

# Peyto Announces Q1 2018 Results

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CALGARY, Alberta, May 08, 2018 (GLOBE NEWSWIRE) -- Peyto Exploration & Development Corp. (TSX:PEY) ("Peyto" or the "Company") is pleased to present its operating and financial results for the first quarter of the 2018 fiscal year. A 74% operating margin <sup>(1)</sup> and a 24% profit margin <sup>(2)</sup> in the quarter delivered an annualized 11% return on equity ("ROE") and 8% return on capital employed ("ROCE"). Additional highlights included:

- Earnings of \$0.29/share, dividends of \$0.18/share. Earnings of \$47 million were generated in the quarter while dividends of \$30 million were paid to shareholders. Earnings per share of \$0.29 were up 21% from the \$0.24 in Q1 2017. The Company has never incurred a write down or recorded an impairment in its 19 year history and this quarter represents Peyto's 53<sup>rd</sup> consecutive quarter of earnings which is the best evidence shareholder's capital has been invested profitably.
- Funds from operations ("FFO") of \$0.90/share. Generated \$149 million in FFO in Q1 2018 up 7% from \$139 million in Q1 2017 (up 6%/share). For the quarter, funds from operations exceeded the combination of capital expenditures and dividends by \$84 million.
- Total cash costs of \$0.91/Mcfe (or \$0.74/Mcfe, \$4.43/boe, excluding royalties). Total cash costs, including \$0.17/Mcfe royalties, \$0.29/Mcfe operating costs, \$0.13/Mcfe transportation, \$0.08/Mcfe G&A and \$0.24/Mcfe interest, combined with a realized price of \$3.54/Mcfe, resulting in a \$2.63/Mcfe (\$15.80/boe) cash netback, or a 74% operating margin.
- Capital investment of \$35 million. A total of 8 gross wells (7.6 net) were drilled in the first quarter, 13 gross wells (12.6 net) were completed, and 14 gross wells (13.6 net) brought on production. Over the last 12 months, new wells brought on production accounted for 34,000 boe/d at the end of the quarter, which when combined with a trailing twelve month capital investment of \$403 million, equates to an annualized capital efficiency of \$11,900/boe/d.
- Production per share up 4%. First quarter 2018 production of 629 MMcfe/d (104,793 boe/d) was up 4%, on an absolute and per share basis, from 607 MMcfe/d in Q1 2017, comprised of 569 MMcf/d of natural gas and 10,043 bbls/d of oil and natural gas liquids.

## First Quarter 2018 in Review

Peyto announced early in the quarter a strategic shift in its 2018 annual plans in response to the significant volatility in forecast natural gas prices. Those changes included a deferral of 2018 capital investment to later in the year when AECO natural gas prices were forecast to recover from summer lows, a reduction in the monthly dividend, a share buyback program, a term debt issuance and a market diversification strategy. These were prudent steps to postpone investment on a portion of Peyto's lean gas inventory in order to maximize the returns from these opportunities over the longer term, while at the same time strengthening the Company's financial position in the near term. As a result of these changes, the Company drilled only 8 wells in the quarter compared to 45 wells in Q1 2017. Capital investments combined with the reduced dividend payments represented just 44% of funds from operations for the quarter, allowing for net debt reduction of \$84 million. Capital that was invested targeted liquids rich opportunities like the Cardium formation where result confirmed a significant improvement in type curve and investment return. Financial performance in the quarter remained strong with industry leading operating and profit margins delivering solid return on equity and capital employed. Peyto advanced its market diversification strategy during the quarter, with both synthetic and physical transportation agreements, as an initial step towards a corporate target of having 40% of natural gas production sold at US pricing hubs.

1. *Operating Margin is defined as funds from operations divided by revenue before royalties but including realized hedging gains/losses.*
2. *Profit Margin is defined as net earnings for the quarter divided by revenue before royalties but including realized hedging gains/losses.*

*Natural gas volumes recorded in thousand cubic feet (mcf) are converted to barrels of oil equivalent (boe) using the ratio of six (6) thousand cubic feet to one (1) barrel of oil (bbl). Natural gas liquids and oil volumes in barrel of oil (bbl) are converted to thousand cubic feet equivalent (Mcfe) using a ratio of one (1) barrel of oil to six (6) thousand cubic feet. This could be misleading, particularly if used in isolation as it is based on an energy equivalency conversion method primarily applied at the burner tip and does not represent a value equivalency at the wellhead.*

|                                                                 | Three Months Ended March 31 |             |        |
|-----------------------------------------------------------------|-----------------------------|-------------|--------|
|                                                                 | 2018                        | 2017        | Change |
| Operations                                                      |                             |             |        |
| Production                                                      |                             |             |        |
| Natural gas (mcf/d)                                             | 568,496                     | 549,037     | 4 %    |
| Oil & NGLs (bbl/d)                                              | 10,043                      | 9,586       | 5 %    |
| Thousand cubic feet equivalent (mcf/d @ 1:6)                    | 628,755                     | 606,556     | 4 %    |
| Barrels of oil equivalent (boe/d @ 6:1)                         | 104,793                     | 101,093     | 4 %    |
| Production per million common shares (boe/d)*                   | 636                         | 613         | 4 %    |
| Product prices                                                  |                             |             |        |
| Natural gas (\$/mcf)                                            | 2.86                        | 2.96        | -3 %   |
| Oil & NGLs (\$/bbl)                                             | 59.67                       | 48.14       | 24 %   |
| Operating expenses (\$/mcf)                                     | 0.29                        | 0.29        | -      |
| Transportation (\$/mcf)                                         | 0.13                        | 0.17        | -24 %  |
| Field netback (\$/mcf)                                          | 2.95                        | 2.79        | 6 %    |
| General & administrative expenses (\$/mcf)                      | 0.08                        | 0.04        | 100 %  |
| Interest expense (\$/mcf)                                       | 0.24                        | 0.20        | 20 %   |
| Financial (\$000, except per share*)                            |                             |             |        |
| Revenue and realized hedging gains (losses)                     | 200,397                     | 187,849     | 7 %    |
| Royalties                                                       | 9,543                       | 10,635      | -10 %  |
| Funds from operations                                           | 148,986                     | 139,305     | 7 %    |
| Funds from operations per share                                 | 0.90                        | 0.85        | 6 %    |
| Total dividends                                                 | 29,677                      | 54,387      | -45 %  |
| Total dividends per share                                       | 0.18                        | 0.33        | -45 %  |
| Payout ratio                                                    | 20                          | 39          | -49 %  |
| Earnings                                                        | 47,749                      | 40,255      | 19 %   |
| Earnings per diluted share                                      | 0.29                        | 0.24        | 21 %   |
| Capital expenditures                                            | 35,454                      | 153,874     | -77 %  |
| Weighted average common shares outstanding                      | 164,874,175                 | 164,800,637 | -      |
| As at March 31                                                  |                             |             |        |
| End of period shares outstanding (includes shares to be issued) | 164,874,175                 | 164,874,175 | -      |
| Net debt                                                        | 1,243,291                   | 1,203,988   | 3 %    |
| Shareholders' equity                                            | 1,725,131                   | 1,632,390   | 6 %    |
| Total assets                                                    | 3,762,835                   | 3,543,556   | 6 %    |

