Peyto Announces Q2 2019 Results

07.08.2019 | GlobeNewswire

CALGARY, Aug. 07, 2019 - Peyto Exploration & Development Corp. (“Peyto” or the “Company”) is pleased to present its operating and financial results for the second quarter of the 2019 fiscal year. A 66% Operating Margin(1) and a 85% Profit Margin(2) in the quarter, including a one-time deferred income tax recovery, delivered a 5% return on capital employed (ROCE) and a 10% return on equity (ROE), on a trailing twelve month basis. Additional highlights included:

- Condensate and C5+ production doubled. Condensate and Pentanes production increased from 3,234 bbl/d in Q2 2018 to 6,420 bbl/d in Q2 2019 contributing to total liquid production of 11,110 bbl/d. NGL yields of 26 bbl/mmcf in Q2 2019, were up from 19 bbl/mmcf, due to the continued focus on Peyto’s liquids rich Cardium play. Total liquids production in Q2 2019 was up 20% year over year, while natural gas production was down 14% to 422 mmcf/d. During periods of low or negative AECO natural gas price in the quarter, lean gas production was curtailed while liquids rich production remained on. Total Q2 2019 production of 81,496 boe/d was down 7% from Q1 2019 due to the reduced capital program and lean gas curtailment.
- Funds from operations of $0.46/share. Generated $76 million in Funds From Operations (“FFO”) in Q2 2019 down from $103 million in Q1 2019 and $116 million in Q2 2018 due to lower commodity prices and lower production levels. FFO exceeded both capital expenditures ($34 million) and dividend payments ($10 million) in the quarter by $32 million, or $63 million year to date, resulting in reduced debt levels. This is the sixth quarter of reduced capital investment with cumulative free cashflow (FFO-Capex-Dividend) of $185 million. At the same time, Peyto’s producing reserve life, or a measure of its sustainability, has increased at a rate of 25% per year.
- Total cash costs of $0.89/mcfe (or $0.88/mcfe ($5.30/boe) excluding royalties). Industry leading total cash costs, included $0.01/mcfe royalties, $0.34/mcfe operating costs, $0.19/mcfe transportation, $0.05/mcfe G&A and $0.30/mcfe interest, which combined with a realized price of $2.60/mcfe, resulted in a $1.71/mcfe ($10.24/boe) cash netback, down 26% from $2.31/mcfe in Q2 2018.
- Capital investment of $34 million. A total of 8 gross wells (6 net) were drilled in the second quarter, 9 gross wells (9 net) were completed, and 6 gross wells (6 net) were brought on production.
- Earnings of $0.59/share, dividends of $0.06/share. Earnings of $99 million were generated in the quarter, which included an $85 million deferred income tax recovery due to a reduction in the Alberta provincial income tax rate. Dividends of $10 million were paid to shareholders. The Company has never incurred a write down nor recorded an impairment of its assets and this quarter represents Peyto’s 58th consecutive quarter of earnings.

Second Quarter 2019 in Review
Peyto continued to focus on development of its liquids-rich Cardium play in the second quarter, despite the slowdown due to spring breakup and extremely wet surface conditions in June. Several Cardium “sweet spots” have been discovered with Peyto’s new targeting technique which are exceeding expectations and providing robust returns despite a prolonged period of weaker commodity prices. In addition, Peyto completed, and subsequent to quarter end, tied-in it’s first Montney horizontal well. This well is producing to Peyto’s Wildhay gas plant and continues to clean up as completion fluids are recovered. The Company expects to prove up future development in this play with additional production history. Peyto continued to add new land in the quarter, purchasing 31 sections (19,840 acres) at Crown sales for an average purchase price of $24/acre. The Company internally identifies 50 working interest Cardium and Spirit River locations on these newly acquired lands but notes no reserves or resources have yet been independently assigned. Alberta natural gas prices continued to be extremely weak and volatile during the quarter with AECO daily price averaging $0.98/GJ. Peyto’s market diversification and hedging activity resulted in 46% of Peyto’s natural gas being pre-sold for the quarter, and 49% was exported to markets outside of Alberta, leaving just 11% exposed to the Alberta spot market. This helped strengthen the Company’s revenues and when combined with industry leading cash costs, resulted in strong netbacks and earnings. To the end of Q2 2019, Peyto has accumulated over $2.5 billion in earnings on a $6.0 billion cumulative capital investment.

