2012 Annual Report

Non-Consolidated Financial and Operating Highlights (1)

	Three months ended December 31		Year ended December 31	
	2012	2011	2012	2011
Financial ($000, except as otherwise indicated)				
Sales including realized hedging	**$ 36,556**	$ 55,555	**$ 126,749**	$ 268,336
per share (2)	**$ 0.22**	$ 0.33	**$ 0.76**	$ 1.62
per boe	**$ 19.15**	$ 26.73	**$ 15.97**	$ 31.41
Funds from operations	**$ 16,890**	$ 33,587	**$ 47,046**	$ 143,295
per share (2)	**$ 0.10**	$ 0.20	**$ 0.28**	$ 0.87
per boe	**$ 8.85**	$ 16.15	**$ 5.94**	$ 16.77
Dividends received from Longview	**$ 3,172**	$ 4,417	**$ 14,350**	$ 11,780
per share (2)	**$ 0.02**	$ 0.03	**$ 0.09**	$ 0.07
Total capital expenditures	**$ 35,849**	$ 77,176	**$ 130,570**	$ 202,147
Working capital deficit (3)	**$ 35,467**	$ 70,564	**$ 35,467**	$ 70,564
Bank indebtedness	**$ 161,630**	$ 142,548	**$ 161,630**	$ 142,548
Convertible debentures (face value)	**$ 86,250**	$ 86,250	**$ 86,250**	$ 86,250
Shares outstanding at end of period (000)	**168,383**	166,304	**168,383**	166,304
Basic weighted average shares (000)	**168,383**	166,249	**167,509**	165,371
Operating				
Daily Production				
Natural gas (mcf/d)	**116,929**	127,265	**122,069**	123,246
Crude oil and NGLs (bbls/d)	**1,261**	1,378	**1,337**	2,864
Total boe/d @ 6:1	**20,749**	22,589	**21,682**	23,405
Average prices (including hedging)				
Natural gas ($/mcf)	**$ 2.70**	$ 3.78	**$ 2.09**	$ 4.19
Crude oil and NGLs ($/bbl)	**$ 65.21**	$ 89.14	**$ 68.35**	$ 76.45
Proved plus probable reserves				
Crude oil & NGLs (mbbls)			**8,611**	6,185
Natural gas (bcf)			**1,556.4**	1,270.0
Total mboe			**268,020**	217,858
Reserve life index (years) (4)			**35.4**	26.4

(1) Non-consolidated financial and operating highlights for Advantage excluding Longview.
(2) Based on weighted average shares outstanding
(3) Working capital deficit includes trade and other receivables, prepaid expenses and deposits, and trade and other accrued liabilities, and the other liability
(4) Based on fourth quarter average production rates

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ANNUAL GENERAL MEETING

Advantage Oil & Gas Ltd. is pleased to invite its shareholders and other interested parties to its Annual General Meeting to be held in Meeting Room 1 at the Ernst & Young Tower, 440 – 2nd Avenue SW, Calgary, Alberta on Thursday, June 20, 2013 commencing at 11:00 a.m. We ask those shareholders unable to attend the meeting to please complete and return your Form of Proxy.

MESSAGE TO SHAREHOLDERS

The following Message to Shareholders discusses the non-consolidated financial and operating results for Advantage, excluding Longview.

Solid Production and Successful Well Results at Glacier Drives Strong Operating Netbacks

- Funds from operations for the fourth quarter of 2012, excluding dividends received from Longview Oil Corp. ("Longview") increased 63% to $16.9 million or $0.10 per share as compared to the third quarter of 2012. Funds from operations improved due to a 41% increase in the average AECO Canadian natural gas price to $3.22/mcf for the current quarter as compared to $2.28/mcf for the immediate prior quarter. Advantage's realized natural gas price of $2.94/mcf in the fourth quarter includes among other factors, deductions for unutilized TransCanada pipeline firm service commitments at Glacier.
- The tax-free dividend income received from Longview amounted to $3.2 million ($0.02 per share) during the fourth quarter of 2012 as a result of Advantage's 45.2% ownership in the common shares of Longview.
- Production during the fourth quarter of 2012 averaged 20,749 boe/d (94% natural gas) and was comparable to the third quarter of 2012 which reflects our decision to maintain production at Glacier between 90 and 100 mmcf/d. Advantage production was also impacted during the fourth quarter of 2012 as production from our Lookout Butte property (approximately 1,000 boe/d) in southern Alberta was curtailed in June 2012 and was brought back on production in November 2012. The curtailment occurred due to a fire that occurred at a third party gas plant where production from Lookout Butte is processed.
- Advantage's average royalty rate was 3.5% for the fourth quarter of 2012 and averaged 5.7% for the entire 2012 year. Advantage's royalty rates have decreased due to lower natural gas prices and lower average royalties attributed to production from Glacier. Advantage's royalty rate was particularly low for the current quarter as we benefited from gas cost allowance adjustments received with respect to prior years.
- Operating expense for the three months ended December 31, 2012 was $5.23/boe ($0.87/mcf) and reflects the continued efficiencies created by processing our natural gas production through our 100% owned Glacier gas plant. Total capital expenditures for the three months ended December 31, 2012 were $35.8 million and $130.6 million for 2012. Our capital expenditures are focused primarily on Glacier development where we spent $119.2 million for the year ended December 31, 2012. This program included the completion of our Phase IV Glacier development program in June 2012 and initiation of our Phase V capital program during H2 2012.
- As of December 31, 2012, bank indebtedness was $161.6 million, leaving an undrawn credit facility of $138.4 million (46% available on a $300 million credit facility). In addition, Advantage's 45.2% ownership in the shares of Longview had an asset value of approximately $114 million as at December 31, 2012. Our undrawn credit facility, ownership of Longview shares and cash flow provide financial flexibility to support our continued Montney drilling and completion plans.
- Advantages tax pools as of December 31, 2012 are approximately $1.2 billion of which approximately $721 million are non-capital losses that are 100% deductible.

Corporate Reserve Additions Replace 736% of Production at an FD&A Cost of $4.29/boe

- Sproule Associates Ltd. ("Sproule") was engaged as an independent qualified reserve evaluator to evaluate and audit Advantage's year end reserves (the "Sproule Report") in accordance with National Instrument 51-101 ("NI 51-101") and the Canadian Oil and Gas Evaluation Handbook ("COGE Handbook").
- The Reserves Summary presented in Appendix 1 are those of Advantage and excludes Longview. The Reserves Summary includes all properties of Advantage as at December 31, 2012, including those properties

subject to disposition after year end. Advantage disclosed Glacier specific reserves and associated information in a press release dated March 13, 2013.

- Our 2012 capital program replaced 736% of corporate production adding 58.1 mmboe of Proved plus Probable reserves ("2P"). At December 31, 2012 we had 2P reserves of 268.0 mmboe with proved reserves representing 64% of the total. The vast majority of reserve additions are attributed to Glacier where improved drilling results during 2012 and improved production performance from older producing wells resulted in positive technical revisions.
- Finding, Development & Acquisition ("FD&A") cost on a 2P reserve basis was $4.29/boe or $0.72/mcf including the change in Future Development Capital ("FDC"), resulting in a recycle ratio of 3.4x using our fourth quarter 2012 operating netback of $14.57/boe.
- The strong reserve replacement efficiencies are driven primarily by our Montney development program at Glacier where recent changes in completion design and frac techniques based on comprehensive Montney core and completion studies conducted by Advantage in 2012 has resulted in increasing the average test rates by 337% in the Middle Montney and 327% in the Lower Montney. These results reinforced our earlier views that greater than 250 meters of Montney reservoir are gas charged and initial production rates and reserves can be significantly enhanced by utilizing a variety of alternative fracture stimulation techniques based upon the specific reservoir properties of each interval. This has significantly increased our confidence in the economic growth potential at Glacier which we believe will lead to significant increases in reserves and contingent resources in the future. At year end 2012, Sproule has assigned reserves to only 21.9% of the total Montney acreage at Glacier.
- Advantage's December 31, 2012 Net Asset Value ("NAV") is $9.26/share at a 10% discount rate pre-tax.
- The Corporation's 2P Reserve Life Index ("RLI") is 35.4 years using our fourth quarter 2012 average production rate.

Looking Forward – Glacier Success Drives Development Plan to Double Production to 200 mmcf/d by 2015

- Glacier continues to exceed our expectations in terms of well performance and cash flow netbacks due to its superior cost structure, which is among the lowest in North America. Improved results through the employment of alternative completion designs in the Middle and Lower Montney combined with delineation drilling and solid production performance from the Upper Montney resulted in a significant increase in reserves as reflected in the Sproule report. The strong results provide further confirmation on the reservoir quality, economic viability and future growth potential of Glacier even in this low gas price environment.
- We are currently working on a two year development plan that will increase natural gas throughput at Glacier to approximately 140 mmcf/d by the spring of 2014 and 200 mmcf/d by the spring of 2015. This plan will be designed to further delineate the Middle and Lower Montney intervals where only 2.2% and 27.6% of the total acreage, respectively, has been assigned reserves at year end 2012. The Glacier gas plant is currently capable of processing 140 mmcf/d due to expansion work that was completed in 2012. Future gas plant upgrades will be required in order to increase processing capacity to 200 mmcf/d which can be achieved with a modest amount of capital. Options to process and extract liquids from the Middle Montney will also be evaluated and included in the development plan. We anticipate announcing our capital program and budget for the period July 1, 2013 to June 30, 2014 before mid-year 2013.
- The additional activities undertaken in late 2012 at Glacier which included core studies, utilization of alternative completion designs and completion of additional wells in the Lower, Middle and Upper Montney formations resulted in an increase in our capital expenditure program for the 12 months ending June 30, 2013 which is anticipated to be approximately $115 to $125 million. This also includes expenditures for increasing the water disposal and the electrical power generation capacity at our Glacier gas plant which will reduce operating costs during the second half of 2013.

Commodity Hedging Program

- Advantage has entered into a number of natural gas hedges to reduce the volatility of future cash flows for the period from January 2013 to March 2015. Advantage now has the following hedges in place:

Period	Average Volume Hedged	Average Price $Cdn. AECO
2013 Year	29,224 mcf/d	$3.31/mcf
2014 Year	33,174 mcf/d	$3.78/mcf
2015 Q1	33,174 mcf/d	$4.01/mcf

- Additional details on our hedging program are available at our website at www.advantageog.com.

Strategic Alternatives Review

- Advantage initiated a strategic alternatives review process appointing FirstEnergy Capital Corp. and RBC Capital Markets as financial advisors and formed a special committee of the Board of Directors (the "Special Committee") to oversee the process. The financial advisors will contact a broad spectrum of parties to solicit interest in a possible sale or other strategic transaction with the Corporation.
- The Special Committee's financial advisors are currently compiling information in respect of the Corporation to be provided to interested parties. This information will include Advantage's December 31, 2012 year end independent reserve report which will be updated to reflect wells drilled and completed since December 31, 2012 along with an updated independent Glacier contingent resource assessment that incorporates new well results and core analysis. We anticipate these reports will be available by the end of April. It is the Corporation's current intention not to disclose developments with respect to this process until the Board has approved a specific transaction or otherwise determines that disclosure is necessary or appropriate. The Corporation cautions that there are no assurances or guarantees that this process will result in any transactions or, if any transactions are undertaken, the terms, magnitude of net proceeds, or timing of any such transactions.

Reserves

Advantage engaged our independent qualified reserves evaluator Sproule Associates Ltd. ("Sproule") to update the reserves analysis for the Company (the "Sproule Report") in accordance with National Instrument 51-101 ("NI 51-101") and the COGE Handbook.

The Sproule Report includes only Advantage's "stand-alone" reserves and excludes the assets in Longview Oil Corp.

Reserves and production information included herein is stated on a Company Interest basis (before royalty burdens and including royalty interests receivable) unless noted otherwise. This summary contains several cautionary statements that are specifically required by NI 51-101. In addition to the detailed information disclosed in this Annual Report more detailed information on a net interest basis (after royalty burdens and including royalty interests) and on a gross interest basis (before royalty burdens and excluding royalty interests) is included in Advantage's Annual Information Form ("AIF") and is available at www.advantageog.com and www.sedar.com.

Highlights - Company Interest Reserves (Working Interests plus Royalty Interests Receivable)

	December 31, 2012	December 31, 2011
Proved plus probable reserves (mboe)	268,436	218,386
Present Value of 2P reserves discounted at 10%, before tax ($000)[1]	$1,694,555	$1,438,679
Net Asset Value per Share discounted at 10%, before tax [2]	$9.26	$9.35
Reserve Life Index (proved plus probable - years) [3]	35.4	26.4
Reserves per Share (proved plus probable) [2]	1.59	1.31
Bank debt per boe of reserves [4]	$0.60	$0.66
Convertible debentures per boe of reserves [4]	$0.32	$0.40

[1] Assumes that development of each property will occur, without regard to the likely availability to the Company of funding required for that development.

[2] Based on 168.383 million Shares outstanding at December 31, 2012, and 166.304 million Shares outstanding as December 31, 2011.

[3] Based on Q4 average production and company interest reserves.

[4] Using boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Company Interest Reserves (Working Interests plus Royalty Interests Receivable)

Summary as at December 31, 2012

	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Proved					
Developed Producing	1,339	15	2,292	264,110	47,664
Developed Non-producing	39	-	242	28,993	5,113
Undeveloped	47	-	1,926	694,569	117,735
Total Proved	**1,425**	**15**	**4,460**	**987,672**	**170,512**
Probable	853	10	1,992	570,411	97,924
Total Proved + Probable	**2,278**	**25**	**6,452**	**1,558,083**	**268,436**

Gross Working Interest Reserves (Working Interest only)

Summary as at December 31, 2012

	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Proved					
Developed Producing	1,279	3	2,262	262,925	47,365
Developed Non-producing	39	-	242	28,856	5,090
Undeveloped	45	-	1,926	694,563	117,732
Total Proved	**1,363**	**3**	**4,430**	**986,344**	**170,187**
Probable	827	5	1,983	570,105	97,833
Total Proved + Probable	**2,190**	**8**	**6,413**	**1,556,449**	**268,020**

Present Value of Future Net Revenue using Sproule price and cost forecasts [1][2] ($000)

	Before Income Taxes Discounted at 0%	10%	15%
Proved			
Developed Producing	$969,481	$527,205	$434,660
Developed Non-producing	102,564	61,127	50,732
Undeveloped	2,022,373	491,560	250,204
TOTAL PROVED	**3,094,418**	**1,079,892**	**735,596**
Probable	2,862,722	614,663	375,670
Total Proved + Probable	**5,957,140**	**1,694,555**	**1,111,266**

(1) Advantage's crude oil, natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2012 prior to the provision for income taxes, interests, debt services charges and general and administrative expenses. It should not be assumed that the discounted future revenue estimated by Sproule represents the fair market value of the reserves.

(2) Assumes that development of each property will occur, without regard to the likely availability to the Company of funding required for that development.

Sproule Price Forecasts

The present value of future net revenue at December 31, 2012 was based upon crude oil and natural gas pricing assumptions prepared by Sproule effective December 31, 2012. These forecasts are adjusted for reserve quality, transportation charges and the provision of any applicable sales contracts. The price assumptions used over the next seven years are summarized in the table below:

Year	WTI Crude Oil ($US/bbl)	Edmonton Light Crude Oil ($Cdn/bbl)	Alberta AECO-C Natural Gas ($Cdn/mmbtu)	Henry Hub Natural Gas ($US/mmbtu)	Exchange Rate ($US/$Cdn)
2013	89.63	84.55	3.31	3.65	1.001
2014	89.93	89.84	3.72	4.06	1.001
2015	88.29	88.21	3.91	4.24	1.001
2016	95.52	95.43	4.70	5.04	1.001
2017	96.96	96.87	5.32	5.66	1.001
2018	98.41	98.32	5.40	5.74	1.001
2019	99.89	99.79	5.49	5.83	1.001

Net Asset Value using Sproule price and cost forecasts (Before Income Taxes)

The following net asset value ("NAV") table shows what is normally referred to as a "produce-out" NAV calculation under which the current value of the Company's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time.

	Before Income Taxes Discounted at		
($000, except per Share amounts)	0%	10%	15%
Net asset value per Share [1] - December 31, 2011	$27.94	$9.35	$6.43
Present value proved and probable reserves	$5,957,140	$1,694,555	$1,111,266
Undeveloped acreage and seismic [2]	31,418	31,418	31,418
Working capital (deficit) and other	(33,326)	(33,326)	(33,326)
Convertible debentures	(86,250)	(86,250)	(86,250)
Bank debt	(160,616)	(160,616)	(160,616)
Longview shares at market value	113,999	113,999	113,999
Net asset value - December 31, 2012	$5,822,365	1,559,780	976,491
Net asset value per Share [1] - December 31, 2012	$34.58	$9.26	$5.80

[1] Based on 168.383 million Shares outstanding at December 31, 2012, and 166.304 million Shares outstanding at December 31, 2011.
[2] Internal estimate

Gross Working Interest Reserves Reconciliation

Proved	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening balance Dec. 31, 2011	1,461	6	2,678	817,781	140,442
Extensions	4	-	1,629	49,962	9,960
Improved recovery	-	-	-	-	-
Infill Drilling	14	-	2	22,468	3,761
Discoveries	1	-	147	8,161	1,508
Economic factors	6	(1)	(132)	(2,961)	(621)
Technical revisions	183	(1)	368	136,500	23,300
Acquisitions	-	-	-	-	-
Dispositions	(77)	-	(3)	(890)	(228)
Production	(229)	(1)	(259)	(44,677)	(7,935)
Closing balance at Dec. 31, 2012	1,363	3	4,430	986,344	170,187

Gross Working Interest Reserves Reconciliation (continued)

Proved + Probable	Light & Medium Oil (mbbl)	Heavy Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening balance Dec. 31, 2011	2,331	11	3,843	1,270,043	217,858
Extensions	5	-	2,214	71,803	14,186
Improved recovery	-	-	-	-	-
Infill Drilling	46	-	8	49	62
Discoveries	1	-	423	14,712	2,876
Economic factors	(9)	-	(218)	(4,557)	(986)
Technical revisions	140	(1)	406	172,371	29,273
Acquisitions	-	-	-	77,760	12,960
Dispositions	(95)	-	(3)	(1,054)	(274)
Production	(229)	(1)	(259)	(44,677)	(7,935)
Closing balance at Dec. 31, 2012	2,190	9	6,413	1,556,450	268,020

Finding, Development & Acquisitions Costs ("FD&A") [(1)(2)(3)]

2012 FD&A Costs – Gross Working Interest Reserves excluding Future Development Capital

	Proved	Proved + Probable
Capital expenditures ($000)	$130,570	$130,570
Acquisitions net of dispositions ($000)	(13,967)	(13,967)
Total capital ($000)	$116,603	$116,603
Total mboe, end of year	170,187	268,020
Total mboe, beginning of year	140,442	217,858
Production, mboe	(7,936)	(7,936)
Reserve additions, mboe	37,681	58,098
2012 FD&A costs ($/boe)	**$3.09**	**$2.01**
2011 FD&A costs ($/boe)	$(69.42)	$19.27
Three year average FD&A costs ($/boe)	$(0.86)	$(1.24)
2012 F&D costs ($/boe)	**$3.44**	**$2.24**
2011 F&D costs ($/boe)	$8.10	$10.89
Three year average F&D costs ($/boe)	$5.00	$5.38

NI 51-101

2012 FD&A Costs – Gross Working Interest Reserves including Future Development Capital

	Proved	Proved + Probable
Capital expenditures ($000)	$130,570	$130,570
Acquisitions net of dispositions ($000)	(13,967)	(13,967)
Net change in Future Development Capital ($000)	131,511	132,737
Total capital ($000)	$248,114	$249,340
Reserve additions, mboe	37,681	58,098
2012 FD&A costs ($/boe)	**$6.58**	**$4.29**
2011 FD&A costs ($/boe)	$(60.95)	$21.38
Three year average FD&A costs ($/boe)	$5.05	$1.48
2012 F&D costs ($/boe)	**$6.91**	**$4.51**
2011 F&D costs ($/boe)	$9.79	$8.85
Three year average F&D costs ($/boe)	$9.62	$6.97

(1) Under NI 51-101, the methodology to be used to calculate FD&A costs includes incorporating changes in future development capital ("FDC") required to bring the proved undeveloped and probable reserves to production. For continuity, Advantage has presented herein FD&A costs calculated both excluding and including FDC.

(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated future development costs generally will not reflect total finding and development costs related to reserves additions for that year. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect Sproule's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production.