\*all per share amounts using weighted average common shares outstanding

|                                                        | Three Months Ended March 31 |         |
|--------------------------------------------------------|-----------------------------|---------|
| (\$000 except per share)                               | 2018                        | 2017    |
| Cash flows from operating activities                   | 143,995                     | 121,137 |
| Change in non-cash working capital                     | 3,913                       | 16,160  |
| Change in provision for performance based compensation | 1,078                       | 2,008   |
| Funds from operations                                  | 148,986                     | 139,305 |
| Funds from operations per share                        | 0.90                        | 0.85    |

(1) Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate comparative analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non-recurring cash and non-recurring expenses. Management believes that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Funds from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning prescribed by GAAP. Therefore, funds from operations, as defined by Peyto, may not be comparable to similar measures presented by other issuers, and investors are cautioned that funds from operations should

*not be construed as an alternative to net earnings, cash flow from operating activities or other measures of financial performance calculated in accordance with GAAP. Funds from operations cannot be assured and future dividends may vary.*

## Exploration & Development

First quarter 2018 activity focused on the Greater Sundance areas, finishing up on the winter drilling program that began in the fall. In total, three horizontal Cardium wells were drilled and five Spirit River horizontal wells were drilled as shown in the table below. The Company continues to focus on the improved Cardium results coming from optimization of stimulation design.

| Zone        | Field    |          |         |        |         | Kisku/<br>Kakwa | Brazeau | Total<br>Wells<br>Drilled |
|-------------|----------|----------|---------|--------|---------|-----------------|---------|---------------------------|
|             | Sundance | Nosehill | Wildhay | Ansell | Berland |                 |         |                           |
| Belly River |          |          |         |        |         |                 |         |                           |
| Cardium     | 2        |          | 1       |        |         |                 |         | 3                         |
| Notikewin   |          |          |         | 1      |         |                 |         | 1                         |
| Falher      |          |          |         |        |         |                 |         |                           |
| Wilrich     |          | 2        |         | 2      |         |                 |         | 4                         |
| Bluesky     |          |          |         |        |         |                 |         |                           |
| Total       | 2        | 2        | 1       | 3      |         |                 |         | 8                         |

Horizontal well drilling costs (per meter drilled) in Q1 2018 were in line with both 2016 and 2017. Completion costs (per meter of horizontal lateral) were also similar to 2017; however, costs per stage have continued to decrease as reduced spacing, particularly in the Cardium, has yielded superior results. The following table illustrates the progression of cost optimization designed to contribute to lower overall development costs and greater returns:

|                         | 2010    | 2011    | 2012    | 2013    | 2014    | 2015   | 2016   | 2017   | 2018<br>Q1 |
|-------------------------|---------|---------|---------|---------|---------|--------|--------|--------|------------|
| Gross Hz Spuds          | 52      | 70      | 86      | 99      | 123     | 140    | 126    | 135    | 8          |
| Measured Depth (m)      | 3,762   | 3,903   | 4,017   | 4,179   | 4,251   | 4,309  | 4,197  | 4,229  | 4,091      |
| Drilling (\$MM/well)    | \$2.76  | \$2.82  | \$2.79  | \$2.72  | \$2.66  | \$2.16 | \$1.82 | \$1.90 | \$1.74     |
| \$ per meter            | \$734   | \$723   | \$694   | \$651   | \$626   | \$501  | \$433  | \$450  | \$425      |
| Completion (\$MM/well)  | \$1.36  | \$1.68  | \$1.67  | \$1.63  | \$1.70  | \$1.21 | \$0.86 | \$1.00 | \$1.15     |
| Hz Length (m)           | 1,335   | 1,303   | 1,358   | 1,409   | 1,460   | 1,531  | 1,460  | 1,241  | 1,415      |
| \$ per Hz Length (m)    | \$1,017 | \$1,286 | \$1,231 | \$1,153 | \$1,166 | \$792  | \$587  | \$803  | \$810      |
| \$ &lsquo;000 per Stage | \$231   | \$246   | \$257   | \$188   | \$168   | \$115  | \$79   | \$81   | \$61       |

## Capital Expenditures

During the first quarter of 2018, Peyto invested \$14 million on drilling, \$17 million on completions, \$4 million on wellsite equipment and tie-ins, \$4 million on facilities and major pipeline projects, and \$1 million on lands and seismic, for capital investments of \$39.5 million. Peyto also disposed of some minor, non-producing property in the quarter for \$4.0 million, reducing total capital to \$35 million.

In addition to the 8 gross (7.6 net) horizontal wells, 13 gross (12.6 net) wells were completed and 14 gross (13.6 net) wells were equipped and tied in. Peyto also completed construction of a \$3 million pipeline under the Sundance provincial park that connects the Swanson and Galloway gas plants.

## Commodity Prices

Average daily AECO natural gas prices were \$1.97/GJ in Q1 2018, up 23% from \$1.60/GJ in Q4 2017 but down 23% from \$2.55/GJ in Q1 2017. This volatility was in contrast to US Henry Hub spot prices which averaged \$3.08/MMBTU for the quarter, similar to the \$3.01/MMBTU in Q1 2017. A change in the prioritization of gas transmission service on the NGTL system in August 2017, which severely inhibited the

ability for Alberta storage reservoirs to buffer the supply/demand imbalances, has led to daily market instability and extreme volatility in AECO daily prices, predominantly during summer months. This was further compounded by a surge of basin production in the fall of 2017 combined with a lack of access to external markets beyond Western Canada, all of which has contributed to the dramatic drop in average Alberta natural gas price relative to US pricing.

On average for Q1 2018, Peyto realized a natural gas price of \$2.49/GJ or \$2.86/Mcf. This was the result of a combination of approximately 12% of natural gas production being sold in the daily or monthly spot market at an average of \$1.72/GJ (\$1.98/Mcf) and 88% having been pre-sold at an average hedged price of \$2.62/GJ (prices reported net of TCPL fuel).

Peyto's Q1 2018 liquid recoveries averaged 18 bbl/mmcf with a blended, realized, oil and natural gas liquids price of \$59.67/bbl, which represented 83% of the \$72.09/bbl average Canadian Light Sweet posted price. Details of realized commodity prices by component are shown in the following table:

#### Commodity Prices by Component

|                                                   |              | Three Months ended March 31 |       |
|---------------------------------------------------|--------------|-----------------------------|-------|
|                                                   |              | 2018                        | 2017  |
| AECO monthly                                      | (\$/GJ)      | 1.76                        | 2.79  |
| AECO daily                                        | (\$/GJ)      | 1.97                        | 2.55  |
| Henry Hub spot                                    | (\$US/MMBTU) | 3.08                        | 3.01  |
| Natural gas – prior to hedging                    | (\$/GJ)      | 1.72                        | 2.73  |
|                                                   | (\$/mcf)     | 1.98                        | 3.14  |
| Natural gas – after hedging                       | (\$/GJ)      | 2.49                        | 2.58  |
|                                                   | (\$/mcf)     | 2.86                        | 2.96  |
| Oil and natural gas liquids (\$/bbl)              |              |                             |       |
| Condensate (\$/bbl)                               |              | 72.56                       | 60.91 |
| Propane (\$/bbl)                                  |              | 26.04                       | 15.19 |
| Butane (\$/bbl)                                   |              | 40.83                       | 29.12 |
| Pentane (\$/bbl)                                  |              | 79.26                       | 64.60 |
| Total Oil and natural gas liquids (\$/bbl)        |              | 59.67                       | 48.14 |
| Canadian Light Sweet stream (\$/bbl)              |              | 72.09                       | 62.19 |
| Peyto realized liquids price/Canadian Light Sweet |              | 83%                         | 77%   |