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 June 30		%	Six Months Ended June 30		%
	2019	2018	Change	2019	2018	Cha
Operations						
Production						
Natural gas (mcf/d)	422,320	493,821	*-14* %	442,052	530,952	*-17*
Oil & NGLs (bbl/d)	11,110	9,243	*20* %	10,907	9,641	*13*
Thousand cubic feet equivalent (mcfe/d @ 1:6)	488,977	549,281	*-11* %	507,496	549,281	*-8*
Barrels of oil equivalent (boe/d @ 6:1)	81,496	91,547	*-11* %	84,583	98,133	*-14*
Production per million common shares (boe/d)	494	555	*-11* %	513	595	*-14*
Product prices						
Natural gas ($/mcf)	1.83	2.37	*-23* %	2.17	2.63	*-17*
Oil & NGLs ($/bbl)	44.70	63.64	*-30* %	47.47	61.58	*-23*
Operating expenses ($/mcfe)	0.34	0.30	*13* %	0.34	0.29	*17*
Transportation ($/mcfe)	0.19	0.18	*6* %	0.19	0.16	*19*
Field netback ($/mcfe)	2.06	2.62	*-21* %	2.30	2.79	*-18*
General & administrative expenses ($/mcfe)	0.05	0.05	-	0.06	0.06	-
Interest expense ($/mcfe)	0.30	0.26	*15* %	0.29	0.25	*16*
Financial ($000, except per share)						
Revenue	115,526	159,811	*-28* %	267,185	360,208	*-26*
Royalties	237	4,879	*-95* %	6,910	14,422	*-52*
Funds from operations	75,971	115,571	*-34* %	179,050	264,557	*-32*
Funds from operations per share	0.46	0.70	*-34* %	1.09	1.60	*-32*
Total dividends	9,892	29,677	*-67* %	19,784	59,354	*-67*
Total dividends per share	0.06	0.18	*-67* %	0.12	0.36	*-67*
Payout ratio	13	26	*-50* %	11	22	*-50*
Earnings	98,757	30,397	*225* %	123,727	78,146	*60*
Earnings per diluted share	0.59	0.18	*225* %	0.75	0.47	*60*
Capital expenditures	34,112	14,978	*128* %	96,507	50,432	*91*
Weighted average common shares outstanding	164,874,175	164,874,175	-	164,874,175	164,874,175	-
As at June 30						
Net debt				1,156,565	1,178,294	*-2*
Shareholders' equity				1,743,943	1,671,045	*4*
Total assets				3,621,782	3,626,895	-

	Three Months Ended June 30		Six Months Ended Ju	
($000 except per share)	2019	2018	2019	2018
Cash flows from operating activities	85,569	116,906	177,081	260,90
Change in non-cash working capital	(9,383)	(2,429)	(322)	1,485
Change in provision for performance-based compensation	(215)	1,094	-	2,172
Performance based compensation	-	-	2,291	-
Funds from operations	75,971	115,571	179,050	264,55
Funds from operations per share	0.46	0.70	1.09	1.60

(1) Funds from operations - Management uses funds from operations to analyze the operating performance of its energy assets. In order to facilitate compara analysis, funds from operations is defined throughout this report as earnings before performance based compensation, non‑cash and non‑recu expenses. Management believes that funds from operations is an important parameter to measure the value of an asset when combined with reserve life. Fur from operations is not a measure recognized by Canadian generally accepted accounting principles ("GAAP") and does not have a standardized meaning pres 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 financ performance calculated in accordance with GAAP. Funds from operations cannot be assured and future dividends may vary.

Exploration & Development

Second quarter 2019 activity was focused exclusively on the Company’s liquids-rich Cardium play with 6 wells drilled in the Wildhay area, one in the Sundance area and one in Brazeau. The Company continues to drive down costs with its preferred Cardium drilling and completion design, as illustrated in the following table.