(3) In all cases, the FD&A number is calculated by dividing the identified capital expenditures by the applicable reserve additions. Boes may be misleading, particularly if used in isolation. A boe conversion ratio of 6 MCF:1 BBL is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of March 25, 2013, provides a detailed explanation of the consolidated financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three months and year ended December 31, 2012 and should be read in conjunction with the December 31, 2012 audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada, and all references are to Canadian dollars unless otherwise indicated. The term "boe" or barrels of oil equivalent may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet of natural gas to one barrel of oil equivalent (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Non-GAAP Measures

The Corporation discloses several financial measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial measures include funds from operations and cash netbacks. Management believes that these financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Corporation's principal business activities. Investors should be cautioned that these measures should not be construed as an alternative to net income, comprehensive income, and cash provided by operating activities or other measures of financial performance as determined in accordance with GAAP. Advantage's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to similar measures used by other companies.

Funds from operations, as presented, is based on cash provided by operating activities, before expenditures on decommissioning liability and changes in non-cash working capital, reduced for finance expense excluding accretion. Cash netbacks are dependent on the determination of funds from operations and include the primary cash sales and expenses on a per boe basis that comprise funds from operations. Funds from operations reconciled to cash provided by operating activities is as follows:

	Three months ended December 31			Year ended December 31		
($000)	2012	2011	% change	2012	2011	% change
Cash provided by operating activities	$ 43,675	$ 79,932	(45) %	$ 106,956	$ 218,181	(51) %
Expenditures on decommissioning liability	252	761	(67) %	2,395	3,335	(28) %
Changes in non-cash working capital	(7,152)	(21,922)	(67) %	14,864	(4,131)	(460) %
Finance expense [(1)]	(4,246)	(4,137)	3 %	(16,749)	(20,354)	(18) %
Funds from operations	**$ 32,529**	**$ 54,634**	**(40) %**	**$ 107,466**	**$ 197,031**	**(45) %**

(1) Finance expense excludes non-cash accretion expense.

Forward-Looking Information

This MD&A contains certain forward-looking statements, which are based on our current internal expectations, estimates, projections, assumptions and beliefs. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar or related expressions. These statements are not guarantees of future performance.

In particular, forward-looking statements included in this MD&A include, but are not limited to, terms of the Transaction (as defined herein), including the anticipated timing of completion thereof; terms of the TSA (as defined herein) with Longview Oil Corp. ("Longview"); industry conditions, including effect of weak natural gas prices on the natural gas industry and demand for natural gas; the Corporation's hedging strategy; the Corporation's plans for the drilling and completion of wells, including the completion of wells in the Glacier area; expected production from the Glacier area through to the end of 2013; changes in commodity prices on the Corporation's future performance; the anticipated effect of longer-term price support for natural gas on supply and demand; effect of changes in the $US/$Canadian exchange rate and changes in Canadian crude oil differentials relative to WTI on Advantage's realized prices; effect of supply management by OPEC (as defined herein) and strong relative demand from developing countries on long-term pricing fundamentals for crude oil; effect of commodity prices on the Corporation's financial results, condition and performance; effect of derivative contracts on sales and commodity price fluctuations; terms of the Corporation's derivative

contracts, including the timing of settlement of such contracts in 2013; Longview's anticipated operating costs for 2013; projected royalty rates, including the estimated royalty rate for the life of a Glacier Montney horizontal well; average royalty rates and the impact of well depths, well production rates and commodity prices on average corporate royalty rates; effect of GCA (as defined herein) and increased production from Glacier on royalty rates; terms of the Corporation's and Longview's equity compensation plans; expectations of future compensation costs associated with the restricted shares of Longview; the Corporation's intentions to monitor debt levels to ensure an optimal mix of financing and cost of capital to provide return to the Corporation's shareholders; the estimated tax pools for each of Advantage and Longview as at December 31, 2012; the anticipated expiry dates of the Corporation's and Longview's federal non-capital loss carry forward balances; future commitments and contractual obligations; terms of the Corporation's credit facilities, including timing of next review of the credit facilities, the Corporation's expectations regarding extension of the credit facilities at each annual review and effect of revisions or changes in reserve estimates and commodity prices on the borrowing base; expectations regarding the effect of the Transaction on the borrowing base under the credit facilities; terms of the Corporation's convertible debentures; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; outlook for the Corporation from a prolonged weak commodity price environment, particularly natural gas, including the impact on the Corporation's business, capital expenditures and strategy; anticipated effect of the Corporation's hedging program on the volatility of funds from operations; Advantage's focus on development of the Montney natural gas resource play at Glacier while retaining a significant investment in Longview; anticipated changes in accounting standards; the Corporation’s exploration and drilling plans; expected effect of utilizing a variety of alternative fracture stimulation techniques on initial production rates and reserves; the Corporation's development plan to increase production at Glacier and the anticipated production levels and timing thereof; anticipated terms of the Corporation's capital expenditure program for the twelve months ended June 30, 2013; effect of the sale of the non-core assets on the Corporation; current status and the plans of the Special Committee in relation to the Corporation's strategic alternatives review process; the focus of Longview's 2013 capital drilling program; Longview's anticipated average daily production, product mix, royalty rates, operating expenses and capital expenditures for the year ended December 31, 2013; Longview's 2013 capital program; Longview's anticipated drilling and recompletion activities; anticipated growth in Longview's total corporate production related to crude oil and NGLs in 2013 and anticipated crude oil and natural gas production levels; Longview's business strategy; and Longview's plans to monitor funds from operations, its dividend policy and capital expenditure commitments to ensure they are substantially balanced. In addition, statements relating to "reserves" or "resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources and reserves described can be profitably produced in the future.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, changes in general economic, market and business conditions; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; changes to investment eligibility or investment criteria; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; delays in anticipated timing of drilling and completion of wells; failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; individual well productivity; ability to access sufficient capital from internal and external sources; credit risk; risks related to the sale of the Corporation's non-core assets, including failure to complete the disposition of the Corporation's non-core assets on terms contemplated or at all and the failure to realize the anticipated benefits of the sale of such assets; failure to realize the benefits from or complete a transaction pursuant to the strategic alternative process; and the risks and uncertainties described in the Corporation’s Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: conditions in general economic and financial markets; effects of regulation by governmental agencies; current commodity prices and royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation’s conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation’s crude oil and natural gas properties in the manner currently contemplated; current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and the

estimates of the Corporation's production and reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Advantage's future operations and such information may not be appropriate for other purposes. Advantage'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 that Advantage will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and Advantage disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

Non-core Asset Sales

On August 22, 2012, the Advantage legal entity announced that it would market for sale all remaining non-core assets, defined as all corporate assets excluding Advantage's core Glacier Montney natural gas asset and its 21.15 million share ownership position in Longview Oil Corp. The non-core assets produced a total of approximately 6,350 boe/d (80% gas and 20% oil and NGLs) during the year ended December 31, 2012. In accordance with the requirements of IFRS, Advantage ceased recognizing depreciation on the property, plant and equipment held for sale effective as of the announcement. On February 5, 2013, Advantage announced that it had closed four separate sales transactions and signed a definitive agreement (the "Transaction") with a fifth party, Questfire Energy Corp. ("Questfire") which, on a combined basis, constituted the sale of substantially all non-core assets. The Transaction is anticipated to close by April 30, 2013 and is subject to satisfaction of customary closing conditions. The carrying amounts of exploration and evaluation assets, property, plant and equipment and decommissioning liabilities associated with the assets held for sale have been presented separately on the statement of financial position and reflected at the lesser of fair value less costs to sell and carrying amount, which resulted in an impairment recognition of $73 million during the fourth quarter of 2012.

Consolidation of Longview Oil Corp.

On April 14, 2011, Advantage's wholly-owned subsidiary, Longview Oil Corp. ("Longview"), completed its initial public offering (the "Offering") at a price of $10 per common share issuing 17,250,000 common shares and raising gross proceeds of $172.5 million (including full exercise of the over-allotment option on April 28, 2011). Concurrent with the closing of the Offering, Longview purchased certain oil-weighted assets (the "Acquired Assets") from Advantage for total consideration of $546.9 million, comprised of 29,450,000 common shares of Longview and $252.4 million in cash (the "Acquisition"). The Acquired Assets were purchased with an effective date of January 1, 2011 and a closing date of April 14, 2011. On May 22, 2012, Advantage sold 8,300,000 common shares of Longview to a syndicate of underwriters at a price of $9.00 per common share for gross proceeds of $74.7 million. As a result, Advantage now owns 21,150,010 common shares of Longview, representing an interest of approximately 45.2% in Longview. As Advantage holds the single largest ownership interest of Longview and other ownership interests are comparatively dispersed, Advantage is considered to control Longview. Accordingly, the financial and operating results of Longview are consolidated 100% within Advantage and non-controlling interest has been recognized which represents Longview's independent shareholders 54.8% ownership interest in the net assets and income of Longview. Refer to the MD&A section "Supplementary Financial and Operating Information for Advantage and Longview" which provides detailed financial and operational information with respect to the separate legal entities.

As the Acquisition closed on April 14, 2011, financial and operating results from the Acquired Assets belong to Advantage for the period prior to April 14, 2011 and are solely attributed to Advantage's shareholders. For the period from April 14, 2011, the financial and operating results from the Acquired Assets belong to Longview and are attributed to Longview's shareholders based on their ownership interests.

Concurrent with closing of the Acquisition, Advantage entered into a Technical Services Agreement ("TSA") with Longview. Under the TSA, Advantage provides the necessary personnel and technical services to manage Longview's business and Longview reimburses Advantage on a monthly basis for its share of administrative charges based on respective levels of production. Longview has an independent board of directors with three members. The officers of Longview provide services to Longview under the TSA but remain employees of Advantage.

Supplementary Financial and Operating Information for Advantage and Longview

The following information has been presented to provide additional information with respect to the legal entity financial and operating information for each of Advantage and Longview.

	Three months ended December 31, 2012			Year ended December 31, 2012		
	Advantage	Longview	Consolidated	Advantage	Longview	Consolidated
Production						
Natural gas (mcf/d)	116,929	8,526	125,455	122,069	8,938	131,007
Crude oil (bbls/d)	576	4,307	4,883	628	4,171	4,799
NGLs (bbls/d)	685	580	1,265	709	574	1,283
Total (boe/d)	**20,749**	**6,308**	**27,057**	**21,682**	**6,235**	**27,917**
Natural gas (%)	94%	23%	77%	94%	24%	78%
Crude oil (%)	3%	68%	18%	3%	67%	17%
NGLs (%)	3%	9%	5%	3%	9%	5%
Natural Gas Prices ($/mcf)						
Realized natural gas prices						
Excluding hedging	$ 2.94	$ 3.44	$ 2.97	$ 2.14	$ 2.56	$ 2.17
Including hedging	$ 2.70	$ 3.44	$ 2.75	$ 2.09	$ 2.56	$ 2.12
Crude Oil and NGLs Prices ($/bbl)						
Realized crude oil prices						
Excluding hedging	$ 80.35	$ 75.17	$ 75.78	$ 81.10	$ 78.55	$ 78.88
Including hedging	$ 80.35	$ 78.02	$ 78.30	$ 81.10	$ 79.47	$ 79.68
Realized NGLs prices						
Excluding hedging	$ 52.47	$ 52.05	$ 52.28	$ 57.06	$ 54.67	$ 55.99
Realized crude oil and NGLs prices						
Excluding hedging	$ 65.21	$ 72.42	$ 70.94	$ 68.35	$ 75.66	$ 74.05
Including hedging	$ 65.21	$ 74.94	$ 72.94	$ 68.35	$ 76.47	$ 74.69
Cash netbacks ($/boe)						
Petroleum and natural gas sales	$ 20.52	$ 60.75	$ 29.90	$ 16.27	$ 61.25	$ 26.32
Royalties	(0.72)	(11.26)	(3.18)	(0.93)	(11.71)	(3.34)
Realized gain (loss) on derivatives	(1.37)	1.95	(0.60)	(0.30)	0.62	(0.09)
Operating expense	(5.23)	(21.04)	(8.92)	(5.39)	(20.35)	(8.73)
Operating income	**13.20**	**30.40**	**17.20**	**9.65**	**29.81**	**14.16**
General and administrative expense [1]	(2.76)	(1.39)	(2.44)	(2.28)	(1.25)	(2.05)
Finance expense [2]	(1.60)	(2.06)	(1.71)	(1.50)	(2.10)	(1.64)
Miscellaneous income	0.01	-	-	0.07	0.01	0.06
Cash netbacks	**$ 8.85**	**$ 26.95**	**$ 13.05**	**$ 5.94**	**$ 26.47**	**$ 10.53**

(1) General and administrative expense excludes non-cash G&A.
(2) Finance expense excludes non-cash accretion expense.

	Three months ended December 31, 2012			Year ended December 31, 2012		
($000, except as otherwise indicated)	Advantage	Longview	Consolidated	Advantage	Longview	Consolidated
Sales including realized hedging						
Natural gas sales	$ 31,615	$ 2,695	$ 34,310	$ 95,672	$ 8,373	$ 104,045
Realized hedging losses	(2,619)	-	(2,619)	(2,382)	-	(2,382)
Natural gas sales including hedging	28,996	2,695	31,691	93,290	8,373	101,663
Crude oil and NGLs sales	7,560	32,562	40,122	33,459	131,401	164,860
Realized hedging gains	-	1,131	1,131	-	1,412	1,412
Crude oil and NGLs sales including hedging	7,560	33,693	41,253	33,459	132,813	166,272
Total	**$ 36,556**	**$ 36,388**	**$ 72,944**	**$ 126,749**	**$ 141,186**	**$ 267,935**
per boe	$ 19.15	$ 62.70	$ 29.30	$ 15.97	$ 61.87	$ 26.23
Royalties	$ 1,378	$ 6,537	$ 7,915	$ 7,401	$ 26,725	$ 34,126
per boe	$ 0.72	$ 11.26	$ 3.18	$ 0.93	$ 11.71	$ 3.34
As a percentage of petroleum and natural gas sales	3.5%	18.5%	10.6%	5.7%	19.1%	12.7%
Operating expense	$ 9,984	$ 12,212	$ 22,196	$ 42,796	$ 46,433	$ 89,229
per boe	$ 5.23	$ 21.04	$ 8.92	$ 5.39	$ 20.35	$ 8.73
General and administrative expense (1)	$ 5,261	$ 806	$ 6,067	$ 18,114	$ 2,846	$ 20,960
per boe	$ 2.76	$ 1.39	$ 2.44	$ 2.28	$ 1.25	$ 2.05
Interest on bank indebtedness	$ 1,966	$ 1,193	$ 3,159	$ 7,642	$ 4,794	$ 12,436
per boe	$ 1.03	$ 2.06	$ 1.27	$ 0.96	$ 2.10	$ 1.22
Interest on convertible debentures	$ 1,087	$ -	$ 1,087	$ 4,313	$ -	$ 4,313
per boe	$ 0.57	$ -	$ 0.44	$ 0.54	$ -	$ 0.42
Miscellaneous income	$ 10	$ (1)	$ 9	$ 563	$ 32	$ 595
per boe	$ 0.01	$ -	$ -	$ 0.07	$ 0.01	$ 0.06
Funds from operations	**$ 16,890**	**$ 15,639**	**$ 32,529**	**$ 47,046**	**$ 60,420**	**$ 107,466**
per boe	$ 8.85	$ 26.95	$ 13.05	$ 5.94	$ 26.47	$ 10.53
per share (2) (3)	$ 0.10	$ 0.33	$ 0.14	$ 0.28	$ 1.29	$ 0.47
Dividends from Longview (declared by Longview)	**$ 3,172**	**$ (7,025)**	**$ (3,853)**	**$ 14,350**	**$ (28,085)**	**$ (13,735)**
Expenditures on property, plant and equipment	$ 35,769	$ 11,466	$ 47,235	$ 130,490	$ 44,194	$ 174,684
Expenditures on exploration and evaluation assets	80	297	377	80	297	377
Total capital spending	**$ 35,849**	**$ 11,763**	**$ 47,612**	**$ 130,570**	**$ 44,491**	**$ 175,061**
Debt and working capital						
Bank indebtedness				$ 161,630	$ 112,541	$ 274,171
Convertible debentures				$ 86,250	$ -	$ 86,250
Working capital deficit				$ 35,467	$ 11,712	$ 47,179

(1) General and administrative expense excludes non-cash G&A.

(2) Based on basic weighted average shares outstanding applicable to each legal entity.

(3) Consolidated funds from operations per share excludes funds from operations attributable to the non-controlling interest of Longview.

Overview

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Cash provided by operating activities ($000)	$ 43,675	$ 79,932	(45) %	$ 106,956	$ 218,181	(51) %
Funds from operations ($000)	$ 32,529	$ 54,634	(40) %	$ 107,466	$ 197,031	(45) %
per share [1]	$ 0.14	$ 0.28	(50) %	$ 0.47	$ 1.07	(56) %
per boe	$ 13.05	$ 20.18	(35) %	$ 10.53	$ 19.35	(46) %

[1] Based on basic weighted average shares outstanding and excludes funds from operations attributable to the non-controlling interest of Longview.

For the fourth quarter of 2012, Advantage realized a 32% increase in funds from operations to $32.5 million or $0.14 per share as compared to $24.7 million or $0.12 per share for the third quarter of 2012 due to a 43% increase in the realized natural gas price. However, funds from operations have decreased significantly as compared to 2011 driven primarily by considerably lower realized commodity prices and a reduction in realized gains on derivative contracts. Natural gas prices have remained low for the last several years due to decreased demand and increasing U.S. domestic natural gas production, particularly from non-conventional natural gas resource plays. Crude oil prices have been lower due to wider differentials resulting in lower Canadian realized pricing. Additionally, natural gas liquid prices softened due to oversupply attributable to successful liquids-rich drilling throughout North America. Although our funds from operations have continued to benefit from cost reductions, the volatile commodity price environment has significantly challenged our industry during 2012. Gains from derivatives have decreased considerably from 2011 due to a reduction in the commodity prices at which we have been able to enter continuing derivative contracts, particularly for natural gas. The primary factor that causes significant variability of the Corporation's cash provided by operating activities, funds from operations, net income and comprehensive income is commodity prices. Refer to the section "Commodity Prices and Marketing" for a more detailed discussion of commodity prices and our price risk management.

As a result of asset dispositions, including the reduction in ownership interest of Longview, and changes in commodity prices, historical financial and operating performance may not be indicative of actual future performance.

Petroleum, Natural Gas Sales and Hedging

	Three months ended December 31			Year ended December 31		
($000)	2012	2011	% change	2012	2011	% change
Natural gas sales	$ 34,310	$ 40,249	(15) %	$ 104,045	$ 169,274	(39) %
Realized hedging gains (losses)	(2,619)	7,262	(136) %	(2,382)	28,657	(108) %
Natural gas sales including hedging	31,691	47,511	(33) %	101,663	197,931	(49) %
Crude oil and NGLs sales	40,122	52,051	(23) %	164,860	186,014	(11) %
Realized hedging gains (losses)	1,131	(704)	(261) %	1,412	(2,831)	(150) %
Crude oil and NGLs sales including hedging	41,253	51,347	(20) %	166,272	183,183	(9) %
Total [1]	**$ 72,944**	**$ 98,858**	**(26) %**	**$ 267,935**	**$ 381,114**	**(30) %**

(1) Total excludes unrealized derivative gains and losses.

Total sales, excluding hedging, decreased 19% for the three months and 24% for the year ended December 31, 2012 as compared to 2011. Sales for 2012 have been negatively impacted primarily by the continued decrease in commodity prices, particularly natural gas prices. Natural gas prices have remained low for the last several years due to decreased demand and increasing U.S. domestic natural gas production, particularly from non-conventional natural gas resource plays. Crude oil prices have been lower during 2012 when compared to the same periods of 2011 due to wider differentials resulting in lower Canadian realized pricing, which has adversely impacted our sales. Additionally, natural gas liquid prices have softened in 2012 as compared to 2011 due to oversupply attributable to successful liquids-rich drilling throughout North America. Average daily production during the fourth quarter of 2012 decreased 8% from the same period of 2011 but for the year ended December 31, 2012 was comparable to the prior year.

Our commodity price risk management program in 2011 delivered significant realized natural gas hedging gains due to stronger hedged prices for that year. In 2012, we entered derivative contracts to hedge up to 66.3 mmcf/d of natural gas for the period from May to December at a floor price of AECO $1.85/mcf and an average ceiling price of $2.70/mcf. Due to a recovery in natural gas prices during the fourth quarter of 2012, losses were realized on these hedges. Such losses were partially offset by gains realized on crude oil hedging due to lower actual crude oil prices.