*Liquids prices are Peyto realized prices (F.O.B. plant gate) in Canadian dollars adjusted for fractionation and transportation.*

#### Financial Results

Approximately 27%, or \$0.95/Mcfe, of Peyto's revenue came from its liquids sales while 73%, or \$2.59/Mcfe, came from natural gas and natural gas hedging. This liquids revenue covered all cash costs. Cash costs of \$0.91/Mcfe, included royalties of \$0.17/Mcfe, operating costs of \$0.29/Mcfe, transportation costs of \$0.13/Mcfe, G&A of \$0.08/Mcfe and interest costs of \$0.24/Mcfe. Cash costs were slightly higher than Q1 2017 due to increased interest rates and lower capital overhead recoveries from reduced capital expenditures. These total cash costs, when deducted from realized revenues of \$3.54/Mcfe, resulted in a cash netback of \$2.63/Mcfe or a 74% operating margin. Historical cash costs and operating margins are shown in the following table. Going forward, Peyto's goal is to achieve per unit cash costs in the \$0.80-\$0.90/Mcfe levels for the balance of 2018.

|                 | 2014 |      |      |      | 2015 |      |      |      | 2016 |      |      |      | 2017 |      |    |    | 2018 |    |    |    |
|-----------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|----|----|------|----|----|----|
| (\$/Mcfe)       | FY   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2   | Q3   | Q4   | Q1   | Q2 | Q3 | Q4   | Q1 | Q2 | Q3 |
| Revenue         | 5.04 | 4.17 | 3.81 | 3.80 | 3.58 | 3.24 | 2.92 | 3.16 | 3.38 | 3.44 | 3.36 | 3.24 | 3.50 | 3.54 |    |    |      |    |    |    |
| Royalties       | 0.38 | 0.18 | 0.13 | 0.15 | 0.13 | 0.13 | 0.10 | 0.12 | 0.18 | 0.19 | 0.17 | 0.09 | 0.15 | 0.17 |    |    |      |    |    |    |
| Operating Costs | 0.34 | 0.32 | 0.31 | 0.28 | 0.25 | 0.23 | 0.26 | 0.25 | 0.26 | 0.29 | 0.24 | 0.26 | 0.28 | 0.29 |    |    |      |    |    |    |

|                  |      |      |      |      |      |      |      |      |      |      |      |      |      |      |
|------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Transportation   | 0.13 | 0.15 | 0.15 | 0.16 | 0.16 | 0.16 | 0.17 | 0.16 | 0.16 | 0.17 | 0.18 | 0.17 | 0.16 | 0.13 |
| G&A              | 0.03 | 0.04 | 0.04 | 0.02 | 0.05 | 0.03 | 0.06 | 0.04 | 0.03 | 0.04 | 0.05 | 0.03 | 0.03 | 0.08 |
| Interest         | 0.21 | 0.20 | 0.19 | 0.19 | 0.16 | 0.17 | 0.21 | 0.19 | 0.18 | 0.20 | 0.21 | 0.21 | 0.21 | 0.24 |
| Total Cash Costs | 1.09 | 0.89 | 0.82 | 0.80 | 0.75 | 0.72 | 0.80 | 0.76 | 0.81 | 0.89 | 0.85 | 0.76 | 0.83 | 0.91 |
| Netback          | 3.95 | 3.28 | 2.99 | 3.00 | 2.83 | 2.52 | 2.12 | 2.40 | 2.57 | 2.55 | 2.51 | 2.48 | 2.67 | 2.63 |
| Operating Margin | 78%  | 79%  | 78%  | 79%  | 79%  | 78%  | 73%  | 76%  | 76%  | 74%  | 75%  | 76%  | 76%  | 74%  |

Depletion, depreciation and amortization charges of \$1.44/Mcfe, along with a provision for deferred tax and market based bonus payments reduced the cash netback to earnings of \$0.84/Mcfe, or a 24% profit margin. Dividends of \$0.52/Mcfe were paid to shareholders.

Peyto continued to protect its balance sheet from rising interest rates with the closing of another private placement of senior unsecured notes in the first quarter. On January 2, 2018 Peyto issued CND\$100 million of senior unsecured notes which bear a coupon rate of 3.95% and mature on January 2, 2028. The issuance of senior notes expanded Peyto's aggregate borrowing capacity to \$1.92 billion, split into a \$1.3 billion, 4 year revolver and \$0.62 billion of senior unsecured notes.

### Market Diversification and Hedging Strategy

Early in the first quarter Peyto announced that its Board of Directors had approved a new natural gas market diversification strategy. This was meant to complement the Company's historically successful hedging strategy which to date has yielded over \$530 million in hedging gains. The diversification strategy is designed to link 40% of Peyto's natural gas sales to AECO based pricing, 40% to US based pricing and 20% to intra-Alberta markets. As has been Company practice, Peyto will continue to hedge future prices to smooth out the volatility in both AECO and US natural gas markets. To date, the Company has been successful initiating this marketing plan, putting in place both synthetic and physical transportation arrangements for future natural gas volumes. It is expected the above targets will be gradually achieved over several quarters through careful consideration of deal structure, long term transportation cost and market conditions.

Specifically in the short term, the Company has focused on the vulnerability of AECO summer prices when reduced intra-Alberta consumption requires movement of production to southern Alberta storage, a requirement that can no longer be satisfied due to insufficient Nova Gas Transmission Ltd. ("NGTL") pipeline capacity given the migration of Alberta production to the northwest corner of the province. The current pipeline deficiencies are targeted for expansion over the next couple of years and this work should eventually correct the AECO summer pricing handicap. In the interim, Peyto has focused on near term summer diversification as well as longer term, full year diversification. The following table outlines the approximate percentage of current natural gas sales that are split by market as of May 1, 2018.

| Percentage of current gas volume* | 2018<br>Summer/<br>Winter | 2019<br>Summer | 2019/20<br>Winter | 2020<br>Summer | 2020/21<br>Winter | 2021<br>Summer | 2021/22<br>Winter | 2022<br>Summer | 2022/23<br>Winter |
|-----------------------------------|---------------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|----------------|-------------------|
| AECO Based Pricing                | 100 %                     | 89 %           | 98 %              | 89 %           | 98 %              | 86 %           | 73 %              | 63 %           | 73 %              |
| Non-AECO Based Pricing            | -                         | 11 %           | 2 %               | 11 %           | 2 %               | 14 %           | 27 %              | 37 %           | 27 %              |

\*Winter period is from November to March, summer period is April to October

Peyto has additional initiatives in progress directed towards contracting future production volumes to strong intra-Alberta markets. There has been much discussion about Alberta's economic diversification and the recent government announcement of two royalty incentive programs designed to stimulate investment into the development of additional petrochemical plants requiring natural gas and NGL feedstock. Peyto's Greater Sundance asset base is geographically well situated and the concentrated collection of resource, along with pipeline, road and rail infrastructure, is a ideal source of supply for many of these projects which include petrochemical manufacturing, power generation, and NGL product upgrade. Consequently, Peyto is involved in active discussions for supply of future natural gas and NGL volumes to many of these exciting ventures.