	2011	2012	2013	2014	2015	2016	2017	2018	2019 Q1	2019 Q2
Gross Hz Spuds	70	86	99	123	140	126	135	70	15	8
Measured Depth (m)	3,903	4,017	4,179	4,251	4,309	4,197	4,229	4,020	3,853	3,847
Drilling ($MM/well)	$ 2.82	$ 2.79	$ 2.72	$ 2.66	$ 2.16	$ 1.82	$ 1.90	$ 1.71	$ 1.54	$ 1.554
$ per meter	$ 723	$ 694	$ 651	$ 626	$ 501	$ 433	$ 450	$ 425	$ 400	$ 404
Completion ($MM/well)	$ 1.68	$ 1.67	$ 1.63	$ 1.70	$ 1.21	$ 0.86	$ 1.00	$ 1.13	$ 1.15	$1.123*
Hz Length (m)	1,303	1,358	1,409	1,460	1,531	1,460	1,241	1,348	1,528	1,578
$ per Hz Length (m)	$ 1,286	$ 1,231	$ 1,153	$ 1,166	$ 792	$ 587	$ 803	$ 835	$ 751	$ 712
$ ‘000 per Stage	$ 246	$ 257	$ 188	$ 168	$ 115	$ 79	$ 81	$ 51	$ 46	$ 37

**Peyto’s Montney well is excluded from drilling and completion cost comparison.*

Capital Expenditures

During the second quarter of 2019, Peyto invested $11.2 million on drilling, $13.6 million on completions, $2.9 million on wellsite equipment and tie-ins, $5.0 million on facilities and major pipeline projects, and $1.4 million acquiring new lands and seismic, for total capital investments of $34.1 million.

The $5.0 million on facilities and major pipeline projects included initial progress on a Wildhay pipeline corridor and Wildhay plant liquids stabilization equipment to handle the significant increase in Cardium and Montney production. Additional projects included equipment for a salt-water disposal well in Oldman as well as for upgraded equipment installed during the Swanson and Brazeau plant turnarounds.

Over the last 12 months, 75 gross (71 net) wells have been brought on production for a total trailing twelve month capital investment of $278 million. Pending pipeline debottlenecking and elimination of lean gas curtailments, Peyto anticipates the 2019 full year capital efficiency will be approximately $10,000-$12,000/boe/d

Commodity Prices

Average Monthly AECO natural gas price was $1.11/GJ in Q2 2019, down from $1.84/GJ in the previous quarter but up from $0.97/GJ in the prior year period. Meanwhile, the average Daily AECO gas price was $0.98/GJ in Q2 2019, down from $2.49/GJ in the previous quarter, and down from $1.12/GJ in the prior year period. Historically, monthly prices have outperformed daily prices and this was the case in the second quarter. Peyto typically hedges the majority of the AECO exposed production using fixed price swaps settled against the monthly price which is why a larger portion of Peyto’s unhedged gas received the monthly price.

Peyto’s natural gas sales for the quarter were split 35% to Henry Hub, 14% to Eastern Canadian/US markets, 35% to AECO Monthly and 17% to AECO Daily prices. These marketing efforts resulted in AECO equivalent prices of $1.97/mcf, $1.87/mcf, $1.27/mcf and $1.18/mcf respectively after adjusting for heat content, and physical or synthetic transportation charges. Combined, these prices resulted in $1.57/mcf before hedging gains of $0.26/mcf.

In the second quarter of 2019, NGL prices, relative to natural gas prices, continued to justify the operation of Peyto’s Oldman deep cut plant which extracts more propane and butane from the gas stream. As a result, Peyto realized a blended oil and natural gas liquids price of $44.70/bbl, which represented 56% of the $80.02/bbl average Canadian WTI price. This results from the combination of 58% of liquids comprised of condensate and pentanes and 42% comprised of propane and butane, each realizing a blended price of $73.20/bbl and $5.63/bbl, respectively.

Financial Results

Approximately 42%, or $0.98/mcfe, of Peyto’s unhedged revenue came from its associated natural gas liquids sales while 58%, or $1.35/mcfe, came from natural gas. Natural gas and oil hedging activity contributed $0.27/mcfe for total revenue of $2.60/mcfe. Liquids production represented 14% of total production but 38% of revenue which covered all cash costs. Cash costs per unit of production were lower than the previous three quarters mainly due to reduced royalties from the annual Gas Cost Allowance recovery. Total cash costs, when deducted from realized revenues of $2.60/mcfe, resulted in a cash netback of $1.71/mcfe or a 66% operating margin. Historical cash costs and operating margins are shown in the following table.