Production

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Natural gas (mcf/d)	125,455	137,480	(9) %	131,007	130,075	1 %
Crude oil (bbls/d)	4,883	5,182	(6) %	4,799	4,711	2 %
NGLs (bbls/d)	1,265	1,316	(4) %	1,283	1,519	(16) %
Total (boe/d)	**27,057**	**29,411**	**(8) %**	**27,917**	**27,909**	**- %**
Natural gas (%)	77%	78%		78%	78%	
Crude oil (%)	18%	18%		17%	17%	
NGLs (%)	5%	4%		5%	5%	

Average daily production during the fourth quarter of 2012 decreased 8% from the same period of 2011 but was 1% higher than the 26,825 boe/d reported for the third quarter of 2012 and for the year ended December 31, 2012 was comparable to the prior year.

Advantage's stand-alone production averaged 20,749 boe/d for the fourth quarter of 2012, as compared to 22,589 boe/d for the fourth quarter of 2011 and 20,812 boe/d realized during the third quarter of 2012. In March 2011, our Phase III development at Glacier was completed with production capacity of 100 mmcf/d at our 100% working interest gas plant ("Glacier gas plant"), a significant increase from the prior 50 mmcf/d capability. During the third quarter of 2011, we began our Phase IV development at Glacier to increase throughput capacity to 140 mmcf/d and further evaluate the Middle and Lower Montney formations. Modifications at the Glacier gas plant to increase processing capacity to 140 mmcf/d were completed during the second quarter of 2012. However, as a result of the prevailing low natural gas pricing environment, we decided to maintain production from Glacier at between 90 and 100 mmcf/d utilizing our inventory of drilled wells. During the Phase IV program we drilled 28.5 net wells (29 gross) and had 14 wells remaining to complete prior to the 2012 spring break-up. We experienced a prolonged spring break-up and other weather related conditions into the third quarter of 2012 causing lease access restrictions that delayed our current Glacier capital program until September. Since that time we have drilled 3 new Middle Montney evaluation wells and completed 5 wells from the Upper, Middle and Lower Montney formations. With the delay in our capital program, average daily production at Glacier was approximately 88 mmcf/d during the fourth quarter of 2012 but averaged 92 mmcf/d for the 2012 year. At December 31, 2012, we had 12 wells drilled that will be completed to offset declines as required. We estimate that we have sufficient current behind pipe productivity to sustain production at between 90 and 100 mmcf/d for the remainder of 2013. Advantage production has also been impacted during 2012 as production from our Lookout Butte property (1,000 boe/d) in southern Alberta was curtailed in June as a result of a fire that occurred at the third party facility while maintenance activities were underway. Lookout Butte was brought back on production in early November 2012.

Longview's daily production averaged 6,308 boe/d for the fourth quarter of 2012 with 77% from crude oil and NGLs, a 5% increase from the 6,013 boe/d realized during the immediate prior quarter but an 8% decrease from the fourth quarter of 2011. During 2011 Longview's capital program was delayed until September due to poor field conditions resulting in the majority of production additions occurring during the fourth quarter of 2011 from the successful completion of their 2011 drilling program that delivered significant production increases. In the second quarter of 2012 Longview announced a reduction to their capital expenditure program to maintain financial discipline and a strong balance sheet in response to weaker than anticipated commodity prices and higher differentials. Production additions from Longview's reduced 2012 capital expenditure program were sufficient to successfully offset declines and resulted in daily production that averaged 6,235 boe/d for the current year, comparable to that of the prior year.

Commodity Prices and Marketing

Natural Gas

($/mcf)	Three months ended December 31 2012	2011	% change	Year ended December 31 2012	2011	% change
Realized natural gas prices						
Excluding hedging	$ 2.97	$ 3.18	(7) %	$ 2.17	$ 3.57	(39) %
Including hedging	$ 2.75	$ 3.76	(27) %	$ 2.12	$ 4.17	(49) %
AECO daily index	$ 3.22	$ 3.20	1 %	$ 2.40	$ 3.63	(34) %

Realized natural gas prices, excluding hedging, have decreased significantly as compared to 2011. Although the fourth quarter of 2012 experienced a 43% recovery from the $2.07/mcf realized during the third quarter of 2012, natural gas prices have still remained at historic lows for 2012. Our realized natural gas prices since March 31, 2012 include deductions for unutilized sales gas pipeline fees associated with TransCanada pipeline firm service commitments for 130 mmcf/d at Glacier. We incur charges of approximately $0.25/mcf on these service commitments and since we are maintaining Glacier production at between 90 and 100 mmcf/d, these costs reduce realized natural gas prices in comparison to AECO.

Natural gas prices declined dramatically throughout 2012 due to decreased demand caused by the mild 2011/2012 winter and increasing U.S. domestic natural gas production, particularly from non-conventional natural gas resource plays. These factors resulted in historic high inventory levels at the end of last winter which have gradually been drawn down to levels approaching the five-year average due to massive switching by electrical utilities from coal to natural gas during the past summer. The result has been a slightly more balanced market and a significant improvement in pricing compared to the second and third quarters of 2012 during which we realized natural gas prices, excluding hedging, of $1.65/mcf and $2.07/mcf, respectively. We continue to believe in the longer-term price support for natural gas due to the increased usage for power generation, the increased proportion of resource based natural gas supplies that result in higher initial production declines and reduced conventional natural gas drilling, which could eventually lead to a more balanced supply and demand environment. We monitor market developments closely and will be proactive in implementing an appropriate hedging strategy to mitigate the volatility in our cash flow as a result of fluctuations in natural gas prices.

Crude Oil and NGLs

($/bbl)	Three months ended December 31 2012	2011	% change	Year ended December 31 2012	2011	% change
Realized crude oil prices						
Excluding hedging	$ 75.78	$ 89.34	(15) %	$ 78.88	$ 87.02	(9) %
Including hedging	$ 78.30	$ 87.86	(11) %	$ 79.68	$ 85.38	(7) %
Realized NGLs prices						
Excluding hedging	$ 52.28	$ 78.09	(33) %	$ 55.99	$ 65.64	(15) %
Realized crude oil and NGLs prices						
Excluding hedging	$ 70.94	$ 87.06	(19) %	$ 74.05	$ 81.81	(9) %
Including hedging	$ 72.94	$ 85.88	(15) %	$ 74.69	$ 80.56	(7) %
WTI ($US/bbl)	$ 88.20	$ 94.02	(6) %	$ 94.19	$ 95.14	(1) %
$US/$Canadian exchange rate	$ 1.01	$ 0.98	3 %	$ 1.00	$ 1.01	(1) %
Edmonton Light ($/bbl)	$ 84.55	$ 98.03	(14) %	$ 86.73	$ 95.62	(9) %
WTI/Edmonton Light Differential ($/bbl)	$ (2.78)	$ 2.09	(233) %	$ (7.46)	$ 1.42	(625) %

Realized crude oil and NGLs prices, excluding hedging, decreased 19% and 9% for the three months and year ended December 31, 2012, as compared to the same periods of 2011. The price of WTI fluctuates based on regional and worldwide supply and demand fundamentals with significant price volatility experienced over the last several years. Advantage's realized prices may not change to the same extent as WTI due to changes in the $US/$Canadian exchange rate, changes in Canadian crude oil differentials between WTI and Canadian Edmonton light pricing, and quality and transportation adjustments. Our realized prices have been lower during 2012 when compared to the same periods of 2011 due to wider differentials resulting in lower Canadian realized pricing, which has adversely impacted our sales. Additionally, natural gas liquid prices have softened in 2012 as compared to 2011 due to oversupply attributable to successful liquids-rich drilling throughout North America. We believe that the long-term pricing fundamentals for

crude oil will remain strong with supply management by the Organization of the Petroleum Exporting Countries ("OPEC") and strong relative demand from developing countries.

Commodity Price Risk

The Corporation's financial results and condition will be dependent on the prices received for crude oil and natural gas production. Crude oil and natural gas prices have fluctuated widely and are determined by economic and political factors. Supply and demand factors, including weather and general economic conditions as well as conditions in other crude oil and natural gas regions, impact prices. Any movement in crude oil and natural gas prices will have an effect on the Corporation's financial condition and performance. Advantage has an established financial hedging strategy and may manage the risk associated with changes in commodity prices by entering into derivative contracts. Although these commodity price risk management activities could expose Advantage to losses or gains, entering derivative contracts helps us to stabilize cash flows and ensures that our capital expenditure program is substantially funded by such cash flows. To the extent that Advantage engages in risk management activities related to commodity prices, it will be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. In addition, the Corporation only enters into derivative contracts with major banks and international energy firms to further mitigate associated credit risk. Our Credit Facilities also prohibit the Corporation from entering into any derivative contract where the term of such contract exceeds three years. Further, the aggregate of such contracts cannot hedge greater than 60% of total estimated crude oil and natural gas production over two years and 50% over the third year.

Currently the Corporation has the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
Natural gas – AECO			
Fixed price	January 2013 to December 2013	14,217 mcf/d	$3.51/mcf
Fixed price	April 2013 to October 2013	9,478 mcf/d	$3.14/mcf
Fixed price	April 2013 to October 2013	9,478 mcf/d	$3.17/mcf
Fixed price (1)	April 2013 to October 2013	4,739 mcf/d	$2.95/mcf
Fixed price (1)	July 2013 to September 2013	4,739 mcf/d	$3.22/mcf
Fixed price (1)	January 2014 to March 2014	14,217 mcf/d	$3.85/mcf
Fixed price (1)	January 2014 to March 2014	18,956 mcf/d	$3.84/mcf
Fixed price (1)	April 2014 to October 2014	14,217 mcf/d	$3.68/mcf
Fixed price (1)	April 2014 to October 2014	18,956 mcf/d	$3.68/mcf
Fixed price (1)	November 2014 to March 2015	14,217 mcf/d	$4.02/mcf
Fixed price (1)	November 2014 to March 2015	18,956 mcf/d	$4.01/mcf
Crude oil – WTI			
Fixed price (2)	January 2013 to December 2013	1,000 bbls/d	$90.29/bbl
Fixed price (1)(2)	February 2013 to December 2013	1,000 bbls/d	$93.00/bbl

(1) Derivative contracts entered into subsequent to December 31, 2012.

(2) Derivative contracts entered by Longview.

In February 2013, the Corporation entered into derivatives contracts, which will be transferred to Questfire upon closing of the Transaction, as follows:

Description of Derivative	Term	Volume	Average Price
Natural gas - AECO			
Fixed price	March 2013 to December 2013	13,269 mcf/d	$3.22/mcf
Fixed price	January 2014 to December 2014	7,583 mcf/d	$3.54/mcf
Crude oil - WTI			
Fixed price	March 2013 to December 2013	250 bbls/d	$97.25/bbl
Fixed price	January 2014 to December 2014	200 bbls/d	$94.80/bbl

A summary of realized and unrealized hedging gains and losses for the three months and year ended December 31, 2012 and 2011 are as follows:

	Three months ended December 31			Year ended December 31		
($000)	**2012**	**2011**	**% change**	**2012**	**2011**	**% change**
Realized gains (losses) on derivatives						
Natural gas	$ (2,619)	$ 7,262	(136) %	$ (2,382)	$ 28,657	(108) %
Crude oil	1,131	(704)	(261) %	1,412	(2,831)	(150) %
Total realized gains (losses) on derivatives	(1,488)	6,558	(123) %	(970)	25,826	(104) %
Unrealized gains (losses) on derivatives						
Natural gas	4,058	(6,684)	(161) %	2,142	(25,152)	(109) %
Crude oil	(1,777)	(3,919)	(55) %	1,686	(199)	(947) %
Total unrealized gains (losses) on derivatives	2,281	(10,603)	(122) %	3,828	(25,351)	(115) %
Total gains (losses) on derivatives	**$ 793**	**$ (4,045)**	**(120) %**	**$ 2,858**	**$ 475**	**502 %**

For 2012 we realized net losses on settled derivative contracts attributable to natural gas hedging as a result of higher actual natural gas prices as compared to our average hedge prices. Such losses were partially offset by gains realized on crude oil hedging due to lower actual crude oil prices. This differs considerably as compared to the net gains realized in 2011 due to a decrease in the natural gas prices at which we have been able to enter continuing derivative contracts. As at December 31, 2012, the fair value of the derivative contracts outstanding and to be settled was a net asset of approximately $1.1 million, a change of $3.8 million from the $2.7 million net liability at December 31, 2011. For the year ended December 31, 2012, this $3.8 million increase in the fair value of the derivative contracts was recognized in income as an unrealized derivative gain (December 31, 2011 – $25.4 million unrealized derivative loss). The valuation of the derivatives is the estimated fair value to settle the contracts as at December 31, 2012 and is based on pricing models, estimates, assumptions and market data available at that time. As such, the recognized amounts are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and foreign exchange rates as compared to the valuation assumptions. The Corporation does not apply hedge accounting and current accounting standards require changes in the fair value to be included in the consolidated statement of comprehensive income as a derivative gain or loss with a corresponding derivative asset and liability recorded on the statement of financial position. These derivative contracts will settle in 2013 corresponding to when the Corporation will recognize sales from production.

Royalties

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Royalties ($000)	$ 7,915	$ 13,339	(41) %	$ 34,126	$ 52,971	(36) %
per boe	$ 3.18	$ 4.93	(35) %	$ 3.34	$ 5.20	(36) %
As a percentage of petroleum and natural gas sales	10.6%	14.5%	(3.9) %	12.7%	14.9%	(2.2) %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation currently has mineral leases with provincial governments, individuals and other companies. Royalties include payments for Saskatchewan Resource Surcharge which is based on the petroleum and natural gas sales earned within the Province of Saskatchewan. Royalties also include the impact of gas cost allowance ("GCA"), which is a reduction of royalties payable to the Alberta Provincial Government to recognize capital and operating expenditures incurred in the gathering and processing of their share of natural gas production and does not generally fluctuate with natural gas prices. Our average corporate royalty rates are impacted by well depths, well production rates, and commodity prices.

Total royalties paid during 2012 have decreased as compared to the prior year due to a significant reduction in sales attributed to the reduced commodity price environment and lower royalty rates. The royalty rate realized by each of Advantage and Longview on a stand-alone basis for the current year was 5.7% and 19.1%, respectively. Advantage's royalty rates, that are predominately based on natural gas production, have decreased due to lower natural gas prices and lower average royalties attributed to production from our significant development at Glacier, Alberta. The estimated royalty rate for the life of a Glacier Montney horizontal well is approximately 5% due to industry provincial incentive programs. As production from Glacier becomes a larger proportion of total Advantage production, we have experienced a continual reduction in our realized royalty rate. Additionally, Advantage further benefits from significant GCA that further lowers the effective royalty rate.

Operating Expense

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Operating expense ($000)	$ 22,196	$ 21,717	2 %	$ 89,229	$ 89,166	- %
per boe	$ 8.92	$ 8.03	11 %	$ 8.73	$ 8.75	- %

Total operating expense and operating expense per boe for the three months ended December 31, 2012 is slightly higher than the same period of 2011 primarily due to 8% lower production. However, total operating expense and operating expense per boe for the year ended December 31, 2012 is comparable to the prior year.

Operating expense per boe realized by Advantage on a stand-alone basis for the fourth quarter of 2012 was $5.23/boe, compared to $4.90/boe for the fourth quarter of 2011 and $5.42/boe for the third quarter of 2012. Operating costs for the fourth quarter of 2011 were particularly low due to a one-time receipt for an equalization of $1.7 million recognized during that period. Operating expenses at Glacier for the year ended December 31, 2012 were approximately $0.33/mcf ($1.98/boe) due to the continued efficiencies created by processing our natural gas through our 100% owned Glacier gas plant.

Operating expense per boe realized by Longview for the fourth quarter of 2012 was $21.04/boe, compared to $18.36/boe for the fourth quarter of 2011 and $20.44/boe for the third quarter of 2012. Longview's total operating expense and operating expense per boe realized increased during 2012 as incurred costs associated with the clean-up of two salt water spills resulting from injection pipeline failures that occurred at Sunset, Alberta and additional costs for maintenance associated with specific facilities and pipelines throughout the year. On a per boe basis, operating costs have been impacted by lower daily production levels during the fourth quarter of 2012 as compared to the fourth quarter of 2011 that experienced a surge in production as a result of capital spending that was delayed until late 2011. To help stabilize fluctuating power costs, Longview fixed the price of 0.8 MW at $55.41/MWh for the period from January 2013 to December 2014. Longview anticipates operating costs to be $19.00 to $20.00/boe during 2013.

General and Administrative Expense

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
General and administrative expense						
Cash expense ($000)	$ 6,067	$ 5,119	19 %	$ 20,960	$ 22,239	(6) %
per boe	$ 2.44	$ 1.89	29 %	$ 2.05	$ 2.18	(6) %
Non-cash expense ($000)	$ 2,423	$ 2,107	15 %	$ 7,220	$ 12,348	(42) %
per boe	$ 0.97	$ 0.78	24 %	$ 0.71	$ 1.21	(41) %
Total general and administrative expense ($000)	$ 8,490	$ 7,226	17 %	$ 28,180	$ 34,587	(19) %
per boe	$ 3.41	$ 2.67	28 %	$ 2.76	$ 3.39	(19) %
Employees at December 31				121	125	(3) %

Cash general and administrative ("G&A") expense increased for the three months ended December 31, 2012 compared to the same period of 2011 but has decreased for the year ended December 31, 2012 as compared to 2011 due to ongoing cost reduction efforts and continued evaluation.

Non-cash G&A expense is comprised of share based compensation, including restricted shares and stock options, granted to service providers with the purpose to retain and attract employees, to reward and encourage performance, and to focus employees on operating and financial performance that results in lasting shareholder return. Restricted shares are generally granted when the Corporation demonstrates a positive total return, subject to Board of Directors approval, and on vesting are exchanged for common shares. Stock options are granted subject to Board of Directors approval and on vesting can be exercised at the option of the service providers in exchange for common shares. Compensation cost related to share based compensation is recognized as non-cash G&A expense over the vesting period and incorporates the fair value at grant date, the estimated number of restricted shares or stock options to vest, and certain management estimates.

Advantage stand-alone had a restricted share performance incentive plan that expired during the third quarter of 2012 and no Advantage restricted shares were granted during the current year. On September 13, 2012, shareholders of Advantage approved a new stock option plan, to continue providing for long term equity based compensation for service providers. For the year ended December 31, 2012, Advantage recognized $6.1 million of compensation cost as non-cash G&A expense, issued 2,078,798 common shares to service providers in exchange for vested restricted shares that were granted during prior years, and granted 15,996,366 stock options pursuant to the new stock option plan.

Longview has a restricted share performance incentive plan and for the year ended December 31, 2012, 114,163 restricted shares were granted and $1.1 million of compensation cost was recognized as non-cash G&A expense. During the same period, Longview issued 86,732 common shares to service providers in exchange for vested restricted shares. As at December 31, 2012, 113,630 restricted shares remain unvested and will vest to service providers over the next two years with a total of $0.4 million in compensation cost to be recognized over the future service periods.

Depreciation Expense

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Depreciation expense ($000)	$ 26,453	$ 41,669	(37) %	$ 132,175	$ 152,927	(14) %
per boe	$ 10.63	$ 15.40	(31) %	$ 12.94	$ 15.01	(14) %

Depreciation of oil and gas properties is provided on the unit-of–production method based on total proved and probable reserves, including future development costs, on a component basis. For 2012, depreciation expense has decreased due to the reduced rate of depreciation per boe. The rate of depreciation per boe has reduced due to a decrease in net property, plant and equipment attributable to the recognition of a $187.7 million impairment of oil and gas properties during the fourth quarter of 2011. Additionally, in accordance with the requirements of IFRS, Advantage ceased depreciation of assets held for sale effective as of the announcement date (refer to the sections "Non-core Asset Sales" and "Impairment of Assets Held for Sale").

Impairment of Assets Held for Sale

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Impairment of assets held for sale ($000)	$ 73,000	$ -	100 %	$ 73,000	$ -	100 %

The carrying amounts of exploration and evaluation assets, property, plant and equipment and decommissioning liabilities associated with the assets held for sale have been presented separately on the statement of financial position and reflected at the lesser of fair value less costs to sell and carrying amount, which resulted in an impairment recognition of $73 million during the fourth quarter of 2012 (refer to the section "Non-core Asset Sales").