The current volatility in natural gas markets in Alberta remains extremely high, reinforcing the value of

Peyto's hedging practice of layering in future sales in the form of fixed price swaps. For the balance of 2018, approximately 77% of Company forecast gas volumes have been hedged to protect against this increased AECO volatility. Peyto's hedging program aims to achieve a fixed price on a descending, graduated schedule of up to 85% of gross production for the immediate summer or winter season and 75%, 65%, 55%, 45% and 30% targets thereafter for the successive following seasons. These fixed prices, which are settled against the AECO Monthly price, are achieved through a series of frequent transactions which are similar to "cost averaging"; the future gas prices in order to smooth out volatility. The following table summarizes the remaining hedged natural gas volumes and prices for the upcoming years as of May 1, 2018:

|       | Future Sales |             | Average Price (CAD) |
|-------|--------------|-------------|---------------------|
|       | GJ           | Mcf         | \$/Mcf              |
| 2018  | 112,735,000  | 98,030,435  | \$2.46              |
| 2019  | 71,980,000   | 62,591,304  | \$2.86              |
| 2020  | 11,830,000   | 10,286,957  | \$2.00              |
| 2021  | 1,970,000    | 1,713,043   | \$1.60              |
| Total | 196,545,000  | 170,908,696 | \$2.02              |

*\*prices and volumes in mcf use Peyto's historic heat content premium of 1.15.*

Both the market diversification and hedging strategies are designed to remove the uncertainty of system access and AECO price volatility while at the same time leaving Peyto with the maximum operating margin and future market optionality.

#### Activity Update

Since the end of the first quarter, drilling and completion activity has been suspended due to spring break up. In April, Peyto finished the installation of a strategic pipeline under the Sundance provincial park which directly connects the Peyto owned and operated Swanson and Galloway gas plants. This pipeline will allow for greater operational flexibility resulting in reduced operating costs as well as increased liquids recovery.

Peyto has also used this period of reduced activity to sharpen its drilling and well completion designs, focus on cost reduction initiatives, and acquire licenses for the post break up drilling program. The Company expects to be back drilling in early June once road bans are removed, initially starting with 3 drilling rigs focused on the Cardium resource play in the Greater Sundance area. Peyto plans to drill and bring on production another 40 to 50 Cardium locations during the remainder of 2018.

#### Outlook

Despite the outlook for weak AECO spot natural gas prices for the summer of 2018, Peyto remains bullish on the prospect for stronger pricing in the following winter season and has planned the timing of its capital program and subsequent production additions accordingly. The Company is confident that the much improved returns in its Cardium play, as a result of innovation in completion design, will support expanding capital investment going forward, even at current strip pricing. Longer term, both market diversification strategies and NGTL system expansions should help reduce the discount to AECO price further enhancing returns for shareholders. The quality of Peyto's resource base, supported by its strategic midstream assets provides the springboard for these future opportunities.

#### Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the Q1 2018 financial results on May 9<sup>th</sup>, 2018 at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). Please see the press release for conference call details. To participate, please call 1-844-492-6041 (North America) or 1-478-219-0837 (International). Shareholders and interested investors are encouraged to ask questions about Peyto and its most recent results. Questions can be

submitted prior to the call at [info@peyto.com](mailto:info@peyto.com). The conference call can also be accessed through the internet at <https://edge.media-server.com/m6/p/xvh25whg>. The conference call will be archived on the Peyto Exploration & Development website at [www.peyto.com](http://www.peyto.com).

#### Annual General Meeting

Peyto's Annual General Meeting of Shareholders is scheduled for 3:00 p.m. on Thursday, May 10, 2018 at the Eau Claire Tower, +15 level, 600 &ndash; 3<sup>rd</sup> Avenue SW, Calgary, Alberta. A video of the presentation shown at the meeting will be available on the website at a later date. Shareholders are encouraged to visit the Peyto website at [www.peyto.com](http://www.peyto.com) where there is a wealth of information designed to inform and educate investors.

#### Management's Discussion and Analysis

A copy of the third quarter report to shareholders, including the MD&A, audited financial statements and related notes, is available at <http://www.peyto.com/Files/Financials/2018/Q12018MDandA.pdf> and will be filed at SEDAR, [www.sedar.com](http://www.sedar.com) at a later date.

Darren Gee  
President and CEO  
May 8, 2018

#### Cautionary Statements

#### Forward-Looking Statements

*This news release contains certain forward-looking statements or information ("forward-looking statements") as defined by applicable securities laws that involve substantial known and unknown risks and uncertainties, many of which are beyond Peyto's control. These statements relate to future events or the Company's future performance. All statements other than statements of historical fact may be forward-looking statements. The use of any of the words "plan", "expect", "prospective", "project", "intend", "believe", "should", "anticipate", "estimate", or other similar words or statements that certain events "may" or "will" occur are intended to identify forward-looking statements. The projections, estimates and beliefs contained in such forward-looking statements are based on management's estimates, opinions, and assumptions at the time the statements were made, including assumptions relating to: the impact of economic conditions in North America and globally; industry conditions; changes in laws and regulations including, without limitation, the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; increased competition; the availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or interest rates; stock market volatility and fluctuations in market valuations of companies with respect to announced transactions and the final valuations thereof; results of exploration and testing activities; and the ability to obtain required approvals and extensions from regulatory authorities. Management of the Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Peyto will derive from them. As such, undue reliance should not be placed on forward-looking statements. Forward-looking statements contained herein include, but are not limited to, statements regarding: the implementation of the Company's natural gas marketing diversification strategy; the progress of the Company's additional initiatives directed towards contracting future production volumes; Peyto's hedging program; the benefits of the new strategic pipeline under the Sundance provincial park; the expectation to recommencing drilling in early June and the drilling program for the remainder of 2018; and pricing expectations for the winter season and the Company's capital expenditure program.*

*The forward-looking statements contained herein are subject to numerous known and unknown risks and uncertainties that may cause Peyto's actual financial results, performance or achievement in future periods to differ materially from those expressed in, or implied by, these forward-looking statements, including but not limited to, risks associated with: imprecision of reserves estimates; competition from other industry participants; failure to secure required equipment; changes in general global economic conditions including, without limitations, the economic conditions in North America; increased competition; the lack of availability of qualified operating or management personnel; fluctuations in commodity prices, foreign exchange or*

interest rates; environmental risks; changes in laws and regulations including, without limitation, the adoption of new environmental and tax laws and regulations and changes in how they are interpreted and enforced; the results of exploration and development drilling and related activities; the ability to access sufficient capital from internal and external sources; and stock market volatility. In addition, to the extent that any forward-looking statements presented herein constitutes future-oriented financial information or financial outlook, as defined by applicable securities legislation, such information has been approved by management of Peyto and has been presented to provide management's expectations used for budgeting and planning purposes and for providing clarity with respect to Peyto's strategic direction based on the assumptions presented herein and readers are cautioned that this information may not be appropriate for any other purpose. Readers are encouraged to review the material risks discussed in Peyto's annual information form for the year ended December 31, 2017 under the heading "Risk Factors" and in Peyto's annual management's discussion and analysis under the heading "Risk Management".