	2016				2017				2018				2019
($/mcfe)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	3.24	2.92	3.16	3.38	3.44	3.36	3.24	3.50	3.54	3.20	3.27	3.03	3.20
Royalties	0.13	0.10	0.12	0.18	0.19	0.17	0.09	0.15	0.17	0.10	0.14	0.12	0.14
Op Costs	0.23	0.26	0.25	0.26	0.29	0.24	0.26	0.28	0.29	0.30	0.31	0.33	0.35
Transportation	0.16	0.17	0.16	0.16	0.17	0.18	0.17	0.16	0.13	0.18	0.19	0.19	0.19
G&A	0.03	0.06	0.04	0.03	0.04	0.05	0.03	0.03	0.08	0.05	0.03	0.04	0.06
Interest	0.17	0.21	0.19	0.18	0.20	0.21	0.21	0.21	0.24	0.26	0.27	0.27	0.28
Cash Costs	0.72	0.80	0.76	0.81	0.89	0.85	0.76	0.83	0.91	0.89	0.94	0.95	1.02
Netback	2.52	2.12	2.40	2.57	2.55	2.51	2.48	2.67	2.63	2.31	2.33	2.08	2.18
Operating Margin	78 %	73 %	76 %	76 %	74 %	75 %	76 %	76 %	74 %	72 %	71 %	69 %	68 %

Depletion, depreciation and amortization charges of $1.36/mcfe, along with market based bonus payments and a one-time recovery of deferred tax resulted in earnings of $2.22/mcfe, or an 85% profit margin. Dividends of $0.22/mcfe were paid to shareholders.

Natural Gas Marketing

Peyto has made substantial progress on its market diversification strategy during the last quarter and subsequent to quarter end. Most significantly, Peyto has contracted an additional 157 mmcf/d of Empress firm delivery service starting in November of 2020. This service can be paired with additional TransCanada mainline service to markets in eastern Canada and northeastern United States and is in addition to the existing 144 mmcf/d of November 2021 firm service Peyto had already contracted. Combined with synthetic transportation, via AECO to NYMEX basis deals, and existing AECO hedges, Peyto has increased total marketed gas volumes to 348 mmcf/d on average in 2020 and 441 mmcf/d in 2021, significantly reducing exposure to future AECO price volatility.

For a real time summary of Peyto’s market diversification portfolio and future hedges refer to Peyto’s website at: http://www.peyto.com/Files/Operations/Marketing/hedges.pdf

Activity Update

Unprecedented wet weather in June and most of July slowed Peyto’s activity in the field with road bans, over land flooding, and road washouts in the Company’s Deep Basin core areas. Peyto was able to drill some wells on pads but the movement of drilling rigs, completion and tie-in equipment, and major facilities were disrupted during this time. Although conditions are still very wet, the Company has been able to get back drilling again and since the end of the quarter has spud 4 wells and managed to get 6 fracs completed in the past week to catch-up the summer program. Only 4 wells were brought on production since early May to the end of July. In the past week, the Company has tied in 3 gross (2 net) wells and currently has 3 gross (2 net) wells awaiting completion while an additional 4 gross (3 net) more wells are competed but awaiting tie-in.

The pipeline debottlenecking of the Wildhay gas gathering system was completed in late July despite the wet conditions while the plant liquid capacity project was delayed until early August due to road bans. Gathering system pressures have subsequently dropped and wells have responded positively. Further production optimization work will continue in this area to recover full productive capability. This infrastructure investment will also serve to provide for future Cardium and Montney development beyond 2019.

Since the end of the second quarter, Peyto has purchased an additional 1,920 acres (3 sections) of new land bringing total lands purchased in 2019 to 60,160 acres or 94 sections. Out of the 94 sections, 73 sections contained Cardium rights adjacent to Peyto’s infrastructure. Land purchases year to date have averaged $39/acre relative to total Alberta land sale averages of $65/acre.

Volatile natural gas prices have continued since quarter end, with July daily AECO prices ranging from $0.18 to $2.28/GJ. Peyto has at times, throughout the month of July and into August, shut in dry gas production to preserve value for shareholders. Meanwhile, the Company continues to work collaboratively with the Government of Alberta and NGTL on plans to manage supply and pipeline capacity to bring stability to the AECO market.