Impairment of Oil and Gas Properties

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Impairment of oil and gas properties ($000)	$ 31,865	$ 187,684	(83) %	$ 31,865	$ 187,684	(83) %

At each reporting date, Advantage assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves. For the purpose of impairment testing of property, plant and equipment, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). When management judges that circumstances clearly indicate impairment, CGUs are tested for impairment by comparing the carrying values to their recoverable amounts. These calculations require the use of estimates and assumptions, that are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs (refer to the section "Critical Accounting Estimates"). Impairment losses on CGUs are recognized in the Statement of Comprehensive Income (Loss) as impairment of oil and gas properties and are separately disclosed.

As at December 31, 2012, Longview determined that the reduction in crude oil prices recognized within their year-end independent reserves evaluation was an indicator of impairment. As a result, they completed an impairment assessment and calculated an estimated recoverable amount for their CGUs, primarily based upon the net present value after tax of their year-end proved plus probable reserves discounted at 10% and adjusted for a number of other estimates and assumptions. Based upon these calculations, Longview recognized an impairment loss of $31.9 million related to one CGU located in Alberta that had suffered a significant deterioration in value due to the reduction in crude oil prices and decreased reserves. The decrease in Alberta reserves was more than offset by increased reserves from Saskatchewan CGUs resulting in a total increase in Longview reserves for the year ended December 31, 2012. No impairment losses were recognized for any other CGUs. An impairment loss is reversed if there is subsequently an objective change in the estimates used to determine the recoverable amount.

As at December 31, 2011, Advantage determined that the significant reduction in natural gas prices recognized within our year-end independent reserves evaluation was an indicator of impairment. As a result, we completed an impairment assessment and calculated an estimated recoverable amount for our natural gas concentrated CGUs, primarily based upon the net present value after tax of our year-end proved plus probable reserves discounted at 10% and adjusted for a number of other estimates and assumptions. Based upon these calculations, we recognized an impairment loss of $187.7 million related to two CGUs that consist of conventional natural gas focused properties located in Western and Eastern Alberta that had suffered a significant deterioration in value due to the challenging natural gas price environment. No impairment losses were recognized for any other CGUs, including our Glacier property. An impairment loss is reversed if there is subsequently an objective change in the estimates used to determine the recoverable amount.

Exploration and Evaluation Expense

($000)	Three months ended December 31 2012	2011	% change	Year ended December 31 2012	2011	% change
Exploration and evaluation expense	$ 41	$ 1,708	(98) %	$ 181	$ 3,055	(94) %

All exploratory costs incurred subsequent to acquiring the right to explore for oil and natural gas are capitalized as exploration and evaluation assets pending determination of technical feasibility and commercial viability. Such costs can typically include costs to acquire land rights in areas with no proved or probable reserves assigned, geological and geophysical costs, and exploration wells. If the assets are subsequently determined to be technically feasible and commercially viable, the exploratory costs are tested for impairment and then reclassified from exploration and evaluation assets to development and production assets. If exploratory costs are determined not to be technically feasible and commercially viable, the costs are expensed as exploration and evaluation expense. For the years ended December 31, 2012 and 2011, we expensed exploration and evaluation costs related to undeveloped land that expired.

Interest on Bank Indebtedness

	Three months ended December 31 2012	2011	% change	Year ended December 31 2012	2011	% change
Interest on bank indebtedness ($000)	$ 3,159	$ 2,142	47 %	$ 12,436	$ 11,483	8 %
per boe	$ 1.27	$ 0.79	61 %	$ 1.22	$ 1.13	8 %
Average effective interest rate	4.5%	5.4%	(0.9) %	4.9%	5.3%	(0.4) %
Bank indebtedness at December 31 ($000)				$ 274,171	$ 233,903	17 %

Total interest on bank indebtedness has increased for the three months and year ended December 31, 2012 as compared to the same periods of 2011 primarily due to the increase in the average debt balance attributable to capital expenditures exceeding reduced funds from operations and settlement of the 7.75% and 8.00% convertible debentures totaling $62.3 million in December 2011. Lower funds from operations have been primarily caused by the lower commodity price environment. Consolidated bank indebtedness outstanding at the end of December 31, 2012 was $274.2 million consisting of $161.6 million and $112.6 million for each of the legal entities Advantage and Longview, respectively. The Corporation's interest rates have decreased during 2012 and are primarily based on short term bankers' acceptance rates plus a stamping fee. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to our shareholders.

Interest and Accretion on Convertible Debentures

	Three months ended December 31 2012	2011	% change	Year ended December 31 2012	2011	% change
Interest on convertible debentures ($000)	$ 1,087	$ 1,995	(46) %	$ 4,313	$ 8,871	(51) %
per boe	$ 0.44	$ 0.74	(41) %	$ 0.42	$ 0.87	(52) %
Accretion on convertible debentures ($000)	$ 808	$ 824	(2) %	$ 3,218	$ 3,360	(4) %
per boe	$ 0.32	$ 0.30	7 %	$ 0.31	$ 0.33	(6) %
Convertible debentures maturity value at December 31 ($000)				$ 86,250	$ 86,250	- %

Interest and accretion on convertible debentures has decreased for 2012 as compared to 2011 due to the maturity and settlement of the 7.75% and 8.00% convertible debentures in December 2011.

Accretion on Decommissioning Liability

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Accretion on decommissioning liability ($000)	$ 1,613	$ 1,459	11 %	$ 6,300	$ 5,748	10 %
per boe	$ 0.65	$ 0.54	20 %	$ 0.62	$ 0.56	11 %
Decommissioning liability at December 31 ($000) (1)				$ 262,764	$ 253,796	4 %

(1) Includes decommissioning liability associated with assets held for sale.

Decommissioning liabilities are determined by discounting at a risk-free rate the expected future cash flows required to decommission all petroleum and natural gas assets. The net present value of the decommissioning liability has increased due to a decrease in the risk-free rate. Accretion on decommissioning liability represents the increase in the decommissioning liability each reporting period due to the passage of time and is currently calculated at an annualized rate of 2.37% of the liability.

Other Income

	Three months ended December 31			Year ended December 31		
($000)	2012	2011	% change	2012	2011	% change
Gain on sale of property, plant and equipment	$ 5,476	$ 153	3,479 %	$ 16,964	$ 1,325	1,180 %
Miscellaneous income	9	88	(90) %	595	647	(8) %
	$ 5,485	$ 241	2,176 %	$ 17,559	$ 1,972	790 %

Other income primarily consists of gains related to the disposition of property, plant and equipment. In the second half of 2012, Advantage sold non-core assets resulting in gains of $17.0 million.

Taxes

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2012, the Corporation recognized a deferred income tax recovery of $28.6 million as a result of the $125.7 million loss before taxes and non-controlling interest. As at December 31, 2012, the Corporation had a deferred income tax asset balance of $42.9 million and a deferred income tax liability balance of $4.6 million.

Advantage and Longview have approximately $1.7 billion in tax pools and deductions at December 31, 2012, which can be used to reduce the amount of taxes payable. The estimated tax pools in place are as follows:

	Estimated Tax Pools December 31, 2012 ($ millions)		
	Advantage	Longview	Consolidated
Canadian Development Expenses	$ 133	$ 44	$ 177
Canadian Exploration Expenses	71	-	71
Canadian Oil and Gas Property Expenses	-	330	330
Non-capital losses	721	94	815
Undepreciated Capital Cost	226	70	296
Other	4	5	9
	$ 1,155	**$ 543**	**$ 1,698**

Advantage and Longview have non-capital loss carry forward balances of approximately $815 million that will expire no earlier than 2023.

Net Income Attributable to Non-Controlling Interest

From April 14, 2011 to May 21, 2012, Advantage had a 63% ownership interest in Longview with the remaining 37% held by outside interests or non-controlling interests. On May 22, 2012, Advantage sold 8,300,000 common shares of Longview which decreased Advantage's ownership interest to 45.2% and increased the non-controlling interests to 54.8%. As Advantage holds the single largest ownership interest of Longview and other ownership interests are comparatively dispersed, Advantage is considered to control Longview. Accordingly, Advantage's consolidated financial statements include 100% of Longview's accounts. To determine the net income or loss attributable to the Advantage shareholders, it is necessary to deduct or add that portion of the net income or loss related to Longview that is consolidated within Advantage's financial results but is attributable to the non-controlling interests. Therefore, for the year ended December 31, 2012, Advantage recognized an $8.0 million increase to net income related to Longview's net loss consolidated within Advantage's financial results but attributable to the non-controlling interests.

Net Loss and Comprehensive Loss

	Three months ended December 31			Year ended December 31		
	2012	2011	% change	2012	2011	% change
Net loss and comprehensive loss ($000)	$ (60,218)	$ (145,063)	(58) %	$ (89,125)	$ (152,772)	(42) %
per share - basic	$ (0.36)	$ (0.87)	(59) %	$ (0.53)	$ (0.92)	(42) %
- diluted	$ (0.36)	$ (0.87)	(59) %	$ (0.53)	$ (0.92)	(42) %

Advantage has realized net losses during both 2012 and 2011 due to the recognition of impairments on both assets held for sale and oil and gas assets. On August 22, 2012, the Advantage legal entity announced that it would market for sale all remaining non-core assets (refer to section "Non-core Asset Sales"). The carrying amounts of exploration and evaluation assets, property, plant and equipment and decommissioning liabilities associated with the assets held for sale have been presented separately on the statement of financial position and reflected at the lesser of fair value less costs to sell and carrying amount, which resulted in an impairment recognition of $73 million during the fourth quarter of 2012.

At each reporting date, Advantage assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. As at December 31, 2012, Longview recognized an impairment loss of $31.9 million related to one CGU located in Alberta that had suffered a significant deterioration in value due to the reduction in crude oil prices and decreased reserves. No impairment losses were recognized for any other CGUs during this period. As at December 31, 2011, Advantage recognized an impairment loss of $187.7 million related to two CGUs that consist of conventional natural gas focused properties located in Western and Eastern Alberta that had suffered a significant deterioration in value due to the challenging natural gas price environment. No impairment losses were recognized for any other CGUs during this period, including our Glacier property.

Cash Netbacks

	Three months ended December 31				Year ended December 31			
	2012		2011		2012		2011	
	$000	per boe	$000	per boe	$000	per boe	$000	per boe
Petroleum and natural gas sales	$ 74,432	$ 29.90	$ 92,300	$ 34.11	$ 268,905	$ 26.32	$ 355,288	$ 34.88
Royalties	(7,915)	(3.18)	(13,339)	(4.93)	(34,126)	(3.34)	(52,971)	(5.20)
Realized gain (loss) on derivatives	(1,488)	(0.60)	6,558	2.42	(970)	(0.09)	25,826	2.54
Operating expense	(22,196)	(8.92)	(21,717)	(8.03)	(89,229)	(8.73)	(89,166)	(8.75)
Operating income	**42,833**	**17.20**	**63,802**	**23.57**	**144,580**	**14.16**	**238,977**	**23.47**
General and administrative (1)	(6,067)	(2.44)	(5,119)	(1.89)	(20,960)	(2.05)	(22,239)	(2.18)
Finance expense (2)	(4,246)	(1.71)	(4,137)	(1.53)	(16,749)	(1.64)	(20,354)	(2.00)
Miscellaneous income	9	-	88	0.03	595	0.06	647	0.06
Funds from operations and cash netbacks	**$ 32,529**	**$ 13.05**	**$ 54,634**	**$ 20.18**	**$ 107,466**	**$ 10.53**	**$ 197,031**	**$ 19.35**

(1) General and administrative expense excludes non-cash G&A.
(2) Finance expense excludes non-cash accretion expense.

For the fourth quarter of 2012, Advantage realized a 32% increase in funds from operations to $32.5 million or $13.05 per boe as compared to $24.7 million or $10.02 per boe for the third quarter of 2012 due to a 43% increase in the realized natural gas price. However, funds from operations have decreased significantly as compared to 2011 driven primarily by considerably lower realized commodity prices and a reduction in realized gains on derivative contracts. Natural gas prices have remained low for the last several years due to decreased demand and increasing U.S. domestic natural gas production, particularly from non-conventional natural gas resource plays. Crude oil prices have been lower due to wider differentials resulting in lower Canadian realized pricing. Additionally, natural gas liquid prices softened due to oversupply attributable to successful liquids-rich drilling throughout North America. Although our funds from operations have continued to benefit from cost reductions, the volatile commodity price environment has significantly challenged our industry during 2012. Gains from derivatives have decreased considerably from 2011 due to a reduction in the commodity prices at which we have been able to enter continuing derivative contracts, particularly for natural gas.

Contractual Obligations and Commitments

The Corporation has contractual obligations in the normal course of operations including purchases of assets and services, operating agreements, transportation commitments, sales contracts, bank indebtedness and convertible debentures. These obligations are of a recurring and consistent nature and impact cash flow in an ongoing manner. The following table is a summary of the Corporation's remaining contractual obligations and commitments. Advantage has no guarantees or off-balance sheet arrangements other than as disclosed.

			Payments due by period		
($ millions)		**Total**	**2013**	**2014**	**2015**
Building leases		$ 4.1	$ 2.6	$ 1.5	$ -
Pipeline/transportation		26.0	12.7	11.0	2.3
Bank indebtedness (1)	- principal	274.2	-	274.2	-
	- interest	19.7	13.3	6.4	-
Convertible debentures (2)	- principal	86.2	-	-	86.2
	- interest	10.8	4.3	4.3	2.2
Total contractual obligations		**$ 421.0**	**$ 32.9**	**$ 297.4**	**$ 90.7**

(1) The Corporation's bank indebtedness does not have specific maturity dates. It is governed by credit facility agreements with a syndicate of financial institutions. Under the terms of the agreements, the facilities are reviewed annually, with the next reviews scheduled in June 2013. The facilities are revolving, and extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one-year term facilities, with the principal payable at the end of such one-year terms. Management fully expects that the facilities will be extended at each annual review.

(2) As at December 31, 2012, Advantage had $86.2 million convertible debentures outstanding. The convertible debentures are convertible to common shares based on an established conversion price. All remaining obligations related to convertible debentures can be settled through the payment of cash or issuance of common shares at Advantage's option.

Liquidity and Capital Resources

The following table is a summary of the Corporation's capitalization structure:

	December 31, 2012		
($000, except as otherwise indicated)	**Advantage**	**Longview**	**Consolidated**
Bank indebtedness (non-current)	$ 161,630	$ 112,541	$ 274,171
Working capital deficit (1)	35,467	11,712	47,179
Net debt	197,097	124,253	321,350
Convertible debentures maturity value (non-current)	86,250	-	86,250
Total debt	**$ 283,347**	**$ 124,253**	**$ 407,600**
Shares outstanding	168,382,838	46,837,164	
Shares closing market price ($/share)	$ 3.20	$ 5.39	
Market capitalization (2)	**$ 538,825**	**$ 252,452**	

(1) Working capital deficit is a non-GAAP measure that includes trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities, and the other liability.

(2) Market capitalization is a non-GAAP measure calculated by multiplying shares outstanding by the closing market share price on the applicable date for each legal entity.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital (excluding derivative assets and liabilities), bank indebtedness, convertible debentures and share capital. Advantage may manage its capital structure by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing either through bank indebtedness or convertible debenture issuances, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, implementing a dividend reinvestment plan, adjusting capital spending, or disposing of assets or its ownership interest in Longview. The capital structure is reviewed by Management and the Board on an ongoing basis.

Management of the Corporation's capital structure is facilitated through its financial and operational forecasting processes. The forecast of the Corporation's future cash flows is based on estimates of production, commodity prices, forecast capital and operating

expenditures, and other investing and financing activities. The forecast is regularly updated based on new commodity prices and other changes, which the Corporation views as critical in the current environment. Selected forecast information is frequently provided to the Board. This continual financial assessment process further enables the Corporation to mitigate risks. The Corporation continues to satisfy all liabilities and commitments as they come due.

The economic situation during the last several years has created significant commodity price volatility. Crude oil prices have generally remained strong, although 2012 experienced significant changes due to increased North American production that has challenged current infrastructure resulting in volatile differentials that has placed downward pressure on Canadian realized prices. Natural gas prices have remained low for several years due to decreased demand caused by mild winters and increasing U.S. domestic natural gas production, particularly from non-conventional natural gas resource plays. The outlook for the Corporation from a prolonged weak commodity price environment, particularly natural gas, would be reductions in operating netbacks, funds from operations and capital expenditures. In order to strengthen our financial position and balance our cash flows, on April 14, 2011 we closed the sale of 17,250,000 Longview common shares with the net proceeds utilized to repay bank indebtedness and maturing convertible debentures. On May 22, 2012, Advantage sold another 8,300,000 Longview common shares with net proceeds utilized to repay bank indebtedness. Additionally, on August 22, 2012, the Advantage legal entity announced that it would market for sale all of the Corporation's non-core assets, defined as all corporate assets excluding Advantage's core Glacier Montney natural gas asset and its 21.15 million share ownership position in Longview. On February 5, 2013, the Advantage legal entity announced that it had closed four separate sales transactions and signed a definitive agreement with a fifth party which, on a combined basis, constituted the sale of substantially all non-core assets. Management has partially mitigated commodity price risk whereby we have entered natural gas hedges averaging 29.2 mmcf/d at $3.31/mcf for calendar 2013, 33.2 mmcf/d at $3.78/mcf for calendar 2014, and 33.2 mmcf/d at $4.01/mcf for the first quarter of 2015. Additionally, Longview entered crude oil hedges of 1,000 bbls/d at $90.29/bbl for January to December 2013 and 1,000 bbls/d at $93.00/bbl for February to December 2013. However, we continue to be very cognizant of improving our financial flexibility in the current environment.

We believe that Advantage has implemented strategies to protect our business as much as possible in the current industry and economic environment. We have implemented a strategy to substantially balance funds from operations and our capital program expenditure requirements. A hedging program was also executed to help reduce the volatility of funds from operations. However, we are still exposed to risks as a result of the current industry and economic situation. We continue to closely monitor the possible impact on our business and strategy, and will make adjustments as necessary with prudent management.

Shareholders' Equity and Convertible Debentures

Advantage utilizes a combination of equity, convertible debentures, bank indebtedness and funds from operations to finance acquisitions and development activities.

As at December 31, 2012, Advantage had 168.4 million common shares outstanding. During the year ended December 31, 2012 Advantage issued 2,078,798 common shares to service providers in exchange for vested restricted shares that were granted during prior years. As at March 25, 2013, common shares outstanding have not changed since December 31, 2012.

The Corporation had $86.2 million of 5.00% convertible debentures outstanding at December 31, 2012 that were convertible to 10.0 million common shares based on the applicable conversion price and will mature in January 2015 (December 31, 2011 - $86.2 million outstanding and convertible to 10.0 million common shares). During the year ended December 31, 2012, there were no conversions of debentures. The principal amounts of the 7.75% and 8.00% convertible debentures matured in December 2011 and were settled with $62.3 million in cash. Our convertible debenture obligation can be settled through the payment of cash or issuance of common shares at Advantage's option.

Bank Indebtedness, Credit Facilities and Other Obligations

At December 31, 2012, Advantage had consolidated bank indebtedness outstanding of $274.2 million consisting of $161.6 million and $112.6 million for each of the legal entities Advantage and Longview, respectively. Bank indebtedness has increased $40.3 million since December 31, 2011, primarily due to capital expenditures exceeding reduced funds from operations from the lower commodity price environment. Advantage's consolidated credit facilities of $500 million at December 31, 2012 include $300 million with Advantage and $200 million with Longview (the "Credit Facilities"). The credit facilities are each collateralized by a $1 billion floating charge demand debenture covering all assets of the legal entities. As well, the borrowing bases for the credit facilities are determined through utilizing the legal entities regular reserve estimates. The banking syndicate thoroughly evaluates the reserve estimates based upon their own commodity price expectations to determine the amount of the borrowing bases. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing bases. The next annual reviews are scheduled to occur in June 2013. There can be no assurance that the credit facilities will be renewed at the current borrowing base levels at that time. If the Transaction successfully closes, it is anticipated that the net proceeds will reduce outstanding bank indebtedness for the Advantage legal entity and the borrowing base will be redetermined by the banking syndicate based upon their evaluation of Advantage's remaining reserves.

Advantage had a consolidated working capital deficiency of $47.2 million as at December 31, 2012. Our working capital includes items expected for normal operations such as trade receivables, prepaids, deposits, trade payables and accruals, and the other liability. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. Working capital deficiency increased during the fourth quarter of 2012 as we increased our capital expenditure programs, particularly at Glacier where we had experienced completion delays. We do not anticipate any problems in meeting future obligations as they become due given the level of our funds from operations and undrawn Credit Facilities. It is also important to note that working capital is effectively integrated with Advantage's revolving operating loan facility, which assists with the timing of cash flows as required.