The Company cautions that the foregoing list of assumptions, risks and uncertainties is not exhaustive. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Peyto's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Peyto will derive there from. The forward-looking statements, including any future-oriented financial information or financial outlook, contained in this news release speak only as of the date hereof and Peyto does not assume any obligation to publicly update or revise them to reflect new information, future events or circumstances or otherwise, except as may be required pursuant to applicable securities laws.

#### Barrels of Oil Equivalent

To provide a single unit of production for analytical purposes, natural gas production and reserves volumes are converted mathematically to equivalent barrels of oil (BOE). Peyto uses the industry-accepted standard conversion of six thousand cubic feet of natural gas to one barrel of oil (6 Mcf = 1 bbl). The 6:1 BOE ratio is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead and is not based on current prices. While the BOE ratio is useful for comparative measures and observing trends, it does not accurately reflect individual product values and might be misleading, particularly if used in isolation. As well, given that the value ratio, based on the current price of crude oil to natural gas, is significantly different from the 6:1 energy equivalency ratio, using a 6:1 conversion ratio may be misleading as an indication of value.

#### Non-IFRS Measurements

Within this news release references are made to terms commonly used in the oil and gas industry. Funds from operations, funds from operations per share and netbacks do not have any standardized meaning under IFRS and previous GAAP and are referred to as non-IFRS measures. Funds from operations are described in footnote 1 to the first table on page 2 of this news release. Netbacks are a non-IFRS measure that represents the profit margin associated with the production and sale of petroleum and natural gas. Netbacks are per unit of production measures used to assess Peyto's performance and efficiency. The primary factors that produce Peyto's strong netbacks and high margins are a low cost structure and the high heat content of its natural gas that results in higher commodity prices. The Company's calculation of the non-IFRS measures included herein may differ from the calculation of similar measures by other issuers. Therefore, the Company's non-IFRS measures may not be comparable to other similar measures used by other issuers. Non-IFRS measures should only be used in conjunction with the Company's annual audited and interim financial statements. A reconciliation of these measures can be found on pages 2 and 9 of Peyto's management's discussion and analysis for the three months ended March 31, 2018.

Peyto Exploration & Development Corp.  
Condensed Balance Sheet (unaudited)  
(Amount in \$ thousands)

March 31 December 31  
2018 2017

Assets

|                                                              |           |           |
|--------------------------------------------------------------|-----------|-----------|
| Current assets                                               |           |           |
| Cash                                                         | -         | 5,652     |
| Accounts receivable (Note 8)                                 | 80,978    | 90,242    |
| Derivative financial instruments (Note 10)                   | 117,577   | 135,017   |
| Prepaid expenses                                             | 12,606    | 12,578    |
|                                                              | 211,161   | 243,489   |
| Long-term derivative financial instruments (Note 10)         | 11,867    | 16,233    |
| Property, plant and equipment, net (Note 4)                  | 3,539,807 | 3,584,992 |
|                                                              | 3,551,674 | 3,601,225 |
|                                                              | 3,762,835 | 3,844,714 |
| Liabilities                                                  |           |           |
| Current liabilities                                          |           |           |
| Accounts payable and accrued liabilities                     | 56,983    | 132,776   |
| Dividends payable (Note 7)                                   | 9,893     | 18,136    |
| Provision for future performance-based compensation (Note 9) | 10,243    | 9,166     |
| Current portion of long-term debt (Note 5)                   | 100,000   | -         |
|                                                              | 177,119   | 160,078   |
| Long-term debt (Note 5)                                      | 1,170,000 | 1,285,000 |
| Provision for future performance-based compensation (Note 9) | 115       | -         |
| Decommissioning provision (Note 6)                           | 145,844   | 143,805   |
| Deferred income taxes                                        | 544,626   | 532,853   |
|                                                              | 1,860,585 | 1,961,658 |
| Equity                                                       |           |           |
| Share capital (Note 7)                                       | 1,649,537 | 1,649,537 |
| Retained earnings (deficit)                                  | (22,189)  | (40,2610  |
| Accumulated other comprehensive loss (Note 7)                | 97,783    | 113,702   |
|                                                              | 1,725,131 | 1,722,978 |
|                                                              | 3,762,835 | 3,844,714 |

See accompanying notes to the financial statements.

Approved by the Board of Directors

(signed) &ldquo;Michael MacBean&rdquo; (signed) &ldquo;Darren Gee&rdquo;  
Director Director

Peyto Exploration & Development Corp.  
Condensed Income Statement (unaudited)  
(Amount in \$ thousands)

|                                                             | Three months ended March 31 |          |
|-------------------------------------------------------------|-----------------------------|----------|
|                                                             | 2018                        | 2017     |
| Revenues                                                    |                             |          |
| Natural gas and natural gas liquid sales (Note 8)           | 155,168                     | 197,036  |
| Royalties                                                   | (9,543)                     | (10,635) |
| Natural gas and natural gas liquid sales, net of royalties  | 145,625                     | 186,401  |
| Risk management contracts                                   |                             |          |
| Realized gain (loss) on risk management contracts (Note 10) | 45,229                      | (9,087)  |
|                                                             | 190,854                     | 177,314  |
| Expenses                                                    |                             |          |

|                                                 |         |         |
|-------------------------------------------------|---------|---------|
| Operating                                       | 16,454  | 15,684  |
| Transportation                                  | 7,686   | 9,467   |
| General and administrative                      | 4,268   | 2,313   |
| Future performance-based compensation (Note 9)  | 1,193   | 3,370   |
| Interest                                        | 13,460  | 10,544  |
| Accretion of decommissioning provision (Note 6) | 804     | 750     |
| Depletion and depreciation (Note 4)             | 81,579  | 80,043  |
|                                                 | 125,444 | 122,171 |
| Earnings before taxes                           | 65,410  | 55,143  |
| Income tax                                      |         |         |
| Deferred income tax expense                     | 17,661  | 14,888  |
| Earnings for the period                         | 47,749  | 40,255  |
| Earnings per share (Note 7)                     |         |         |
| Basic and diluted                               | \$0.29  | 0.24    |

Peyto Exploration & Development Corp.  
Condensed Statement of Comprehensive Income (*unaudited*)  
(Amount in \$ thousands)

|                                               | Three months ended<br>March 31 |          |
|-----------------------------------------------|--------------------------------|----------|
|                                               | 2018                           | 2017     |
| Earnings for the period                       | 47,749                         | 40,255   |
| Other comprehensive income                    |                                |          |
| Change in unrealized gain on cash flow hedges | 23,422                         | 131,960  |
| Deferred income tax recovery (expense)        | 5,888                          | (38,083) |
| Realized (gain) loss on cash flow hedges      | (45,229)                       | 9,087    |
| Comprehensive income                          | 31,830                         | 143,219  |