New Ventures

Peyto continues to monitor market conditions for the timely development of its natural gas storage scheme and additional deep cut facility installations. Currently depressed NGL prices, combined with uncertainty regarding the future outlook for seasonal AECO natural gas price swings, particularly in light of the Government of Alberta supply management initiatives, makes evaluating capital investments in these areas more challenging. In the meantime, the Company will continue to have discussions with potential capital partners to further enhance Peyto’s vertical integration strategy.

Board Addition

Peyto is pleased to announce the election of Mr. John Rossall to Peyto’s Board of Directors at this year’s annual general meeting in May. Mr. Rossall was most recently the Executive Director, North America of Repsol SA and prior to that President and CEO of ProspEx Resources Ltd., an oil and gas company listed on the TSX. An engineer by background, John has spent much of his career involved with various successful companies who’s focus was the development of Alberta’s Deep Basin resource plays including Repsol, Talisman, ProspEx, Burlington and Canadian Hunter.

Outlook

Globally, demand for natural gas is growing faster than for any other fuel and countries around the world are rapidly switching to more natural gas in an effort to transition to lower carbon energy economies. Here in North America, demand for natural gas also continues to grow, increasing 30% in the last decade and almost 10% last year alone. So far, the United States has satisfied this demand growth with additional supply, primarily from several new unconventional shale gas plays that now contribute close to 70% of total North American gas supply. This supply growth has grown so dramatically that now the US is able to export gas in the form of LNG to other energy hungry countries.

Western Canada has a tremendous opportunity to participate in growing North American and world markets with its large, proven, and economic resources in the Alberta Deep Basin and BC Montney plays. Currently, TC Energy is underway with a three-year plan (2019-2021) to expand the North American market access for these resources which will allow for over 3 BCF/d of additional market connectivity and an opportunity for the western Canadian natural gas industry to realize full market prices. Beyond that, LNG Canada and other proposed LNG projects off the BC west coast will enable Canada to also be an LNG exporter and a global supplier of some of the cleanest, and most responsibly developed natural gas in the world.

Peyto has the opportunity to play a major role in this exciting new natural gas market and Management is strategically positioning the Company with new resource opportunities, key vertically integrated infrastructure investments and diversified market access. While the industry waits for this new market access to materialize, Peyto has strategically slowed its capital investment in drilling and developing new production, choosing instead to strengthen its balance sheet and preserve and expand its resource opportunities. By reducing its capital investment program, Peyto’s existing producing reserves will stabilize and become more sustainable with ever lower decline rates and an increasing reserve life, providing a solid platform for growth in shareholder value in the future.

Conference Call and Webcast

A conference call will be held with the senior management of Peyto to answer questions with respect to the 2019 second quarter financial results on Thursday, August 8th, 2019, at 9:00 a.m. Mountain Daylight Time (MDT), or 11:00 a.m. Eastern Daylight Time (EDT). 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. The conference call can also be accessed through the internet: https://edge.media-server.com/mmc/p/7bge4s3c. The conference call will be archived on the Peyto Exploration & Development website at www.peyto.com.

Management’s Discussion and Analysis/Financial Statements

A copy of the second quarter report to shareholders, including the MD&A, unaudited financial statements and related notes, is available at http://www.peyto.com/Files/Financials/2019/Q22019FS.pdf and at http://www.peyto.com/Files/Financials/2019/Q22019MDA.pdf and will be filed at SEDAR, www.sedar.com at a later date.

Darren Gee
President and CEO
August 7, 2019
Phone: (403) 261-6081
Fax: (403) 451-4100

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 anticipated 2019 annual capital efficiency; the amount of gas volumes expected to be exposed to US based pricing in 2019 and 2020; the timing for the Company’s analysis of the production results from its Cardium and Montney evaluation; expectations regarding future drilling and completion costs; the Company's natural gas marketing diversification strategy; Peyto's hedging program; the Company’s drilling and completion program for the remainder of 2019; timing expectations for an investment decision on Peyto’s Swanson plant deep cut conversion and other deep cut projects; future supply source opportunities for the Company and

potential LNG export projects the Company may become involved with; Peyto’s 2019 budget and new production estimates for year-end 2019, including the Company’s expected capital program for 2019; expectations for exit production for 2019; pricing expectations for the winter and summer seasons; and the Company’s overall strategy and focus.

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, 2018 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 in Peyto's management's discussion and analysis for the three and six months ended June 30, 2019.*