Non-Controlling Interest

On April 14, 2011, Longview completed its initial public offering at a price of $10 per common share issuing 17,250,000 common shares and raising gross proceeds of $172.5 million (including full exercise of the over-allotment option on April 28, 2011). Concurrent with the closing of the Offering, Longview purchased the Acquired Assets from Advantage for total consideration of $546.9 million, comprised of 29,450,000 common shares of Longview representing a 63% equity ownership and $252.4 million in cash. The remaining 37% equity ownership of Longview was held by outside interests or non-controlling interests. Additionally, on May 22, 2012, Advantage sold another 8,300,000 Longview common shares owned by Advantage to a syndicate of underwriters at a price of $9.00 per common share for gross proceeds of $74.7 million. Advantage now owns 21,150,010 common shares of Longview, representing an interest of approximately 45.2% in Longview. As Advantage holds the single largest ownership interest of Longview and other ownership interests are comparatively dispersed, Advantage is considered to control Longview. As such, Advantage's consolidated financial statements include 100% of Longview's accounts and non-controlling interest was recognized which represented Longview's independent shareholders ownership interest in the net assets of Longview. Non-controlling interest on the statement of financial position is continually adjusted for the independent shareholders' share of Longview's net income or loss that is consolidated within Advantage's financial results and reduced for any dividends paid by Longview to the independent shareholders. Therefore, for the year ended December 31, 2012, Advantage recognized an $8.0 million increase to net income related to Longview's net loss consolidated within Advantage's financial results but attributable to the non-controlling interests. This $8.0 million decreased non-controlling interest on the statement of financial position along with a decrease of $13.7 million related to dividends declared by Longview to the non-controlling interest ownership.

Capital Expenditures

($000)	Three months ended December 31 2012	2011	Year ended December 31 2012	2011
Drilling, completions and workovers	$ 40,792	$ 85,061	$ 134,630	$ 199,170
Well equipping and facilities	6,508	15,984	39,281	52,857
Land and seismic	(65)	138	-	1,704
Other	-	14	773	443
Expenditures on property, plant and equipment	47,235	101,197	174,684	254,174
Expenditures on exploration and evaluation assets	377	1,624	377	3,006
Proceeds from property dispositions	(2,996)	(114)	(13,967)	(1,099)
Net capital expenditures [(1)]	**$ 44,616**	**$ 102,707**	**$ 161,094**	**$ 256,081**

(1) Net capital expenditures excludes changes in non-cash working capital and change in decommissioning liability.

Advantage's preference is to operate a high percentage of properties such that we can maintain control of capital expenditures, operations and cash flows. Advantage's business structure has been established in order to fully capitalize on both natural gas and crude oil exploration and development opportunities. Advantage is focused primarily on developing the significant natural gas resource play at Glacier, Alberta while retaining a significant investment in Longview that is focused on oil and natural gas liquids production and development.

Advantage on a legal entity basis spent on property, plant and equipment and exploration and evaluation assets for the year ended December 31, 2012, $130.6 million, including $119.2 million at Glacier. Advantage continues to focus on development of our Montney natural gas resource play at Glacier where we will continue to employ a phased development approach. In March 2011, our Phase III development at Glacier was completed with production capacity of 100 mmcf/d at our Glacier gas plant, a significant increase from the prior 50 mmcf/d capability. During the third quarter of 2011, we began our Phase IV development at Glacier to increase throughput capacity to 140 mmcf/d and further evaluate the Middle and Lower Montney formations. Modifications at the Glacier gas plant to increase processing capacity to 140 mmcf/d were completed during the second quarter of 2012. However, as a result of the prevailing low natural gas pricing environment, we decided to maintain production from Glacier at between 90 and 100 mmcf/d utilizing our inventory of drilled wells. During the Phase IV program we drilled 28.5 net wells (29 gross) and had 14 wells remaining to complete prior to the 2012 spring break-up. We experienced a prolonged spring break-up and other weather related conditions into the third quarter of 2012 causing lease access restrictions that delayed our current Glacier capital program until September. Since that time we have drilled 3 new Middle Montney evaluation wells and completed 5 wells from the Upper, Middle and Lower Montney formations. At December 31, 2012, we had 12 wells drilled that will be completed to offset declines as required. We estimate that we have sufficient current behind pipe productivity to sustain production at between 90 and 100 mmcf/d for the remainder of 2013. Given the additional activities undertaken including core studies, different completion technologies, and completion of additional wells in the Lower, Middle and Upper Montney formations, we have increased our estimated capital expenditure program for the 12 months ending June 30, 2013, to be approximately $115 to $125 million (refer to Advantage press release dated March 13, 2013 for additional details).

For the year ended December 31, 2012, Longview spent a net $44.5 million on property, plant and equipment and exploration and evaluation assets which included $24.2 million in Saskatchewan, $8.1 million at Nevis, $5.2 million at Westerose, $3.4 million at Brazeau, and $2.1 million at Sunset, with the remaining spending for miscellaneous projects. Longview drilled a total of 21.0 net (33 gross) wells at a 100% success rate adding production of approximately 1,591 boe/d (90% crude oil and natural gas liquids). Consistent with their business strategy, Longview developed a sustainable and balanced 2013 budget that will preserve a strong balance sheet while utilizing funds from operations to maintain the current dividend policy and fund substantially all of their capital expenditures while maintaining production at 2012 levels. Longview's 2013 capital drilling program is primarily focused on further development of their Midale and Frobisher plays within Southeast Saskatchewan where they have an extensive land base, high working interests, fee title ownership and existing infrastructure.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the years ended December 31, 2012 and 2011 and the sources of funding to meet those requirements:

	Year ended December 31	
($000)	**2012**	**2011**
Sources of funds		
Funds from operations	$ 107,466	$ 197,031
Proceeds from Longview financing	71,563	160,757
Increase in bank indebtedness	40,268	-
Property dispositions	13,967	1,099
Change in non-cash working capital and other	-	27,659
	$ 233,264	**$ 386,546**
Uses of funds		
Expenditures on property, plant and equipment	$ 174,684	$ 254,174
Change in non-cash working capital and other	42,073	-
Dividends declared by Longview to non-controlling interest	13,735	6,915
Expenditures on decommissioning liability	2,395	3,335
Expenditures on exploration and evaluation assets	377	3,006
Convertible debenture maturities	-	62,294
Decrease in bank indebtedness	-	56,754
Reduction of capital lease obligations	-	68
	$ 233,264	**$ 386,546**

Funds from operations for 2012 have decreased significantly as compared to 2011. Although our funds from operations have continued to benefit from cost reductions, the volatile commodity price environment has significantly challenged our industry during 2012 resulting in lower sales and funds from operations. Over the last several years we have made significant strides in reducing our bank indebtedness from completing various financings, divesting of non-core assets, and progressively disposing of our ownership interest in Longview. To assist with funding capital expenditures, Advantage has typically utilized funds from operations and bank indebtedness from its Credit Facilities. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to our shareholders.

Annual Financial Information

The following is a summary of selected financial information of the Corporation for the years indicated.

	Year ended Dec. 31, 2012	Year ended Dec. 31, 2011	Year ended Dec. 31, 2010
Total sales (before royalties) ($000)	$ 268,905	$ 355,288	$ 319,368
Net income (loss) ($000)	$ (89,125)	$ (152,772)	$ 40,920
per share - basic and diluted	$ (0.53)	$ (0.92)	$ 0.25
Total assets ($000)	$ 1,913,796	$ 1,972,789	$ 1,965,945
Long term financial liabilities ($000) [1]	$ 351,619	$ 308,574	$ 363,675

[1] Long term financial liabilities exclude decommissioning liability and deferred income tax liability.

Total sales (before royalties) increased from 2010 to 2011 primarily from significant increases in our production due to our successful exploration and development activities. Natural gas sales in particular benefited in 2011 from our Montney natural gas resource play at Glacier, Alberta where we increased production capacity with our continued facilities and infrastructure expansion work. Sales for 2012 have been negatively impacted primarily by the continued decrease in commodity prices, particularly natural gas prices. As a result of the prevailing low natural gas pricing environment, we decided to maintain production from Glacier at between 90 and 100 mmcf/d utilizing our inventory of drilled wells. During 2010 Advantage disposed of several non-core properties during the year and recognized a $45.6 million net gain which resulted in the reported net income. Our net losses for 2011 and 2012 were primarily related to lower commodity prices that resulted in the recognition of impairment losses. In 2011 we recognized an impairment loss of $187.7 million related to two CGUs that consist of conventional natural gas focused properties located in Western and Eastern Alberta that had suffered a significant deterioration in value due to the challenging natural gas price environment. In 2012 our assets held for sale were reflected at the lesser of fair value less costs to sell and carrying amount, which resulted in an impairment recognition of $73 million. Additionally, in 2012 Longview recognized an impairment loss of $31.9 million related to one CGU located in Alberta that had suffered a significant deterioration in value due to the reduction in crude oil prices and decreased reserves. Total assets have changed during the years due to ongoing capital expenditure activity offset by impairment losses.

Quarterly Performance

($000, except as otherwise indicated)	2012 Q4	2012 Q3	2012 Q2	2012 Q1	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Daily production								
Natural gas (mcf/d)	125,455	126,606	132,411	139,664	137,480	134,353	136,986	111,145
Crude oil and NGLs (bbls/d)	6,148	5,724	5,880	6,582	6,498	6,246	5,919	6,251
Total (boe/d)	27,057	26,825	27,949	29,859	29,411	28,638	28,750	24,775
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 2.97	$ 2.07	$ 1.65	$ 2.02	$ 3.18	$ 3.62	$ 3.77	$ 3.72
Including hedging	$ 2.75	$ 2.07	$ 1.67	$ 2.02	$ 3.76	$ 4.16	$ 4.29	$ 4.55
AECO daily index	$ 3.22	$ 2.28	$ 1.90	$ 2.17	$ 3.20	$ 3.66	$ 3.88	$ 3.78
Crude oil and NGLs ($/bbl)								
Excluding hedging	$ 70.94	$ 72.07	$ 70.97	$ 81.48	$ 87.06	$ 76.56	$ 88.27	$ 75.41
Including hedging	$ 72.94	$ 73.06	$ 71.73	$ 80.41	$ 85.88	$ 77.33	$ 86.21	$ 72.82
WTI ($US/bbl)	$ 88.20	$ 92.19	$ 93.51	$ 102.94	$ 94.02	$ 89.81	$ 102.55	$ 94.25
Total sales including realized hedging	$ 72,944	$ 62,615	$ 58,526	$ 73,850	$ 98,858	$ 95,797	$ 99,971	$ 86,488
Net income (loss)	$ (60,218)	$ (2,769)	$ (15,579)	$ (10,559)	$ (145,063)	$ (2,997)	$ 997	$ (5,709)
per share - basic	$ (0.36)	$ (0.02)	$ (0.10)	$ (0.06)	$ (0.87)	$ (0.02)	$ 0.01	$ (0.03)
- diluted	$ (0.36)	$ (0.02)	$ (0.10)	$ (0.06)	$ (0.87)	$ (0.02)	$ 0.01	$ (0.03)
Funds from operations	$ 32,529	$ 24,703	$ 18,243	$ 31,991	$ 54,634	$ 50,108	$ 52,041	$ 40,248

The table above highlights the Corporation's performance for the fourth quarter of 2012 and also for the preceding seven quarters. Production increased significantly in the second quarter of 2011 as the Phase III expansion at Glacier was completed with production capacity at 100 mmcf/d. The creation of Longview and accompanying capital expenditure program resulted in increased production during the fourth quarter of 2011 and the first quarter of 2012. Production decreased in the second and third quarters of 2012 as a result of numerous facilities outages due to annual turnaround maintenance, facility construction activities, and prolonged spring break-up and other related weather conditions that caused lease access restrictions. This delayed our current Glacier capital program that resumed in September to maintain production at between 90 and 100 mmcf/d. Production was also impacted as production from our Lookout Butte property (1,000 boe/d) in southern Alberta was curtailed in June 2012 due to maintenance and a fire that occurred at a third party processing facility. With Lookout Butte back on production in early November 2012 and the resumption of our capital programs, we experienced an improvement in our fourth quarter production.

Our financial results, including sales and funds from operations, are significantly impacted by commodity prices, particularly natural gas. During 2011 and 2012, natural gas prices continued to decrease which reduced our corresponding sales and funds from operations, although increasing production and stronger relative crude oil and NGLs prices partially mitigated the impact. Advantage has continued to recognize net losses primary driven by weak natural gas prices, although we have also continued to achieve cost reductions and lower expenses. During the fourth quarter of 2011, Advantage recognized an impairment loss of $187.7 million related to two CGUs that consist of conventional natural gas focused properties located in Western and Eastern Alberta that had suffered a significant deterioration in value due to the challenging natural gas price environment. During the fourth quarter of 2012 our assets held for sale were reflected at the lesser of fair value less costs to sell and carrying amount, which resulted in an impairment recognition of $73 million. Additionally, in the fourth quarter of 2012 Longview recognized an impairment loss of $31.9 million related to one CGU located in Alberta that had suffered a significant deterioration in value due to the reduction in crude oil prices and decreased reserves.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires Management to make certain judgments and estimates. Changes in these judgments and estimates could have a material impact on the Corporation's financial results and financial condition.

Management relies on the estimate of reserves as prepared by the Corporation's independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates. The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact crude oil and natural gas prices, operating expense, royalty burden changes, and future development costs. Reserve estimates impact net income and comprehensive income through depreciation and impairment of oil and gas properties. The reserve estimates

are also used to assess the borrowing bases for the Corporation's credit facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on asset values, net income, comprehensive income and the borrowing bases of the Corporation.

Management's process of determining the provision for deferred income taxes, the provision for decommissioning liability costs and related accretion expense, the fair values initially assigned to the convertible debentures liability and equity components, and the fair values assigned to any acquired company's assets and liabilities in a business combination are based on estimates. These estimates are significant and can include proved and probable reserves, future production rates, future commodity prices, future costs, future interest rates, future tax rates and other relevant assumptions. Revisions or changes in any of these estimates can have either a positive or a negative impact on asset and liability values, net income and comprehensive income.

In accordance with IFRS, derivative assets and liabilities are recorded at their fair values at the reporting date, with gains and losses recognized directly into comprehensive income in the same period. The fair value of derivatives outstanding is an estimate based on pricing models, estimates, assumptions and market data available at that time. As such, the recognized amounts are non-cash items and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions.

Accounting Pronouncements not yet Adopted

Standards issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below. This listing is of standards and interpretations issued which the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 is intended to supersede IAS 39, Financial Instruments: Recognition and Measurement and will be published in three phases, of which the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. This standard is not applicable until January 1, 2015.

IFRS 10 Consolidated Financial Statements

IFRS 10 is a new standard that will replace SIC 12, "Consolidation – Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements". The new standard eliminates the current risks and rewards approach and establishes control as the single basis for determining the consolidation of an entity. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that the new standard will have no effect on the current accounting methodology with respect to Longview. We will continue to control Longview pursuant to IFRS 10 as we did under IAS 27, and as such will consolidate Longview as a subsidiary of Advantage.

IFRS 11 Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities, Non-Monetary Contributions by Venturers. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that our joint arrangements are all joint operations as defined in IFRS 11. Parties to a joint operation, called joint operators, are required to recognize their share of the assets, liabilities, revenues and expenses of the joint operation. Since this is not different from our current methodology applied for jointly controlled assets as defined under IAS 31, there will be no changes involved in adoption of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 provides the required disclosures for interests in subsidiaries and joint arrangements. These disclosures will require information that will assist users of financial statements to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that this standard will require us to provide additional disclosure of the nature of and risks associated with our interest in our subsidiary, Longview. With respect to joint arrangements, we do not expect to be providing additional disclosure, as our joint arrangements are numerous, and no single one is material to the reporting entity.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that our current measurements and disclosures of fair value will comply with the new standard.

IAS 28 – Investments in Associates and Joint Ventures

IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

Evaluation of Disclosure Controls and Procedures

Advantage's Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures ("DC&P"), or caused it to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation is made known to them by others, particularly during the period in which the annual filings are being prepared, and information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's DC&P as at December 31, 2012. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of the end of the year, in all material respects.

Evaluation of Internal Controls over Financial Reporting

Advantage's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR"). They have as at the financial year end December 31, 2012, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Advantage's officers used to design the Corporation's ICFR is the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations.

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's ICFR as at December 31, 2012. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the ICFR are effective as of the end of the year, in all material respects.

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our ICFR.

It should be noted that while the Chief Executive Officer and Chief Financial Officer believe that the Corporation's design of DC&P and ICFR provide a reasonable level of assurance that they are effective, they do not expect that the control system will prevent all errors and fraud. A control system, no matter how well conceived or operated, does not provide absolute, but rather is designed to provide reasonable assurance that the objective of the control system is met. The Corporation's ICFR may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Corporation's policies and procedures.

Corporate Governance

The Corporation's corporate governance practices can be found in the Management Information Circular.

As a foreign private issuer listed on the New York Stock Exchange (the "NYSE"), Advantage is not required to comply with most of the NYSE rules and listing standards and instead may comply with domestic Canadian requirements. Advantage is, however, required to comply with the following NYSE Rules: (i) Advantage must have an audit committee that satisfies the requirements of Rule 10A-3 under the United States Securities Exchange Act of 1934, as amended; (ii) the Chief Executive Officer must promptly notify the NYSE in writing after an executive officer becomes aware of any non-compliance with the applicable NYSE Rules; (iii) submit an executed section 303A annual written affirmation to the NYSE, as well as a Section 303A interim affirmation each time certain changes occurs to the audit committee; and (iv) provide a brief description of any significant differences between its corporate governance practices and those followed by U.S. domestic issuers under NYSE listing standards. Advantage has reviewed the NYSE listing standards followed by U.S. domestic issuers listed under the NYSE and confirms that its corporate governance practices do not differ significantly from such standards.

Outlook

Advantage's business structure has been established in order to fully capitalize on both natural gas and crude oil exploration and development opportunities. Advantage is focused primarily on developing the significant natural gas resource play at Glacier, Alberta while retaining a significant investment in Longview that is focused on crude oil and natural gas liquids production and development.

Advantage

At Glacier, our continued successful drilling results have increased the quality and magnitude of our Montney natural gas resource that contains significant scope and scale as validated by an independent reserve evaluator ("Sproule") and whose solid economics provides Advantage with a significant drilling inventory. Our Glacier 2012 and three year finding and development costs ("F&D"), including the change in future development capital, were $0.73/mcf and $1.06/mcf, respectively. The recycle ratios associated with our F&D costs based on Sproule's forecast of 2013 operating netbacks were 3.6x based on our 2012 F&D and 2.5x based on our three year F&D (refer to our press release dated March 13, 2013).

Over the course of 2012, Advantage conducted a comprehensive core study and completion study to enhance our geological understanding of the rock properties of all the identified reservoir intervals and to assess the potential to improve well productivity, particularly in the Middle and Lower Montney at Glacier. The results reinforced our earlier views that greater than 250 meters of Montney reservoir provide development potential and initial production rates and reserves can be significantly enhanced by utilizing a variety of alternative fracture stimulation techniques based upon the specific reservoir properties of each interval. These changes in frac design resulted in a 337% increase in the Middle Montney and a 327% increase in the Lower Montney well test rates.

We are currently working on a two year development plan that will focus on doubling production throughput at Glacier to 200 mmcf/d by early 2015. This program will be designed to further the delineation of the Middle and Lower intervals where only 2.2% and 27.6% of the total acreage, respectively, has been assigned reserves at year-end 2012. Our production growth targets will include increasing the throughput at Glacier to approximately 140 mmcf/d by the spring of 2014 and 200 mmcf/d by the spring of 2015. The Glacier gas plant is already capable of processing 140 mmcf/d due to the expansion work that was completed in 2012. We anticipate providing more information on our capital budget before mid-year 2013.

Given the additional activities undertaken including core studies, different completion technologies, and completion of additional wells in the Lower, Middle and Upper Montney formations, we have increased our estimated capital expenditure program for the 12 months ending June 30, 2013, to be approximately $115 to $125 million. At December 31, 2012, we had 12 wells drilled that will be completed to offset declines as required. We estimate that we have sufficient current behind pipe productivity to sustain production at between 90 and 100 mmcf/d for the remainder of 2013. Glacier continues to exceed our expectations in terms of well performance and economic efficiencies due to its superior cost structure which is among the lowest in North America.