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

|                                                  | Three months ended<br>March 31 |           |
|--------------------------------------------------|--------------------------------|-----------|
|                                                  | 2018                           | 2017      |
| Share capital, beginning of period               | 1,649,537                      | 1,641,982 |
| Common shares issued by private placement        | -                              | 7,574     |
| Common shares issuance costs (net of tax)        | -                              | (19)      |
| Share capital, end of period                     | 1,649,537                      | 1,649,537 |
| Common shares to be issued, beginning of period  | -                              | 4,930     |
| Common shares issued                             | -                              | (4,930)   |
| Common shares to be issued, end of period        | -                              | -         |
| Retained earnings (deficit), beginning of period | (40,261)                       | 776       |
| Earnings for the period                          | 47,749                         | 40,255    |
| Dividends (Note 7)                               | (29,677)                       | (54,388)  |
| Retained earnings (deficit), end of period       | (22,189)                       | (13,357)  |

|                                                                    |           |           |
|--------------------------------------------------------------------|-----------|-----------|
| Accumulated other comprehensive income (loss), beginning of period | 113,702   | (106,754) |
| Other comprehensive (income) loss                                  | (15,919)  | 102,964   |
| Accumulated other comprehensive income (loss), end of period       | 97,783    | (3,790)   |
| Total equity                                                       | 1,725,131 | 1,632,390 |

Peyto Exploration & Development Corp.  
Condensed Statement of Cash Flows (*unaudited*)  
(Amount in \$ thousands)

|                                                                             | Three months ended<br>March 31 |           |
|-----------------------------------------------------------------------------|--------------------------------|-----------|
|                                                                             | 2018                           | 2017      |
| Cash provided by (used in)<br>operating activities                          |                                |           |
| Earnings                                                                    | 47,749                         | 40,255    |
| Items not requiring cash:                                                   |                                |           |
| Deferred income tax                                                         | 17,661                         | 14,888    |
| Depletion and depreciation                                                  | 81,579                         | 80,043    |
| Accretion of decommissioning provision                                      | 804                            | 750       |
| Long term portion of future performance-based compensation                  | 115                            | 1,361     |
| Change in non-cash working capital related to operating activities          | (3,913)                        | (16,160)  |
|                                                                             | 143,995                        | 121,137   |
| Financing activities                                                        |                                |           |
| Issuance of common shares                                                   | -                              | 7,574     |
| Issuance costs                                                              | -                              | (26)      |
| Cash dividends paid                                                         | (37,921)                       | (54,361)  |
| Increase in senior notes                                                    | 100,000                        | -         |
| Increase (decrease) in bank debt                                            | (115,000)                      | 65,000    |
|                                                                             | (52,921)                       | 18,187    |
| Investing activities                                                        |                                |           |
| Additions to property, plant and equipment                                  | (35,454)                       | (153,874) |
| Change in prepaid capital                                                   | 295                            | (6,598)   |
| Change in non-cash working capital relating to investing activities         | (61,567)                       | 19,046    |
|                                                                             | (96,726)                       | (141,426) |
| Net (decrease) in cash                                                      | (5,652)                        | (2,102)   |
| Cash, beginning of period                                                   | 5,652                          | 2,102     |
| Cash, end of period                                                         | -                              | -         |
| The following amounts are included in cash flows from operating activities: |                                |           |
| Cash interest paid                                                          | 11,044                         | 9,432     |
| Cash taxes paid                                                             | -                              | -         |

Peyto Exploration & Development Corp.  
Notes to Condensed Financial Statements (*unaudited*)  
As at and for the three months ended March 31, 2018 and 2017  
(Amount in \$ thousands, except as otherwise noted)

## 1. Nature of operations

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

These financial statements were approved and authorized for issuance by the Audit Committee of Peyto on May 7, 2018.

## 2. Basis of presentation

The condensed financial statements have been prepared by management and reported in Canadian dollars in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These condensed financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's financial statements as at and for the years ended December 31, 2017 and 2016.

### Significant Accounting Policies

#### (a) Significant Accounting Judgments Estimates and Assumptions

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

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, 2017 and 2016.

#### (b) Recent Accounting Pronouncements

##### Standards issued but not yet effective

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

## 3. Changes in Accounting Policies

### IFRS 9 "Financial instruments"

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

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

## Financial instruments

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

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

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

## IFRS 15 "Revenue from contracts with customers"

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

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

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

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

## 4. Property, plant and equipment, net

|                                        |             |
|----------------------------------------|-------------|
| Cost                                   |             |
| At December 31, 2017                   | 5,453,072   |
| Additions                              | 35,454      |
| Decommissioning provision additions    | 1,235       |
| Prepaid capital                        | (295)       |
| At March 31, 2018                      | 5,489,466   |
| Accumulated depletion and depreciation |             |
| At December 31, 2017                   | (1,868,080) |
| Depletion and depreciation             | (81,579)    |
| At March 31, 2018                      | (1,949,659) |

|                                      |           |
|--------------------------------------|-----------|
| Carrying amount at December 31, 2017 | 3,584,992 |
| Carrying amount at March 31, 2018    | 3,539,807 |

During the period ended March 31, 2018, Peyto capitalized \$0.6 million (2017 - \$2.1 million) of general and administrative expense directly attributable to production and development activities.

## 5. Current and Long-term debt

|                                  | March 31, 2018 | December 31, 2017 |
|----------------------------------|----------------|-------------------|
| Current senior unsecured notes   | 100,000        | -                 |
| Long-term senior unsecured notes | 520,000        | 520,000           |
| Bank credit facility             | 650,000        | 765,000           |
| Balance, end of the period       | 1,270,000      | 1,285,000         |

The Company has a syndicated \$1.3 billion extendible unsecured revolving credit facility with a stated term date of October 13, 2021. The bank facility is made up of a \$40 million working capital sub-tranche and a \$1.26 billion production line. The facilities are available on a revolving basis. Borrowings under the facility bear interest at Canadian bank prime or US base rate, or, at Peyto's option, Canadian dollar bankers' acceptances or US dollar LIBOR loan rates, plus applicable margin and stamping fees. The total stamping fees range between 50 basis points and 215 basis points on Canadian bank prime and US base rate borrowings and between 150 basis points and 315 basis points on Canadian dollar bankers' acceptance and US dollar LIBOR borrowings. The undrawn portion of the facility is subject to a standby fee in the range of 30 to 63 basis points.

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

- Long-term debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 3.0 times trailing twelve-month net income before non-cash items, interest and income taxes;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 4.0 times trailing twelve-month net income before non-cash items, interest and income taxes;
- Trailing twelve months net income before non-cash items, interest and income taxes to exceed 3.0 times trailing twelve months interest expense;
- Long-term debt and subordinated debt plus the average working capital deficiency (surplus) at the end of the two most recently completed fiscal quarters adjusted for non-cash items not to exceed 55 per cent of the book value of shareholders' equity and long-term debt and subordinated debt.

Outstanding senior notes are as follows (includes notes due within one year):

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

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.

Peyto is in compliance with all financial covenants at March 31, 2018.

Total interest expense for the period ended March 31, 2018 was \$13.4 million (2017 - \$10.5 million) and the average borrowing rate for the period was 4.2% (2017 &ndash; 3.8%).

