas and natural gas liquid sales	**461,548**	502,146

	December 31, 2019	December 31, 2018
Accounts receivable from customers	53,248	52,759
Accounts receivable from realized risk management contracts	4	1,979
Accounts receivable from joint venture partners and other	8,091	5,392
Accounts Receivable	**61,343**	60,130

14. Income taxes

	2019	2018
Earnings before income taxes	**69,930**	176,480
Statutory income tax rate	26.50%	27.00%
Expected income taxes	18,531	47,650
Increase (decrease) in income taxes from:		
True-up tax pools	(133)	(3)
Rate change	(82,779)	-
Other	816	(277)
Total income tax (recovery) expense	**(63,565)**	47,370

Deferred income tax expense	**(63,565)**	47,370
Current income tax expense	-	-
Total income tax expense	**(63,565)**	47,370
Differences between tax base and reported amounts for depreciable assets	(519,902)	(582,320)
Derivative financial instruments	1,517	(21,266)
Share issuance costs	411	1,205
Provision for decommission provision	30,685	41,541
Charitable donations	17	9
Tax loss carry-forwards recognized	11,273	180
Deferred income taxes	**(475,999)**	(560,651)

At December 31, 2019, the Company has tax pools of approximately $1,210.1 million (2018 - $1,323.0 million) available for deduction against future income.

15. 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, 2019.

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, and long-term debt. At December 31, 2019 and 2018, cash and derivative financial instruments, are carried at fair value. Accounts receivable, due from private placement and current liabilities approximate their fair value due to their short term nature. The carrying value of the long-term debt excluding senior notes (Note 5) approximates its fair value due to the floating rate of interest charged under the credit facility.

Market risk

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

Commodity price risk management

Financial derivative instruments

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

Following is a summary of all risk management contracts in place as at December 31, 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 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	35,000 GJ	$1.30/GJ to $1.72/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	20,000 GJ	$1.48/GJ to $1.72/GJ

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (AECO CAD)
November 1, 2019 to March 31, 2020	Fixed Price	10,000 GJ	$1.85/GJ to $1.99/GJ

Crude Oil Period Hedged	Type	Daily Volume	Price (WTI USD)
January 1, 2020 to March 31, 2020	Fixed Price	1,500 bbl	$58.51/bbl to $60.28/bbl
January 1, 2020 to June 30, 2020	Fixed Price	250 bbl	$60.00/bbl

As at December 31, 2019, Peyto had committed to the future sale of 39,735,000 gigajoules (GJ) of natural gas at an average price of $1.75 per GJ or $2.01 per mcf, and 182,000 bbl of crude at an average price of $59.42 USD per bbl. Had these contracts been closed on December 31, 2019, Peyto would have realized a net loss in the amount of $6.1 million. If the AECO gas price on December 31, 2019 were to decrease by $0.10/GJ, the financial derivative liability would increase by approximately $4.0 million. An opposite change in commodity prices rates would result in an opposite impact.

Subsequent to December 31, 2019, Peyto entered into the following contracts:

Natural Gas Period Hedged – Monthly Index	Type	Daily Volume	Price (AECO CAD)
April 1, 2020 to October 31, 2020	Fixed Price	20,000 GJ	$1.65/GJ to $1.7150/GJ
April 1, 2021 to October 31, 2021	Fixed Price	15,000 GJ	$1.64/GJ to $1.7150/GJ

Natural Gas Period Hedged – Daily Index	Type	Daily Volume	Price (AECO CAD)
April 1, 2020 to October 31, 2020	Fixed Price	5,000 GJ	$1.64/GJ
April 1, 2021 to October 31, 2021	Fixed Price	5,000 GJ	$1.64/GJ

Crude Oil Period Hedged	Type	Daily Volume	Price (WTI USD)
April 1, 2020 to June 30, 2020	Fixed Price	250 bbl	$61.00/bbl

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, 2019 would decrease by $5.3 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, 2019, approximately 66% was received from four companies (14%,10%,20% and 21%) (December 31, 2018 – 24% was received from two companies (11% and 13%). Of the Company's accounts receivable at December 31, 2019, approximately 63% was receivable from four companies (11%, 11%,18% and 24%) (December 31, 2018 approximately 41% was receivable from three companies (10%, 10% and 20%) 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, 2019:

	December 31, 2019	**December 31, 2018**
Current (less than 30 days)	58,530	54,119
31-60 days	1,778	1,009
61-90 days	743	104
Past due (more than 90 days)	292	4,898
Balance, December 31, 2019	**61,343**	60,130

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, 2019, 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, 2019:

	< 1 Year	**1-2 Years**	**3-5 Years**	**Thereafter**
Accounts payable and accrued liabilities	103,627	-	-	-
Dividends payable	3,297	-	-	-
Long-term debt[(1)]	-	-	705,000	-
Unsecured senior notes	-	-	150,000	265,000

(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 2019	**December 31 2018**
Equity	1,713,917	1,680,462
Current portion of long-term debt	-	100,000
Long-term debt	1,120,000	1,050,000
Working capital deficit (surplus)	33,177	8,653
	2,867,094	2,839,115

16. 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	
2019	2018	**2019**	2018
254.9	716.4	**191.5**	650.5

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 stock options (2019) and market-based bonus and reserved based bonus (2018) to some of these individuals. Compensation expense of $1.7 million is included in general and administrative expenses, $1.9 million in stock-based compensation expense and $1.0 million in reserve-based bonus relating to key management personnel for the year 2019 (2018 - $2.0 million in general and administrative and $6.5 million in market and reserves-based bonus).

17. 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, 2019:

	2020	2021	2022	2023	2024	Thereafter
Interest payments (1)	17,249	17,249	17,249	14,809	11,109	19,600
Transportation commitments	31,881	44,583	70,933	53,670	36,981	435,544
Operating leases	2,223	2,223	2,297	2,297	2,297	4,595
Methanol	1,449	-	-	-	-	-
Total	52,802	64,055	90,479	70,776	50,387	459,739

(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

Scott Robinson
Vice President, New Ventures

Tim Louie
Vice President, Land

David Thomas
Vice President, Exploration

Jean-Paul Lachance
Vice President, Engineering and COO

Stephen Chetner
Corporate Secretary

Directors

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

Auditors

Deloitte LLP

Solicitors

Burnet, Duckworth & Palmer LLP

Bankers

Bank of Montreal
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
The Bank of Nova Scotia
MUFG Bank, Ltd., Canada Branch
National Bank of Canada
Wells Fargo Bank, N.A., Canadian Branch
Canadian Western Bank
ATB Financial

Transfer Agent

Computershare

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