On August 22, 2012, the Advantage legal entity announced that it would market for sale all of the Corporation's remaining non-core assets, defined as all corporate assets excluding Advantage's core Glacier Montney natural gas asset and its 21.15 million share ownership position in Longview. On February 5, 2013, Advantage announced that it had closed four separate sales transactions and signed a definitive agreement with a fifth party which, on a combined basis, constituted the sale of substantially all non-core assets. The Board believes that its core Glacier asset is materially undervalued in the context of the Corporation's current market valuation and that the sale of the non-core assets will simplify the Corporation leading to a greater appreciation of its core Glacier asset.

Advantage has also initiated a strategic alternatives review process appointing FirstEnergy Capital Corp. and RBC Capital Markets as financial advisors and formed a special committee of the Board of Directors (the "Special Committee") to oversee the process. The Special Committee is working with its advisors to consider strategic alternatives that will enhance and maximize value for all shareholders. The Special Committee's advisors are currently compiling information in respect of the Corporation to be provided to

interested parties and to be placed in a virtual data room to be created in connection with the process. This information will include Advantage's December 31, 2012 year-end independent reserve report, an updated independent reserve report to reflect wells drilled since December 31, 2012 and an updated independent Glacier resource assessment report that incorporates well results and core analysis completed by the Corporation. The advisors to the Special Committee will contact a broad spectrum of parties to solicit interest in a possible sale or other strategic transaction with the Corporation. It is the Corporation's current intention not to disclose developments with respect to this process until the Board has approved a specific transaction or otherwise determines that disclosure is necessary or appropriate. The Corporation cautions that there are no assurances or guarantees that this process will result in any transactions or, if any transactions are undertaken, the terms, magnitude of net proceeds, or timing of any such transactions.

Longview

Longview's funds from operations are supported by crude oil prices and stable production that funds both the capital expenditure program and dividends. During 2012 Longview's funds from operations has been challenged by reduced commodity prices and increased operating expense. Realized crude oil prices have been lower due to wider differentials resulting in lower Canadian realized pricing, which has adversely impacted their sales. Additionally, natural gas liquid prices have softened due to oversupply attributable to successful liquids-rich drilling throughout North America. Natural gas prices have remained low for several years due to decreased demand caused by mild winters and increasing U.S. domestic natural gas production, particularly from non-conventional natural gas resource plays. As a result, Longview prudently announced during the second quarter a reduction to the 2012 capital expenditure program to maintain financial discipline and a strong balance sheet in response to weaker than anticipated commodity prices and higher differentials. Production additions from Longview's reduced 2012 capital expenditure program were sufficient to successfully offset declines and resulted in daily production that averaged 6,235 boe/d for the current year, comparable to that of the prior year.

Consistent with Longview's business strategy, they developed a sustainable and balanced 2013 budget that will preserve a strong balance sheet while utilizing funds from operations to maintain the current dividend policy and fund substantially all of their capital expenditures while maintaining production at 2012 levels. Longview has a base decline rate of approximately 19% which allows the Company to maintain production with a modest level of capital expenditures. Longview will continue focusing on operational and cost efficiencies to increase returns and produce stable cash flows while maintaining a conservative financial structure. Longview will continue to high grade its inventory of drilling locations and invest in opportunities that they believe provide strong economics during low commodity price cycles.

The following table summarizes the operational and financial guidance for Longview for the year ending December 31, 2013:

Average daily production	6,200 boe/d to 6,300 boe/d
oil & liquids %	79%
Royalty rate	19% to 21%
Operating expenses	$19.00/boe to $20.00/boe
Capital expenditures	$36 million

Longview's 2013 capital program will be comprised of low-risk crude oil drilling and recompletion activities in areas with high netbacks where they operate existing infrastructure. Drilling operations will focus on areas where recent activity has demonstrated strong economics that result in a quick and positive impact on funds from operations while limiting facility and other infrastructure expenditures to a minimum. The percentage of Longview's total corporate production related to crude oil is expected to grow to 71% in 2013 from 67% in 2012 as the 2013 capital budget is entirely focused on oil weighted projects. Production from crude oil and NGLs are expected to increase to 79% of total production in 2013 from 76% in 2012. Approximately 60% of the capital budget is allocated to Southeast Saskatchewan targeting 6 different project areas where Longview has existing infrastructure in place which will result in lower operating costs for new production. These are lower risk locations primarily targeting the Midale formation which are offset by nearby production where successful results will lead to additional drilling in future years. Management has also partially mitigated commodity price risk for calendar 2013 whereby they have entered into crude oil hedges of 1,000 bbls/d at $90.29/bbl for January to December 2013 and 1,000 bbls/d at $93.00/bbl for February to December 2013.

Longview's business strategy is to provide shareholders with attractive long term returns that combine both income and moderate growth by exploiting their assets in a financially disciplined manner and by acquiring additional long-life oil and gas assets of a similar nature. Given the current volatility in crude oil pricing conditions, Longview will continue to closely monitor funds from operations as compared to their dividend policy and capital expenditure commitments to ensure they are substantially balanced.

Additional Information

Additional information relating to Advantage can be found on SEDAR at www.sedar.com and the Corporation's website at www.advantageog.com. Such other information includes the annual information form, the management information circular, press releases, material change reports, material contracts and agreements, and other financial reports. The annual information form will be of particular interest for current and potential shareholders as it discusses a variety of subject matter including the nature of the business, description of our operations, general and recent business developments, risk factors, reserves data and other oil and gas information.

March 25, 2013

Consolidated Financial Statements

Management's Responsibility for Financial Statements

The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for the preparation and presentation of the consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of Management, where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurately and reliably recorded, that the consolidated financial statements accurately report the Corporation's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate, and that the Corporation's assets are properly safeguarded.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that Management fulfills its financial reporting and internal control responsibilities. The Audit Committee is responsible for meeting regularly with Management, the external auditors, and the internal auditors to discuss internal controls over financial reporting processes, auditing matters and various aspects of financial reporting. The Audit Committee reviewed the consolidated financial statements with Management and the external auditors, and recommended approval to the Board of Directors. The Board of Directors has approved these consolidated financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Accountants, appointed by the shareholders as the external auditor of the Corporation, has audited the consolidated statement of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2012 and 2011. The external auditors conducted their audits in accordance with Canadian generally accepted auditing standards and have unlimited and unrestricted access to the Audit Committee.

Andy J. Mah
President and CEO
March 25, 2013

Kelly I. Drader
CFO

Management's Report on Internal Control over Financial Reporting

The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. Under the supervision of our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, we have concluded that as of December 31, 2012, our internal control over financial reporting was effective.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, the Corporation's independent firm of Chartered Accountants, was appointed by the shareholders to audit and provide an independent opinion on both the consolidated financial statements and the Corporation's internal control over financial reporting as at December 31, 2012, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinion.

Andy J. Mah
President and CEO
March 25, 2013

Kelly I. Drader
CFO

March 25, 2013

Independent Auditor's Report

To the Shareholders of Advantage Oil & Gas Ltd.

We have completed integrated audits of Advantage Oil & Gas Ltd.'s 2012 and 2011 consolidated financial statements and its internal control over financial reporting as at December 31, 2012. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Advantage Oil & Gas Ltd., which comprise the consolidated statement of financial position as at December 31, 2012 and December 31, 2011 and the consolidated statements of comprehensive loss, changes in shareholders' equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantage Oil & Gas Ltd. as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on internal control over financial reporting
We have also audited Advantage Oil & Gas Ltd.'s internal control over financial reporting as at December 31, 2012, based on criteria established in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's responsibility
Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion
In our opinion, Advantage Oil & Gas Ltd. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by COSO.

PricewaterhouseCoopers LLP

Chartered Accountants
Calgary, Alberta
March 25, 2013

Consolidated Statement of Financial Position

(thousands of Canadian dollars)	Notes	December 31, 2012	December 31, 2011
ASSETS			
Current assets			
Trade and other receivables	8	$ 32,657	$ 42,344
Prepaid expenses and deposits		5,143	6,045
Derivative asset	6	2,186	-
Assets held for sale	7	222,877	-
Total current assets		**262,863**	**48,389**
Non-current assets			
Exploration and evaluation assets	9	2,381	7,730
Property, plant and equipment	10	1,605,659	1,877,287
Deferred income tax asset	14	42,893	39,383
Total non-current assets		**1,650,933**	**1,924,400**
Total assets		**$ 1,913,796**	**$ 1,972,789**
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		$ 84,979	$ 138,119
Derivative liability	6	1,096	2,738
Other liability	15	-	908
Liabilities associated with assets held for sale	7	136,540	-
Total current liabilities		**222,615**	**141,765**
Non-current liabilities			
Bank indebtedness	11	272,511	232,684
Convertible debentures	12	79,108	75,890
Decommissioning liability	13	126,224	253,796
Deferred income tax liability	14	4,628	29,723
Total non-current liabilities		**482,471**	**592,093**
Total liabilities		**705,086**	**733,858**
SHAREHOLDERS' EQUITY			
Share capital	16	2,229,598	2,214,784
Convertible debentures equity component	12	8,348	8,348
Contributed surplus		84,962	71,762
Deficit		(1,252,206)	(1,163,081)
Total shareholders' equity attributable to Advantage shareholders		**1,070,702**	**1,131,813**
Non-controlling interest	5	138,008	107,118
Total shareholders' equity		**1,208,710**	**1,238,931**
Total liabilities and shareholders' equity		**$ 1,913,796**	**$ 1,972,789**

Commitments (note 24)
Subsequent events (note 7 and note 27)
See accompanying Notes to the Consolidated Financial Statements
On behalf of the Board of Directors of Advantage Oil & Gas Ltd.:

Paul G. Haggis, Director

Andy J. Mah, Director

Consolidated Statement of Comprehensive Loss

(thousands of Canadian dollars, except for per share amounts)	Notes		Year ended December 31, 2012		Year ended December 31, 2011
Petroleum and natural gas sales	19	$	268,905	$	355,288
Less: royalties			(34,126)		(52,971)
Petroleum and natural gas revenue			234,779		302,317
Operating expense			(89,229)		(89,166)
General and administrative expense	21		(28,180)		(34,587)
Depreciation expense	10		(132,175)		(152,927)
Impairment of assets held for sale	7		(73,000)		-
Impairment of oil and gas properties	10		(31,865)		(187,684)
Exploration and evaluation expense	9		(181)		(3,055)
Finance expense	22		(26,299)		(29,561)
Gains on derivatives	6		2,858		475
Other income	20		17,559		1,972
Loss before taxes and non-controlling interest			**(125,733)**		**(192,216)**
Income tax recovery	14		28,605		46,807
Net loss and comprehensive loss before non-controlling interest			**(97,128)**		**(145,409)**
Net loss (income) attributable to non-controlling interest			8,003		(7,363)
Net loss and comprehensive loss attributable to Advantage shareholders		**$**	**(89,125)**	**$**	**(152,772)**
Net loss per share attributable to Advantage shareholders	18				
Basic		**$**	**(0.53)**	**$**	**(0.92)**
Diluted		**$**	**(0.53)**	**$**	**(0.92)**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

(thousands of Canadian dollars)	Notes	Share capital	Convertible debentures equity component	Contributed surplus	Deficit	Total shareholders' equity attributable to Advantage shareholders	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2011		$ 2,214,784	$ 8,348	$ 71,762	$ (1,163,081)	**$ 1,131,813**	$ 107,118	**$ 1,238,931**
Net loss and comprehensive loss		-	-	-	(89,125)	**(89,125)**	(8,003)	**(97,128)**
Share based compensation	16, 17	14,814	-	(6,671)	-	**8,143**	-	**8,143**
Change in ownership interest, sale of 8,300,000 shares of Longview	5	-	-	19,871	-	**19,871**	51,692	**71,563**
Change in ownership interest, share based compensation		-	-	-	-	**-**	936	**936**
Dividends declared by Longview ($0.60 per Longview share)		-	-	-	-	**-**	(13,735)	**(13,735)**
Balance, December 31, 2012		**$ 2,229,598**	**$ 8,348**	**$ 84,962**	**$ (1,252,206)**	**$ 1,070,702**	**$ 138,008**	**$ 1,208,710**
Balance, December 31, 2010		$ 2,199,491	$ 8,348	$ 14,783	$ (1,010,309)	**$ 1,212,313**	$ -	**$ 1,212,313**
Net loss and comprehensive loss		-	-	-	(152,772)	**(152,772)**	7,363	**(145,409)**
Share based compensation	16, 17	15,293	-	(770)	-	**14,523**	-	**14,523**
Change in ownership interest, common control transaction	5	-	-	57,749	-	**57,749**	106,093	**163,842**
Change in ownership interest, share based compensation		-	-	-	-	**-**	577	**577**
Dividends declared by Longview ($0.40 per Longview share)		-	-	-	-	**-**	(6,915)	**(6,915)**
Balance, December 31, 2011		**$ 2,214,784**	**$ 8,348**	**$ 71,762**	**$ (1,163,081)**	**$ 1,131,813**	**$ 107,118**	**$ 1,238,931**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Notes	Year ended December 31, 2012	Year ended December 31, 2011
Operating Activities			
Loss before taxes and non-controlling interest		$ (125,733)	$ (192,216)
Add (deduct) items not requiring cash:			
Share based compensation	17	7,220	12,348
Depreciation expense	10	132,175	152,927
Impairment of assets held for sale	7	73,000	-
Impairment of oil and gas properties	10	31,865	187,684
Exploration and evaluation expense	9	181	3,055
Unrealized (gain) loss on derivatives	6	(3,828)	25,351
Gain on sale of property, plant and equipment	20	(16,964)	(1,325)
Finance expense	22	26,299	29,561
Expenditures on decommissioning liability	13	(2,395)	(3,335)
Changes in non-cash working capital	23	(14,864)	4,131
Cash provided by operating activities		**106,956**	**218,181**
Financing Activities			
Proceeds from Longview financing	5	71,563	160,757
Increase (decrease) in bank indebtedness	11	40,268	(56,754)
Convertible debenture maturities	12	-	(62,294)
Dividends paid by Longview		(13,318)	(6,050)
Reduction of capital lease obligations		-	(68)
Interest paid		(17,190)	(20,076)
Cash provided by financing activities		**81,323**	**15,515**
Investing Activities			
Expenditures on property, plant and equipment	10, 23	(201,429)	(231,789)
Expenditures on exploration and evaluation assets	9	(377)	(3,006)
Property dispositions		13,527	1,099
Cash used in investing activities		**(188,279)**	**(233,696)**
Net change in cash		-	-
Cash, beginning of year		-	-
Cash, end of year		$ -	$ -

See accompanying Notes to the Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011

All tabular amounts are in thousands of Canadian dollars except as otherwise indicated.

1. Business and structure of Advantage Oil & Gas Ltd.

Advantage Oil & Gas Ltd. and its subsidiaries (together "Advantage" or the "Corporation") is an intermediate oil and natural gas development and production corporation with properties located in Western Canada.

Advantage is domiciled and incorporated in Canada under the Business Corporations Act (Alberta). Advantage's head office address is 700, 400 – 3rd Avenue SW, Calgary, Alberta, Canada. The Corporation's primary listing is on the Toronto Stock Exchange and is also traded on the New York Stock Exchange as a Foreign Private Issuer, under the symbol "AAV".

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The CICA Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Publicly accountable enterprises, such as the Corporation, are required to apply these standards. Accordingly, these consolidated financial statements are prepared and issued under IFRS.

The accounting policies applied in these financial statements are based on IFRS issued and outstanding as of March 25, 2013, the date the Board of Directors approved the statements.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except as detailed in the Corporation's accounting policies in note 3.

The methods used to measure fair values of derivative instruments are discussed in note 6.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

(d) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and all subsidiaries over which it has control, including Longview Oil Corp. ("Longview"), a public Canadian corporation of which Advantage owns 45.2% at December 31, 2012, and the remaining ownership is disclosed as non-controlling interest. All inter-corporate balances, income and expenses resulting from inter-corporate transactions are eliminated.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements.

(a) Cash and cash equivalents

Cash consists of balances held with banks, and other short-term highly liquid investments with original maturities of three months or less from inception.

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Non-controlling interests

The Corporation treats transactions with non-controlling interests as transactions with equity owners of the Corporation. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant ownership acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of shares to non-controlling interests are also recorded in equity, unless the disposal results in the Corporation's loss of control of the subsidiary, in which case the gain or loss is recognized in the Consolidated Statement of Comprehensive Income (Loss).

(iii) Joint interests

A significant portion of the Corporation's oil and natural gas activities involve jointly controlled assets. The consolidated financial statements include the Corporation's share of these jointly controlled assets and a proportionate share of the relevant revenue and related costs.

(c) Financial instruments

All financial instruments are initially recognized at fair value on the Consolidated Statement of Financial Position. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, is based on how each financial instrument was initially classified. The Corporation has classified each identified financial instrument into the following categories: fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, and financial liabilities at amortized cost. Fair value through profit or loss financial instruments are measured at fair value with gains and losses recognized in income immediately. Available for sale financial assets are measured at fair value with gains and losses, other than impairment losses, recognized in other comprehensive income and transferred to income when the asset is derecognized. Loans and receivables, held to maturity investments and financial liabilities at amortized cost, are recognized at amortized cost using the effective interest method and impairment losses are recorded in income when incurred.

Derivative instruments executed by the Corporation to manage market risk associated with volatile commodity prices are classified as fair value through profit or loss and recorded on the Consolidated Statement of Financial Position at fair value as derivative assets and liabilities. Gains and losses on these instruments are recorded as gains and losses on derivatives in the Consolidated Statement of Comprehensive Income (Loss) in the period they occur. Gains and losses on derivative instruments are comprised of cash receipts and payments associated with periodic settlement that occurs over the life of the instrument, and non-cash gains and losses associated with changes in the fair values of the instruments, which are remeasured at each reporting date and recorded on the Consolidated Statement of Financial Position.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

Transaction costs are frequently attributed to the acquisition or issue of a financial asset or liability. Such costs incurred on fair value through profit or loss financial instruments are expensed immediately. For other financial instruments, transaction costs are added to the fair value initially recognized for financial assets and liabilities.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. Changes in the fair value of separable embedded derivatives are recognized immediately in income.

Equity instruments issued by the Corporation are recorded at the proceeds received, with direct issue costs as a deduction therefrom, net of any associated tax benefit.

(d) Property, plant and equipment and exploration and evaluation assets

(i) Recognition and measurement

a) Exploration and evaluation costs

Pre-license costs are recognized in the Consolidated Statement of Comprehensive Income (Loss) as incurred.

All exploratory costs incurred subsequent to acquiring the right to explore for oil and natural gas and before technical feasibility and commercial viability of the area have been established are capitalized. Such costs can typically include costs to acquire land rights, geological and geophysical costs and exploration well costs.

Exploration and evaluation costs are not depreciated and are accumulated in cost centers by well, field or exploration area and carried forward pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource from exploration and evaluation assets is considered to be generally determinable when proved or probable reserves are determined to exist. Upon determination of proved or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to development and production assets, net of any impairment loss.

Management reviews and assesses exploration and evaluation assets to determine if technical feasibility and commercial viability exist. If Management decides not to continue the exploration and evaluation activity, the unrecoverable costs are charged to exploration and evaluation expense in the period in which the determination occurs.

b) Development and production costs

Items of property, plant and equipment, which include oil and gas development and production assets, are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include lease acquisition, drilling and completion, production facilities, decommissioning costs, geological and geophysical costs and directly attributable general and administrative costs related to development and production activities, net of any government incentive programs.

When significant parts of an item of property, plant and equipment, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

3. Significant accounting policies (continued)

(d) Property, plant and equipment and exploration and evaluation assets (continued)

(ii) Subsequent costs

Costs incurred subsequent to development and production that are significant are recognized as oil and gas property only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in comprehensive income as incurred. Such capitalized oil and natural gas costs generally represent costs incurred in developing proved and probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized in accordance with our policies. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Consolidated Statement of Comprehensive Income (Loss) as incurred.

(iii) Depreciation

The net carrying value of oil and gas properties is depreciated using the unit-of-production ("UOP") method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

(e) Assets held for sale

Assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell and presented as a current asset on the Consolidated Statement of Financial Position. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(f) Asset swaps and dispositions

Exchanges of development and production assets are measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measurable. The cost of the acquired asset is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. Where fair value is not used, the cost of the acquired asset is measured at the carrying amount of the asset given up. Any gain or loss on derecognition of the asset given up is recognised in the Consolidated Statement of Comprehensive Income (Loss).