## 6. Decommissioning provision

The following table reconciles the change in decommissioning provision:

|                                        |         |
|----------------------------------------|---------|
| Balance, December 31, 2017             | 143,805 |
| New or increased provisions            | 778     |
| Accretion of decommissioning provision | 804     |
| Change in discount rate and estimates  | 457     |
| Balance, March 31, 2018                | 145,844 |
|                                        | -       |
| Current                                |         |
| Non-current                            | 145,844 |

Peyto has estimated the net present value of its total decommissioning provision to be \$145.8 million as at March 31, 2018 (\$143.8 million at December 31, 2017) based on a total future undiscounted liability of \$291.3 million (\$289.7 million at December 31, 2017). At March 31, 2018 management estimates that these payments are expected to be made over the next 49 years with the majority of payments being made in years 2046 to 2067. The Bank of Canada's long term bond rate of 2.23 per cent (2.26 per cent at December 31, 2017) and an inflation rate of 2.0 per cent (2.0 per cent at December 31, 2017) were used to calculate the present value of the decommissioning provision.

## 7. Share capital

Authorized: Unlimited number of voting common shares

### Issued and Outstanding

|                                             | Number<br>of<br>Common<br>Shares | Amount<br>\$ |
|---------------------------------------------|----------------------------------|--------------|
| Common Shares (no par value)                |                                  |              |
| Balance, December 31, 2017                  | 164,874,175                      | 1,649,537    |
| Common shares issued by private placement - | -                                | -            |
| Common share issuance costs, (net of tax) - | -                                | -            |
| Balance, March 31, 2018                     | 164,874,175                      | 1,649,537    |

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

|                                                  | Three Months ended March 31, |             |
|--------------------------------------------------|------------------------------|-------------|
|                                                  | 2018                         | 2017        |
| Weighted average common shares basic and diluted | 164,874,175                  | 164,800,637 |

### Dividends

During the period ended March 31, 2018, Peyto declared and paid dividends of \$0.18 per common share or \$0.06 per common share per month, totaling \$29.7 million (2017 - \$0.33 or \$0.11 per common share per month, \$54.4 million).

### Comprehensive income

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

of the cumulative amounts of OCI.

#### Accumulated hedging gains and losses

Gains and losses from cash flow hedges are accumulated until settled. These outstanding hedging contracts are recognized in earnings on settlement. Further information on these contracts is set out in Note 10.

### 8. Revenue and receivables

|                                          | Three Months ended March 31, |         |
|------------------------------------------|------------------------------|---------|
|                                          | 2018                         | 2017    |
| Natural Gas Sales                        | 101,230                      | 155,499 |
| Natural Gas Liquid sales                 | 53,938                       | 41,537  |
| Natural gas and natural gas liquid sales | 155,168                      | 197,036 |

  

|                                                             | March 31, December 31, |        |
|-------------------------------------------------------------|------------------------|--------|
|                                                             | 2018                   | 2017   |
| Accounts receivable from customers                          | 51,010                 | 67,294 |
| Accounts receivable from realized risk management contracts | 19,706                 | 10,746 |
| Accounts receivable from joint venture partners and other   | 10,262                 | 12,202 |
|                                                             | 80,978                 | 90,242 |

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.

### 9. Future performance-based compensation

Peyto awards performance-based compensation to employees annually. The performance-based compensation is comprised of reserve and market value-based components.

#### Reserve based component

The reserves value-based component is 4% of the incremental increase in value, if any, as adjusted to reflect changes in debt, equity, dividends, general and administrative costs and interest, of proved producing reserves calculated using a constant price at December 31 of the current year and a discount rate of 8%.

#### Market based component

Under the market-based component, rights with a three-year vesting period are allocated to employees. The number of rights outstanding at any time is not to exceed 6% of the total number of common shares outstanding. At December 31 of each year, all vested rights are automatically cancelled and, if applicable, paid out in cash. Compensation is calculated as the number of vested rights multiplied by the total of the market appreciation (over the price at the date of grant) and associated dividends of a common share for that period.

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

|                                   | March 31, 2018                         |
|-----------------------------------|----------------------------------------|
| Share price                       | <del>\$20.86</del> <del>-\$23.80</del> |
| Exercise price (net of dividends) | <del>\$22.40</del> <del>-\$23.47</del> |
| Expected volatility               | 27.09%                                 |
| Option life                       | 0.75 year                              |
| Risk-free interest rate           | 0.8%                                   |

### 10. Financial instruments and Capital management

#### 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 March 31, 2018.

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

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

- Level 1 – quoted prices in active markets for identical financial instruments.
- Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and 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 March 31, 2018 cash and financial derivative instruments are carried at fair value. Accounts receivable, current liabilities and provision for future performance-based compensation approximate their fair value due to their short-term nature. The carrying value of the long-term debt approximates its fair value due to the floating rate of interest charged under the credit facility.

#### Commodity price risk management

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

Following is a summary of all risk management contracts in place as at March 31, 2018:

| Natural Gas                          | Type        | Daily Volume | Price (CAD)                |
|--------------------------------------|-------------|--------------|----------------------------|
| Period Hedged – Monthly Index        |             |              |                            |
| April 1, 2016 to October 31, 2018    | Fixed Price | 35,000 GJ    | \$2.10/GJ to \$2.60/GJ     |
| May 1, 2016 to October 31, 2018      | Fixed Price | 20,000 GJ    | \$2.20/GJ to \$2.35/GJ     |
| July 1, 2016 to October 31, 2018     | Fixed Price | 20,000 GJ    | \$2.28/GJ to \$2.45/GJ     |
| August 1, 2016 to October 31, 2018   | Fixed Price | 25,000 GJ    | \$2.3175/GJ to \$2.5525/GJ |
| April 1, 2017 to October 31, 2018    | Fixed Price | 10,000 GJ    | \$2.585/GJ to \$2.745/GJ   |
| November 1, 2017 to October 31, 2018 | Fixed Price | 5,000 GJ     | \$2.92/GJ                  |
| January 1, 2018 to December 31, 2020 | Fixed Price | 20,000 GJ    | \$2.00/GJ to \$2.040/GJ    |
| April 1, 2018 to October 31, 2018    | Fixed Price | 105,000 GJ   | \$1.30/GJ to \$2.565/GJ    |
| April 1, 2018 to March 31, 2019      | Fixed Price | 180,000 GJ   | \$1.54/GJ to \$2.625/GJ    |
| April 1, 2018 to October 31, 2019    | Fixed Price | 5,000 GJ     | \$1.90/GJ                  |
| April 1, 2018 to March 31, 2020      | Fixed Price | 10,000 GJ    | \$1.43/GJ to \$1.44/GJ     |
| November 1, 2018 to March 31, 2019   | Fixed Price | 70,000 GJ    | \$1.75/GJ to \$1.9525/GJ   |
| November 1, 2018 to March 31, 2020   | Fixed Price | 5,000 GJ     | \$1.5725/GJ                |
| April 1, 2019 to October 31, 2019    | Fixed Price | 15,000 GJ    | \$1.30/GJ                  |
| April 1, 2019 to March 31, 2020      | Fixed Price | 75,000 GJ    | \$1.45/GJ to \$2.50/GJ     |

|                                    |                       |                        |
|------------------------------------|-----------------------|------------------------|
| November 1, 2019 to March 31, 2020 | Fixed Price 15,000 GJ | \$2.02/GJ to \$2.05/GJ |
| April 1, 2020 to October 31, 2020  | Fixed Price 15,000 GJ | \$1.30/GJ              |
| April 1, 2020 to March 31, 2021    | Fixed Price 5,000 GJ  | 1.64/GJ                |

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

As at March 31, 2018, Peyto had committed to the future sale of 217,525,000, gigajoules (GJ) of natural gas at an average price of \$2.03 per GJ or \$2.33 per mcf. Had these contracts been closed on March 31, 2018, Peyto would have realized a gain in the amount of \$129.4 million. If the AECO gas price on March 31, 2018 were to increase by \$0.10/GJ, the unrealized loss would increase by approximately \$21.6 million. An opposite change in commodity prices rates would result in an opposite impact on other comprehensive income.