For exchanges or parts of exchanges that involve only exploration and evaluation assets, the exchange is accounted for at carrying value.

Gains and losses on disposal of an item of property, plant and equipment, including oil and natural gas interests, are determined by comparing the proceeds from disposition with the carrying amount of property, plant and equipment and are recognized net within "other income" or "other expenses" in the Consolidated Statement of Comprehensive Income (Loss).

(g) Impairment

(i) Financial assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in other expenses in the period incurred.

3. Significant accounting policies (continued)

(g) Impairment (continued)

(ii) Property, plant and equipment and exploration and evaluation assets

The carrying amounts of the Corporation's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For the purpose of impairment testing of property, plant and equipment, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are allocated to CGU's or groups of CGU's for the purposes of assessing such assets for impairment.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value less costs to sell is assessed utilizing market valuation based on an arm's length transaction between active participants. In the absence of any such transactions, fair value less costs to sell is estimated by discounting the expected after-tax cash flows of the cash generating unit at an after-tax discount rate that reflects the risk of the properties in the cash generating unit. The discounted cash flow calculation is then increased by a tax-shield calculation, which is an estimate of the amount that a prospective buyer of the cash generating unit would be entitled. The carrying value of the cash generating unit is reduced by the deferred tax liability associated with its property, plant and equipment.

Impairment losses on property, plant and equipment are recognized in the Consolidated Statement of Comprehensive Income (Loss) as impairment of oil and gas properties and are separately disclosed. An impairment of exploration and evaluation assets is recognized as exploration and evaluation expense in the Consolidated Statement of Comprehensive Income (Loss).

Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

(h) Decommissioning liability

A decommissioning liability is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Decommissioning liabilities are determined by discounting the expected future cash flows at a risk-free rate.

3. Significant accounting policies (continued)

(i) Share based compensation

Advantage accounts for share based compensation expense based on the fair value of rights granted under its share based compensation plans.

Advantage's and Longview's Restricted Share Performance Incentive Plan ("RSPIP"), authorizes each respective Board of Directors to grant restricted shares to service providers, including directors, officers, employees, and consultants of Advantage and Longview. The restricted share grants generally vest one-third immediately on grant date, with the remaining two-thirds vesting on each of the two subsequent anniversary dates. Compensation cost related to the RSPIP is recognized as share based compensation expense within general and administrative expense over the service period of the service providers and incorporates the fair value at grant date, the estimated number of restricted shares to vest, and certain management estimates.

Advantage's Stock Option Plan ("Stock Option Plan") authorizes the Board of Directors to grant stock options to service providers, including directors, officers, employees and consultants of Advantage. Compensation cost related to the Stock Option Plan is recognized as share based compensation expense within general and administrative expense over the vesting period at fair value, as described in note 6.

As compensation expense is recognized, contributed surplus is recorded until the restricted shares vest or stock options are exercised, at which time the appropriate common shares are then issued to the service providers and the contributed surplus is transferred to share capital.

(j) Common-control transaction

Business combinations involving entities under common control are outside the scope of IFRS 3 Business Combinations. IFRS provides no guidance on the accounting for these types of transactions and an entity is required to develop an accounting policy. The three most common methods utilized are the purchase method, the predecessor values since inception method, and the predecessor values from date of transaction method. A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party, both before and after the business combination, and control is not transitory. Management has determined the predecessor values from the date of transaction method to be most appropriate. This method requires the financial statements to be prepared using the predecessor carrying values without any step up to fair value. The difference between any consideration and the aggregate carrying value of the assets and liabilities are recorded in shareholders' equity.

(k) Revenue

Revenue from the sale of petroleum and natural gas is recorded when the significant risks and rewards of ownership of the product is transferred to the buyer which is usually when legal title passes to the external party. For natural gas, this is generally at the time product enters the pipeline. For crude oil, this is generally at the time the product reaches a trucking terminal. For natural gas liquids, this is generally at the time the product reaches a gas plant. Revenue is measured net of discounts, customs, duties and royalties.

Royalty income is recognized as it accrues in accordance with the terms of the royalty agreements.

(l) Finance expense

Finance expense comprises interest expense on bank indebtedness and convertible debentures, and accretion of the discount on the decommissioning liability and convertible debentures.

(m) Income tax

Income tax expense or recovery comprises current and deferred income tax. Income tax expense or recovery is recognized in income or loss except to the extent that it relates to items recognized directly in shareholders' equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting income nor taxable income. Deferred

3. Significant accounting policies (continued)

(m) Income tax (continued)

income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are only offset when they are within the same legal entity and same tax jurisdiction. Deferred income tax assets and liabilities are presented as non-current.

(n) Net income (loss) per share

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as restricted shares and stock options granted to service providers and convertible debentures, using the treasury stock method.

(o) Segmented information

The Corporation has determined that it has two reportable operating segments, being the legal entities Advantage and Longview. These segments were determined on the basis of their different economic characteristics. Advantage is a natural gas focused producer and Longview is an oil and natural gas liquids focused producer. Furthermore, each legal entity's Board of Directors decides how to allocate resources and assess performance.

(p) New standards and interpretations not yet adopted

Standards issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below. This listing is of standards and interpretations issued which the Corporation reasonably expects to be applicable at a future date. The Corporation intends to adopt those standards when they become effective.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 is intended to supersede IAS 39, Financial Instruments: Recognition and Measurement and will be published in three phases, of which the first phase has been published. The first phase addresses the accounting for financial assets and financial liabilities. The second phase will address the impairment of financial instruments, and the third phase will address hedge accounting. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. For financial liabilities, although the classification criteria for financial liabilities will not change under IFRS 9, the approach to the fair value option for financial liabilities may require different accounting for changes to the fair value of a financial liability as a result of changes to an entity's own credit risk. This standard is not applicable until January 1, 2015.

IFRS 10 Consolidated Financial Statements

IFRS 10 is a new standard that will replace SIC 12, "Consolidation – Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements". The new standard eliminates the current risks and rewards approach and establishes control as the single basis for determining the consolidation of an entity. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that the new standard will have no effect on the current accounting methodology with respect to Longview Oil Corp. We will continue to control Longview Oil Corp. under IFRS 10 as we did under IAS 27, and as such will consolidate Longview Oil Corp. as a subsidiary of Advantage.

3. Significant accounting policies (continued)

(p) New standards and interpretations not yet adopted (continued)

IFRS 11 Joint Arrangements

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities, Non-Monetary Contributions by Venturers. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that our joint arrangements are all joint operations as defined in IFRS 11. Parties to a joint operation, called joint operators, are required to recognize their share of the assets, liabilities, revenues and expenses of the joint operation. Since this is not different from our current methodology applied for jointly controlled assets as defined under IAS 31, there will be no changes involved in adoption of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 provides the required disclosures for interests in subsidiaries and joint arrangements. These disclosures will require information that will assist users of financial statements to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that this standard will require us to provide additional disclosure of the nature of and risks associated with our interest in our subsidiary, Longview Oil Corp. With respect to joint arrangements, we do not expect to be providing additional disclosure, as our joint arrangements are numerous, and no single one is material to the reporting entity.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurement and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard is applicable for annual periods commencing on or after January 1, 2013. We have determined that our current measurements and disclosures of fair value will comply with the new standard.

IAS 28 – Investments in Associates and Joint Ventures

IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to 13.

4. Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates, and differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

- Note 6 – valuation of financial instruments;
- Note 7 – valuation and impairment of assets held for sale;
- Note 10 – valuation of property, plant and equipment;
- Note 9 & 10 – impairment of exploration and evaluation assets and property, plant and equipment;
- Note 6, 12 – valuation of convertible debentures;
- Note 13 – measurement of decommissioning liability;
- Note 14 – measurement of deferred income tax; and
- Note 17 – measurement of share based compensation.

Judgments

In the process of applying the Corporation's accounting policies, management has made the following judgments, apart from those involving estimates, which may have the most significant effect on the amounts recognized in the consolidated financial statements.

(a) Consolidation

At December 31, 2012, Advantage controls 45.2% of the voting rights of Longview. Although this is below 50%, management has determined that Advantage has the power to govern the financial and operating policies of Longview so as to obtain benefits from its activities, due to the comparatively dispersed ownership among the non-controlling interest.

(b) Exploration and evaluation assets

Costs incurred to acquire rights to explore for oil and natural gas may be grouped into either exploration and evaluation or development and production, depending on facts and circumstances. Costs incurred in respect of properties that have been determined to have proved or probable reserves, are classified as development and production properties. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no nearby established development past or present and no proved or probable reserves assigned are classified as exploration and evaluation assets (note 9).

(c) Reserves base

The oil and gas development and production properties are depreciated on a unit-of-production ("UOP") basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and incorporating the estimated future cost of developing and extracting those reserves. Proved plus probable reserves are determined using estimates of oil and natural gas in place, recovery factors and future oil and natural gas prices. Future development costs are estimated using assumptions as to number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs.

4. Significant accounting judgments, estimates and assumptions (continued)

(d) Depreciation of oil and gas assets

Oil and gas properties are depreciated using the UOP method over proved plus probable reserves. The calculation of the UOP rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved plus probable reserves (note 10).

(e) Determination of cash generating units

Oil and gas properties are grouped into cash generating units for purposes of impairment testing. Management has evaluated the oil and gas properties of the Corporation, and grouped the properties into cash generating units on the basis of their ability to generate independent cash flows, similar reserve characteristics, geographical location, and shared infrastructure.

(f) Impairment indicators and calculation of impairment

At each reporting date, Advantage assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves.

When management judges that circumstances indicate potential impairment, property, plant and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions, that are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs (note 9 & 10).

(g) Decommissioning liability

Decommissioning costs will be incurred by the Corporation at the end of the operating life of some of the Corporation's facilities and properties. The ultimate decommissioning liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

(h) Income taxes

The Corporation recognizes deferred income tax assets to the extent that it is probable that taxable profit will be available to allow the benefit of that deferred income tax asset to be utilized. Assessing the recoverability of deferred income tax assets requires the Corporation to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Corporation to realize the deferred income tax assets recorded at the reporting date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Corporation operates could limit the ability of the Corporation to obtain tax deductions in future periods.

5. Common-Control Transaction

Advantage sold certain oil-weighted assets to Longview for total consideration of $546.9 million, comprised of 29,450,000 common shares of Longview representing a 63% equity ownership and $252.4 million in cash. The assets were sold with an effective date of January 1, 2011 and a closing date of April 14, 2011. As Advantage was the parent company and had a majority ownership interest of Longview, this transaction was deemed a common-control transaction. As such, Advantage had recognized a non-controlling interest in shareholders' equity, representing the carrying value of the 37% shareholding of Longview held by outside interests.

The difference of $57.7 million between the proceeds from the change in ownership interest and the carrying value of the non-controlling interest was recognized within contributed surplus of shareholders' equity. At December 31, 2011, Advantage held 63% of Longview's issued and outstanding shares.

On May 22, 2012, Advantage sold 8,300,000 common shares of Longview to a syndicate of underwriters, for net proceeds of $71.6 million. As a result, Advantage now owns 21,150,010 common shares of Longview, representing an interest of approximately 45.2% in Longview. As Advantage holds the single largest ownership interest of Longview, and other ownership interests are comparatively dispersed, Advantage is considered to control Longview. The sale of Longview shares is a transaction with non-controlling interests that did not result in a loss of control. Accordingly, non-controlling interest has been increased by $51.7 million, the adjustment between the carrying amounts of the controlling and non-controlling interests to reflect the changes in their relative interests in Longview. The difference of $19.9 million between the net proceeds and the adjustment has been credited to shareholders' equity attributable to Advantage shareholders through contributed surplus.

6. Financial risk management

Financial instruments of the Corporation include trade and other receivables, deposits, trade and other accrued liabilities, bank indebtedness, convertible debentures, other liabilities and derivative assets and liabilities.

Trade and other receivables and deposits are classified as loans and receivables and measured at amortized cost. Trade and other accrued liabilities, bank indebtedness and other liabilities are all classified as financial liabilities at amortized cost. As at December 31, 2012, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

The Corporation has a convertible debenture obligation outstanding, of which the liability component has been classified as a financial liability at amortized cost. The convertible debenture has fixed terms and interest rates (note 12) resulting in fair values that will vary over time as market conditions change. As at December 31, 2012, the estimated fair value of the outstanding convertible debenture obligation was $86.0 million (December 31, 2011 - $82.8 million). The fair value of the liability component of convertible debentures was determined based on the current public trading activity of the debenture.

Fair value is determined following a three level hierarchy:

Level 1: Quoted prices in active markets for identical assets and liabilities. The Corporation does not have any financial assets or liabilities that require level 1 inputs.

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Such inputs can be corroborated with other observable inputs for substantially the complete term of the contract. For derivative assets and liabilities, pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and risk-free rate discounting, all of which can be observed or corroborated in the marketplace. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions.

Level 3: Under this level, fair value is determined using inputs that are not observable. Advantage has no assets or liabilities that use level 3 inputs.

6. Financial risk management (continued)

The Corporation's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- price and currency risk; and
- interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from joint venture partners and oil and natural gas marketers. The maximum exposure to credit risk is as follows:

	December 31, 2012		December 31, 2011	
Trade and other receivables	$	32,657	$	42,344
Deposits		2,780		3,157
Derivative asset		2,186		-
	$	**37,623**	**$**	**45,501**

Trade and other receivables, deposits, and derivative assets are subject to credit risk exposure and the carrying values reflect Management's assessment of the associated maximum exposure to such credit risk. Advantage mitigates such credit risk by closely monitoring significant counterparties and dealing with a broad selection of partners that diversify risk within the sector. The Corporation's deposits are primarily due from the Alberta Provincial government and are viewed by Management as having minimal associated credit risk. To the extent that Advantage enters derivatives to manage commodity price risk, it may be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. In addition, the Corporation only enters into derivative contracts with major banks and international energy firms to further mitigate associated credit risk.

Substantially all of the Corporation's trade and other receivables are due from customers and joint operation partners concentrated in the Canadian oil and gas industry. As such, trade and other receivables are subject to normal industry credit risks. As at December 31, 2012, $0.7 million or 2.2% of trade and other receivables are outstanding for 90 days or more (December 31, 2011 - $0.5 million or 1.2% of trade and other receivables). The Corporation believes the entire balance is collectible, and in some instances has the ability to mitigate risk through withholding production or offsetting payables with the same parties. Management has not provided an allowance for doubtful accounts at December 31, 2012 or 2011.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for $12.6 million of the trade and other receivables at December 31, 2012 (December 31, 2011 - $12.3 million).

6. Financial risk management (continued)

(b) Liquidity risk

The Corporation is subject to liquidity risk attributed from trade and other accrued liabilities, bank indebtedness, convertible debentures, other liabilities, and derivative liabilities. Trade and other accrued liabilities and derivative liabilities are primarily due within one year of the Consolidated Statement of Financial Position date and Advantage does not anticipate any problems in satisfying the obligations from cash provided by operating activities and the existing credit facilities. The Corporation's bank indebtedness is subject to $500 million credit facility agreements. Although the credit facilities are a source of liquidity risk, the facilities also mitigates liquidity risk by enabling Advantage to manage interim cash flow fluctuations. The terms of the credit facilities are such that they provide Advantage adequate flexibility to evaluate and assess liquidity issues if and when they arise. Additionally, the Corporation regularly monitors liquidity related to obligations by evaluating forecasted cash flows, optimal debt levels, capital spending activity, working capital requirements, and other potential cash expenditures. This continual financial assessment process further enables the Corporation to mitigate liquidity risk.

Advantage has a convertible debenture outstanding that matures in 2015 (note 12). Interest payments are made semi-annually with excess cash provided by operating activities. As the debenture becomes due, the Corporation can satisfy the obligation in cash or issue shares at a price determined in the applicable debenture agreement. This settlement alternative allows the Corporation to adequately manage liquidity, plan available cash resources and implement an optimal capital structure.

To the extent that Advantage enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. While the Corporation has elected not to follow hedge accounting, derivative instruments are not entered for speculative purposes and Management closely monitors existing commodity risk exposures. As such, liquidity risk is mitigated since any losses actually realized are subsidized by increased cash flows realized from the higher commodity price environment.

The timing of cash outflows relating to financial liabilities as at December 31, 2012 and 2011 are as follows:

December 31, 2012		Less than one year	One to three years	Three to five years	Thereafter	Total
Trade and other accrued liabilities		$ 84,979	$ -	$ -	$ -	$ 84,979
Derivative liability		1,096	-	-	-	1,096
Bank indebtedness	- principal	-	274,171	-	-	274,171
	- interest	13,338	6,358	-	-	19,696
Convertible debentures	- principal	-	86,250	-	-	86,250
	- interest	4,313	6,469	-	-	10,782
		$ 103,726	**$ 373,248**	**$ -**	**$ -**	**$ 476,974**

Interest on bank indebtedness was calculated assuming conversion of the revolving credit facility to a one-year term facility.

December 31, 2011		Less than one year	One to three years	Three to five years	Thereafter	Total
Trade and other accrued liabilities		$ 138,119	$ -	$ -	$ -	$ 138,119
Derivative liability		2,738	-	-	-	2,738
Bank indebtedness	- principal	-	233,903	-	-	233,903
	- interest	12,373	5,882	-	-	18,255
Convertible debentures	- principal	-	-	86,250	-	86,250
	- interest	4,313	8,625	2,156	-	15,094
Other liability		908	-	-	-	908
		$ 158,451	**$ 248,410**	**$ 88,406**	**$ -**	**$ 495,267**

Interest on bank indebtedness was calculated assuming conversion of the revolving credit facility to a one-year term facility.

6. Financial risk management (continued)

(b) Liquidity risk (continued)

The Corporation's bank indebtedness does not have specific maturity dates. It is governed by credit facility agreements with a syndicate of financial institutions (note 11). Under the terms of the agreements, the facilities are reviewed annually, with the next reviews scheduled in June 2013. The facilities are revolving and are extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one year term facilities, with the principal payable at the end of such one year terms. Management fully expects that the facilities will be extended at each annual review.

(c) Price and currency risk

Advantage's derivative assets and liabilities are subject to both price and currency risks as their fair values are based on assumptions including forward commodity prices and foreign exchange rates. The Corporation enters into non-financial derivatives to manage commodity price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. Changes in the price assumptions can have a significant effect on the fair value of the derivative assets and liabilities and thereby impact earnings. It is estimated that a 10% change in the forward crude oil prices used to calculate the fair value of the crude oil derivatives at December 31, 2012 would result in a $1.1 million change in net loss for the year ended December 31, 2012. It is estimated that a 10% change in the forward natural gas prices used to calculate the fair value of the natural gas derivatives at December 31, 2012 would result in a $2.2 million change in net loss for the year ended December 31, 2012.

As at December 31, 2012, the Corporation had the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
Natural gas – AECO			
Fixed price	January 2013 to December 2013	14,217 mcf/d	Cdn $3.51/mcf
Fixed price	April 2013 to October 2013	9,478 mcf/d	Cdn $3.14/mcf
Fixed price	April 2013 to October 2013	9,478 mcf/d	Cdn $3.17/mcf
Crude oil - WTI			
Fixed price	January 2013 to December 2013	1,000 bbls/d	$90.29/bbl

As at December 31, 2011, the Corporation had the following derivatives in place:

Description of Derivative	Term	Volume	Average Price
Crude oil - WTI			
Fixed price	January 2012 to December 2012	1,000 bbls/d	Cdn $97.10/bbl
Collar	January 2012 to December 2012	1,000 bbls/d	Bought put Cdn $90.00/bbl Sold call Cdn $102.25/bbl

6. Financial risk management (continued)

(c) Price and currency risk (continued)

As at December 31, 2012, the fair value of the derivatives outstanding resulted in an asset of $2.2 million (December 31, 2011 – $Nil) and a liability of $1.1 million (December 31, 2011 – $2.7 million). The fair value of the commodity risk management derivatives have been allocated to current assets and liabilities on the basis of expected timing of cash settlement.

For the year ended December 31, 2012, $2.9 million was recognized in net loss as a derivative gain (December 31, 2011 - $0.5 million). The table below summarizes the realized and unrealized gains (losses) on derivatives.

		Year ended December 31, 2012		Year ended December 31, 2011
Realized gain (loss) on derivatives	$	(970)	$	25,826
Unrealized gain (loss) on derivatives		3,828		(25,351)
	$	**2,858**	**$**	**475**

(d) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank indebtedness fluctuates with the interest rates posted by the lenders. The Corporation is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been different by 100 basis points throughout the year ended December 31, 2012, net income (loss) and comprehensive income (loss) would have changed by $2.8 million (December 31, 2011 - $2.2 million) based on the average debt balance outstanding during the year.