Subsequent to March 31, 2018 Peyto entered into the following contracts:

| Natural Gas<br>Period Hedged       | Type        | Daily Volume | Price<br>(CAD)         |
|------------------------------------|-------------|--------------|------------------------|
| November 1, 2018 to March 31, 2019 | Fixed Price | 20,000 GJ    | \$1.91/GJ to \$1.99/GJ |
| April 1, 2019 to October 31, 2019  | Fixed Price | 15,000 GJ    | \$1.285/ to \$1.32/GJ  |
| April 1, 2021 to October 31, 2021  | Fixed Price | 5,000 GJ     | \$1.64/GJ              |

| Crude Oil<br>Period Hedged         | Type        | Daily Volume | Price<br>(CAD) |
|------------------------------------|-------------|--------------|----------------|
| July 31, 2018 to December 31, 2018 | Fixed Price | 100 bbl      | \$84.03/bbl    |
| July 1, 2018 to June 30, 2019      | Fixed Price | 100 bbl      | \$85.34/bbl    |

## 11. Related party transactions

Certain directors of Peyto are considered to have significant influence over other reporting entities that Peyto engages in commercial 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 each of the related reporting entities is summarized below:

| Expense                     |                | Accounts Payable |      |
|-----------------------------|----------------|------------------|------|
| Three Months ended March 31 | As at March 31 |                  |      |
| 2018                        | 2017           | 2018             | 2017 |
| 118.0                       | 82.4           | 118.0            | 78.4 |

## 12. Commitments

Following is a summary of Peyto's contractual obligations and commitments as at March 31, 2018.

|                                  | 2018   | 2019   | 2020   | 2021   | 2022   | Thereafter |
|----------------------------------|--------|--------|--------|--------|--------|------------|
| Interest payments <sup>(1)</sup> | 18,710 | 23,840 | 21,645 | 16,245 | 16,245 | 36,075     |
| Transportation commitments       | 27,420 | 30,702 | 19,475 | 18,655 | 26,265 | 245,944    |
| Operating leases                 | 1,682  | 2,242  | 2,242  | 2,242  | 2,317  | 9,269      |
| Total                            | 47,812 | 56,784 | 43,362 | 37,142 | 44,827 | 291,288    |

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

### 13. Contingencies

On October 1, 2013, two shareholders (the "Plaintiffs") of Poseidon Concepts Corp. ("Poseidon") filed an application to seek leave of the Alberta Court of Queen's Bench (the "Court") to pursue a class action lawsuit against the Company, as a successor to new [Open Range Energy Corp.](#) ("New Open Range") (the "Poseidon Shareholder Application"). The proposed action contained various claims relating to alleged misrepresentations in disclosure documents of Poseidon (not New Open Range), which claims were also alleged in class action lawsuits filed in Alberta, Ontario, and Quebec earlier in 2013 against Poseidon and certain of its current and former directors and officers, and underwriters involved in the public offering of common shares of Poseidon completed in February 2012. The proposed class action sought various declarations and damages including compensatory damages which the Plaintiffs estimate at \$651 million and punitive damages which the Plaintiffs estimate at \$10 million, which damage amounts appear to be duplicative of damage amounts claimed in the class actions against Poseidon, certain of its current and former directors and officers, and underwriters. An application seeking leave to commence a class action lawsuit against the Company making the same allegations was also made by two Poseidon shareholders in Ontario (the "Ontario Poseidon Shareholder Action"). No steps were taken to advance these actions against the Company.

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

On October 31, 2013, Poseidon filed a lawsuit with the Court naming the Company as a co-defendant along with the former directors and officers of Poseidon, the former directors and officers of Old Open Range and the former directors and officers of New Open Range (the "Poseidon Action"). Poseidon claimed, among other things, that the Company is vicariously liable for the alleged wrongful acts and breaches of duty of the directors, officers and employees of New Open Range. No steps were taken to advance these actions against the Company.

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

On May 4, 2016, KPMG issued a third party claim in the Poseidon Action against Poseidon's former officers and directors and the Company for any liability KPMG is determined to have to Poseidon. The Company was not required to defend KPMG's third party claim.

On July 3, 2014, the Plaintiffs filed a lawsuit with the Court against KPMG, Poseidon's and Old Open Range's former auditors, making allegations substantially similar to those in the other claims (the "KPMG Poseidon Shareholder KPMG Action").

On July 29, 2014, KPMG filed a statement of defence and a third party claim against Poseidon, the Company and the former directors and officers of Poseidon. The third party claim sought, among other things, an indemnity, or alternatively contribution, from the third party defendants with respect to any judgment awarded against KPMG LLP. The Company was not required to defend KPMG's third party claim.

The allegations against New Open Range contained in the claims described above were based on factual matters that pre-existed the Company's acquisition of New Open Range.

On April 6, 2018, the Company entered a global settlement with all parties involved in the Poseidon related litigation. The settlement was presented to the Alberta Court of Queens Bench on May 4, 2018 for approval

as part of a plan of compromise and arrangement under the Companies' Creditor Arrangement Act. The Alberta Court approved the settlement and Plan and issued Orders dismissing Alberta actions involving Poseidon including the Poseidon Shareholder Application and the Poseidon Action against the Company. The Ontario, Quebec and United States Courts will now be asked to recognize the Alberta Court's Orders and to dismiss the actions before them (including the Ontario Poseidon Shareholder Action against the Company). Assuming the Alberta Court Orders are recognized, the settlement will be effective and all of the actions involving Poseidon including the Poseidon Shareholder Application, the Ontario Poseidon Shareholder Action and the Poseidon Action against the Company will be dismissed. Although the contributions being made by the different defendants are confidential, Peyto's contribution is immaterial and reflects its belief there was no merit to the claims.

#### Officers

|                                                                      |                                                         |
|----------------------------------------------------------------------|---------------------------------------------------------|
| Darren Gee<br>President and Chief Executive Officer                  | Tim Louie<br>Vice President, Land                       |
| Scott Robinson<br>Executive Vice President New Ventures & Director   | David Thomas<br>Vice President, Exploration             |
| Kathy Turgeon<br>Vice President, Finance and Chief Financial Officer | Jean-Paul Lachance<br>Vice President, Engineering & COO |
| Lee Curran<br>Vice President, Drilling and Completions               | Stephen Chetner<br>Corporate Secretary                  |
| Todd Burdick<br>Vice President, Production                           |                                                         |

#### Directors

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

#### Auditors

Deloitte LLP

#### Solicitors

Burnet, Duckworth & Palmer LLP

#### Bankers

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

#### Transfer Agent

Computershare

#### Head Office

300, 600 &ndash; 3 Avenue SW  
Calgary, AB  
T2P 0G5  
Phone: 403.261.6081  
Fax: 403.451.4100

Web: [www.peyto.com](http://www.peyto.com)  
Stock Listing Symbol: PEY.TO  
Toronto Stock Exchange

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