(e) Capital management

The Corporation manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital (excluding derivative assets and liabilities), bank indebtedness, convertible debentures, and share capital. Advantage may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing either through bank indebtedness or convertible debenture issuances, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, implementing a dividend reinvestment plan, adjusting capital spending, or disposing of assets or its ownership interest in Longview. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

6. Financial risk management (continued)

(e) Capital management (continued)

Advantage's capital structure as at December 31, 2012 and 2011 is as follows:

	December 31, 2012		December 31, 2011	
Bank indebtedness (non-current) (note 11)	$	274,171	$	233,903
Working capital deficit [1]		47,179		90,638
Net debt		321,350		324,541
Convertible debentures maturity value (non-current)		86,250		86,250
Total debt	**$**	**407,600**	**$**	**410,791**
Shares outstanding (note 16)		168,382,838		166,304,040
Share closing market price ($/share)	$	3.20	$	4.24
Market capitalization [2]		538,825		705,129
Total capitalization	**$**	**946,425**	**$**	**1,115,920**

(1) Working capital deficit is a non-GAAP measure that includes trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities, and the other liability.

(2) Market capitalization is a non-GAAP measure calculated by multiplying shares outstanding by the closing market share price on the applicable date.

7. Assets held for sale

On August 22, 2012, Advantage announced its intention to dispose of all non-core assets, defined as all corporate assets excluding Advantage's Glacier Montney natural gas asset and its 21.15 million share ownership position in Longview Oil Corp.

As required under *IFRS 5 Non-Current Assets Held For Sale and Discontinued Operations*, Advantage ceased recognizing depreciation on the property, plant and equipment held for sale as of August 22, 2012 onward. The same standard requires that the assets held for sale be reflected at the lesser of fair value less costs to sell and their carrying amount. As a result of this requirement, an impairment loss of $73.0 million has been recognized in the Consolidated Statement of Comprehensive Loss.

The following table provides detail of the assets and liabilities classified as held for sale as at December 31, 2012:

Property, plant and equipment - cost (note 10)	$	581,444
Property, plant and equipment - accumulated depreciation and impairment losses (note 10)		(288,694)
		292,750
Exploration and evaluation assets (note 9)		3,127
Impairment of assets held for sale		(73,000)
Assets held for sale	**$**	**222,877**
Decommissioning liability (note 13)	$	136,540
Liabilities associated with assets held for sale	**$**	**136,540**

On February 5, 2013, Advantage announced that it had signed a definitive agreement (the "Transaction") with Questfire Energy Corp. for the sale of certain oil and gas properties. The Transaction is anticipated to close before April 30, 2013. The Transaction, along with other minor sales that closed during 2012 and subsequent to December 31, 2012 constitute the sale of substantially all of the non-core assets. As the purchase price consists of cash and non-cash consideration, estimates and assumptions regarding discount rates and the timing of closing of the Transaction were required to determine fair value less costs to sell.

8. Trade and other receivables

	December 31, 2012	December 31, 2011
Trade receivables	$ 26,154	$ 32,655
Receivables from joint venture partners	5,708	9,038
Other	795	651
	$ 32,657	**$ 42,344**

9. Exploration and evaluation assets

Balance at December 31, 2010	$ 8,262
Additions	3,006
Transferred to property, plant and equipment (note 10)	(483)
Exploration and evaluation expense	(3,055)
Balance at December 31, 2011	**$ 7,730**
Additions	377
Dispositions	(113)
Exploration and evaluation expense	(181)
Transferred to property, plant and equipment (note 10)	(2,305)
Transferred to assets held for sale (note 7)	(3,127)
Balance at December 31, 2012	**$ 2,381**

There were no indicators of impairment of exploration and evaluation assets during the years ended December 31, 2012 and 2011.

10. Property, plant and equipment

Cost		Oil & gas properties		Furniture and equipment		Total
Balance at December 31, 2010	$	2,018,949	$	4,024	$	2,022,973
Additions		253,731		443		254,174
Change in decommissioning liability (note 13)		79,660		-		79,660
Disposals		(184)		-		(184)
Transferred from exploration and evaluation assets (note 9)		483		-		483
Balance at December 31, 2011	**$**	**2,352,639**	**$**	**4,467**	**$**	**2,357,106**
Additions		173,911		773		174,684
Change in decommissioning liability (note 13)		11,095		-		11,095
Disposals		(6,443)		-		(6,443)
Transferred from exploration and evaluation assets (note 9)		2,305		-		2,305
Transferred to assets held for sale (note 7)		(581,444)		-		(581,444)
Balance at December 31, 2012	**$**	**1,952,063**	**$**	**5,240**	**$**	**1,957,303**

Accumulated depreciation and impairment losses		Oil & gas properties		Furniture and equipment		Total
Balance at December 31, 2010	$	137,979	$	1,232	$	139,211
Depreciation		152,279		648		152,927
Impairment of oil and gas properties		187,684		-		187,684
Disposals		(3)		-		(3)
Balance at December 31, 2011	**$**	**477,939**	**$**	**1,880**	**$**	**479,819**
Depreciation		131,503		672		132,175
Impairment of oil and gas properties		31,865		-		31,865
Disposals		(3,521)		-		(3,521)
Transferred to assets held for sale (note 7)		(288,694)		-		(288,694)
Balance at December 31, 2012	**$**	**349,092**	**$**	**2,552**	**$**	**351,644**

Net book value		Oil & gas properties		Furniture and equipment		Total
At December 31, 2011	$	1,874,700	$	2,587	$	1,877,287
At December 31, 2012	$	1,602,971	$	2,688	$	1,605,659

During the year ended December 31, 2012, Advantage capitalized general and administrative expenditures directly related to development activities of $6.7 million (December 31, 2011 - $7.6 million).

Advantage included future development costs of $1.8 billion (December 31, 2011 – $1.7 billion) in property, plant and equipment costs subject to depreciation.

Impairment of oil and gas properties occur when management determines that indicators of impairment are present in specific cash generating units. Recorded impairments are the amount by which carrying amounts of the cash generating units exceed their respective recoverable amount based on a fair value less costs to sell determination. Fair value less costs to sell is based on discounted after-tax future net cash flows of proved and probable reserves using forecast prices and costs, discounted at 10%.

10. Property, plant and equipment (continued)

For the year ended December 31, 2012, Longview recognized an impairment of oil and gas properties of $31.9 million. The impairment of oil and gas properties recognized relates to crude oil and natural gas producing assets in West Central Alberta. The decline in the price of crude oil and discounted after-tax future net cash flows were considered to be indicators of impairment.

Forecast crude oil prices used in the calculation of impairment of oil and gas properties for the year ended December 31, 2012 are as follows:

Year	Edmonton Par ($Cdn/bbl)
2013	84.55
2014	89.84
2015	88.21
2016	95.43
2017	96.87
2018	98.32
2019	99.79
2020	101.29
2021	102.81
2022	104.35
2023 [(1)]	105.92

[(1)] Escalation of 1.5% thereafter

For the year ended December 31, 2011, Advantage recognized an impairment of oil and gas properties of $187.7 million. The impairment of oil and gas properties recognized related to natural gas producing assets in West and East Alberta. The decline in the price of natural gas was considered to be an indicator of impairment. The same natural gas producing assets were designated by management as assets held for sale on August 22, 2012 (note 7).

Forecast natural gas prices used in the calculation of impairment of oil and gas properties for the year ended December 31, 2011 are as follows:

Year	AECO ($Cdn/MMBtu)
2012	3.16
2013	3.78
2014	4.13
2015	5.53
2016	5.65
2017	5.77
2018	5.89
2019	6.01
2020	6.14
2021 [(1)]	6.27

[(1)] Escalation of 1.5% thereafter

11. Bank indebtedness

	December 31, 2012		December 31, 2011	
Revolving credit facility	$	274,171	$	233,903
Discount on Bankers Acceptances and other fees		(1,660)		(1,219)
Balance, end of period	**$**	**272,511**	**$**	**232,684**

The Corporation has credit facilities (the "Credit Facilities") of $500 million, comprised of $300 million held by Advantage and $200 million held by Longview. The Credit Facilities are comprised of $40 million extendible revolving operating loan facilities from one financial institution and $460 million of extendible revolving loan facilities from a syndicate of financial institutions. Amounts borrowed under the Credit Facilities bear interest at a floating rate based on the applicable Canadian prime rate, US base rate, LIBOR rate or bankers' acceptance rate plus between 1.00% and 3.50% depending on the type of borrowing and the Corporations' debt to cash flow ratio. The Credit Facilities are each collateralized by a $1 billion floating charge demand debenture covering all assets. The amounts available to the Corporation from time to time under the Credit Facilities are based upon the borrowing base determined semi-annually by the lenders. The revolving period for the Credit Facilities will end in June 2013 unless extended at the option of the syndicate for a further 364 day period. If the Credit Facilities are not extended, they will convert to non-revolving term facilities due 365 days after the last day of the revolving period. The Credit Facilities prohibit the Corporation from entering into any derivative contract where the term of such contract exceeds three years. Further, the aggregate of such contracts cannot hedge greater than 60% of total estimated petroleum and natural gas production over two years and 50% over the third year, in each respective legal entity. The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The only financial covenant is a requirement for each entity to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four-quarter basis. These covenants were met at December 31, 2012 and 2011. Breach of any covenant will result in an event of default in which case the Corporation has 20 days to remedy such default. If the default is not remedied or waived, and if required by the lenders, the administrative agent of the lenders has the option to declare all obligations under the credit facilities to be immediately due and payable without further demand, presentation, protest, days of grace, or notice of any kind. Interest payments under the debentures are subordinated to the repayment of any amounts owing under the Credit Facilities and are not permitted if the Corporation is in default of such Credit Facilities or if the amount of outstanding indebtedness under such facilities exceeds the then existing current borrowing base. For the year ended December 31, 2012, the average effective interest rate on the outstanding amounts under the facilities was approximately 4.9% (December 31, 2011 – 5.3%). Advantage has no letters of credit issued and outstanding at December 31, 2012 (December 31, 2011 – $8.8 million).

12. Convertible debentures

The convertible unsecured subordinated debentures pay interest semi-annually and are convertible at the option of the holder into shares of Advantage at the applicable conversion price per share plus accrued and unpaid interest. The details of the convertible debentures including fair market values initially assigned and issuance costs are as follows:

	7.75%	8.00%	5.00%
Trading symbol	AAV.DBD	AAV.DBG	AAV.DBH
Issue date	Sep. 15, 2004	Nov. 13, 2006	Dec. 31, 2009
Maturity date	Dec. 1, 2011	Dec. 31, 2011	Jan. 30, 2015
Conversion price	$ 21.00	$ 20.33	$ 8.60
Liability component	$ 50,000	$ 41,445	$ 73,019
Equity component	-	-	13,231
Gross proceeds	50,000	41,445	86,250
Issuance costs	(2,190)	-	(3,735)
Net proceeds	**$ 47,810**	**$ 41,445**	**$ 82,515**

The convertible debentures are redeemable prior to their maturity dates, at the option of the Corporation, upon providing appropriate advance notification as per the debenture indentures. The redemption prices for the various debentures, plus accrued and unpaid interest, is dependent on the redemption periods and are as follows:

Convertible Debenture	Redemption Periods	Redemption Price
7.75%	After December 1, 2009 and before December 1, 2011	$ 1,000
8.00%	After December 31, 2010 and before December 31, 2011	$ 1,025
5.00%	After January 31, 2013 and on or before January 30, 2015 Provided that Current Market Price exceeds 125% of Conversion Price	$ 1,000

12. Convertible debentures (continued)

The balance of debentures outstanding at December 31, 2012 and changes in the liability and equity components during the years ended December 31, 2012 and 2011 are as follows:

	7.75%	8.00%	5.00%	Total
Trading symbol	AAV.DBD	AAV.DBG	AAV.DBH	
Debentures outstanding	$ -	$ -	$ 86,250	$ 86,250
Liability component:				
Balance at December 31, 2010	**$ 46,485**	**$ 15,528**	**$ 72,811**	**$ 134,824**
Accretion of discount	281	-	3,079	3,360
Matured	(46,766)	(15,528)	-	(62,294)
Balance at December 31, 2011	**-**	**-**	**75,890**	**75,890**
Accretion of discount	-	-	3,218	3,218
Matured	-	-	-	-
Balance at December 31, 2012	**$ -**	**$ -**	**$ 79,108**	**$ 79,108**
Equity component:				
Balance at December 31, 2011	**$ -**	**$ -**	**$ 8,348**	**$ 8,348**
Balance at December 31, 2012	**$ -**	**$ -**	**$ 8,348**	**$ 8,348**

The principal amount of 7.75% convertible debentures matured on December 1, 2011, and was settled with $46.8 million in cash. The principal amount of 8.00% convertible debentures matured on December 31, 2011, and was settled with $15.5 million in cash. There were no conversions of convertible debentures during the years ended December 31, 2012 and 2011.

13. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2013 and 2072. A risk-free rate of 2.37% (December 31, 2011 – 2.50%) and an inflation factor of 2% (December 31, 2011 – 2%) were used to calculate the fair value of the decommissioning liability. A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2012	Year ended December 31, 2011
Balance, beginning of year	$ 253,796	$ 172,130
Accretion expense	6,300	5,748
Liabilities incurred	3,637	4,714
Change in estimates	(6,252)	(3,699)
Effect of change in risk-free rate	13,710	78,645
Property dispositions	(6,032)	(407)
Liabilities settled	(2,395)	(3,335)
	262,764	253,796
Transferred to assets held for sale (note 7)	(136,540)	-
Balance, end of year	**$ 126,224**	**$ 253,796**

14. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Current income tax expense	$ -	$ -
Deferred income tax recovery	(28,605)	(46,807)
Income tax recovery	$ (28,605)	$ (46,807)

The provision for income taxes varies from the amount that would be computed by applying the combined federal and provincial income tax rates for the following reasons:

	Year ended December 31, 2012	Year ended December 31, 2011
Loss before taxes and non-controlling interest	$ (125,733)	$ (192,216)
Combined federal and provincial income tax rates	25.00%	26.57%
Expected income tax recovery	(31,433)	(51,072)
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	2,281	4,031
Change in estimated pool balances	1,022	-
Difference between current and expected tax rates	(475)	234
	$ (28,605)	$ (46,807)
Effective tax rate	22.75%	24.35%

The Canadian combined statutory tax rates decreased from 26.57% in 2011 to 25.00% in 2012 as a result of legislation enacted in 2007.

The movement in deferred income tax liabilities and assets without taking into consideration the offsetting of balances within the same tax jurisdiction is as follows:

Deferred income tax liability	Property, plant and equipment	Derivative asset/liability	Total
Balance at December 31, 2010	$ 242,112	$ 6,033	$ 248,145
Charged (credited) to income	(3,771)	(6,737)	(10,508)
Balance at December 31, 2011	238,341	(704)	237,637
Charged (credited) to income	(1,095)	971	(124)
Balance at December 31, 2012	$ 237,246	$ 267	$ 237,513

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
Balance at December 31, 2010	$ (43,491)	$ (159,358)	$ (5,065)	$ (207,914)
Charged (credited) to income	(20,444)	(15,970)	115	(36,299)
Charged (credited) to equity	-	(1,091)	(1,993)	(3,084)
Balance at December 31, 2011	(63,935)	(176,419)	(6,943)	(247,297)
Charged (credited) to income	(2,282)	(27,728)	1,529	(28,481)
Balance at December 31, 2012	$ (66,217)	$ (204,147)	$ (5,414)	$ (275,778)

14. Income taxes (continued)

Net deferred income tax liability (asset)	Longview	Advantage	Total
Balance at December 31, 2010	$ -	$ 40,231	$ 40,231
Charged (credited) to income	(36,299)	(10,508)	(46,807)
Charged (credited) to equity	(3,084)	-	(3,084)
Balance at December 31, 2011	(39,383)	29,723	(9,660)
Charged (credited) to income	(3,510)	(25,095)	(28,605)
Balance at December 31, 2012	$ (42,893)	$ 4,628	$ (38,265)

The net deferred income tax asset is expected to reverse in more than 12 months.

The unrecorded taxable temporary difference related to Advantage's investment in Longview is $4.1 million.

The estimated tax pools available at December 31, 2012 are as follows:

	Longview	Advantage	Total
Canadian development expenses	$ 44,430	$ 133,595	$ 178,025
Canadian exploration expenses	-	70,837	70,837
Canadian oil and gas property expenses	329,858	-	329,858
Non-capital losses	93,821	720,911	814,732
Undepreciated capital cost	69,742	226,136	295,878
Other	5,639	3,985	9,624
	$ 543,490	$ 1,155,464	$ 1,698,954

The non-capital loss carry forward balances above expire no earlier than 2023.

15. Other liability

The Corporation had a non-cancellable lease for office space which, due to changes in its activities, the Corporation ceased to use in September 2009, while the lease expired in November 2012. Management considered this to be an onerous contract, therefore the obligation for the discounted future payments, net of expected rental income, was provided for as a liability.

A reconcilation of the other liability is as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
Balance, beginning of year	$ 908	$ 1,835
Accretion expense (note 22)	32	99
Liability settled	(940)	(1,026)
Balance, end of year	**$ -**	**$ 908**

16. Share capital

(a) Authorized

The Corporation is authorized to issue an unlimited number of shares without nominal or par value.

(b) Issued

	Common Shares	Amount
Balance at December 31, 2010	164,092,009	$ 2,199,491
Share based compensation (note 17)	2,212,031	15,293
Balance at December 31, 2011	166,304,040	$ 2,214,784
Share based compensation (note 17)	2,078,798	14,814
Balance at December 31, 2012	168,382,838	$ 2,229,598

17. Share based compensation

(a) Restricted share performance incentive plan

Advantage had a Restricted Share Performance Incentive Plan ("RSPIP") as approved by the shareholders. The RSPIP authorized the Board of Directors to grant restricted shares to service providers, including directors, officers, employees, and consultants of Advantage. The number of restricted shares granted was based on the Corporation's share price return for a twelve-month period and compared to the performance of a peer group approved by the Board of Directors. The share price return was calculated at the end of each and every quarter and was primarily based on the twelve-month change in the share price. If the share price return for a twelve-month period was positive, a restricted share grant was calculated based on the return. Otherwise, no restricted shares were granted to service providers for the period. If the share price return for a twelve-month period was negative, but the return was still within the top two-thirds of the approved peer group performance, the Board of Directors may have granted a discretionary restricted share award. The restricted share grants generally vested one-third immediately on grant date, with the remaining two-thirds vesting on each of the two subsequent anniversary dates. On vesting, common shares were issued to the service providers in exchange for the restricted shares outstanding. The holders of restricted shares could elect to receive cash upon vesting in lieu of the number of shares to be issued, subject to consent of the Corporation. However, it was the intent to settle unvested amounts with shares.

The following table is a continuity of restricted shares:

	Restricted Shares
Balance at December 31, 2010	2,925,868
Granted	1,443,956
Vested (note 16)	(2,212,031)
Forfeited	(40,083)
Balance at December 31, 2011	2,117,710
Granted	-
Vested (note 16)	(2,078,798)
Forfeited	(38,912)
Balance at December 31, 2012	-

On July 9, 2012, Advantage's Restricted Share Performance Incentive Plan expired and no new Advantage restricted shares were granted during 2012. For the year ended December 31, 2012, Advantage issued 2,078,798 common shares to service providers in exchange for vested restricted shares.

(b) Stock option plan

On September 13, 2012, shareholders of Advantage approved a new Stock Option Plan, to provide for long term equity based compensation for service providers. On October 1, 2012, the Board of Directors approved a grant of 15,996,366 stock options to service providers under the Stock Option Plan. Share based compensation costs of the Stock Option Plan are determined using a Black-Scholes pricing model. Key inputs are as follows:

Volatility	44%
Expected forfeiture rate	0.25%
Dividend rate	0%
Risk-free rate	1.06%

17. Share based compensation (continued)

(b) Stock option plan (continued)

The following tables summarize information about changes in stock options outstanding at December 31, 2012:

	Stock Options	Weighted-Average Exercise Price
Balance at January 1, 2012	-	$ -
Granted	15,996,366	3.67
Forfeited	(18,483)	3.67
Balance at December 31, 2012	15,977,883	$ 3.67

	Stock Options Outstanding			Stock Options Exerciseable	
Grant Date	Number	Expiry Date	Exercise Price	Number	Exercise Price
October 1, 2012	1,997,257	January 1, 2013	$ 3.67	-	$ -
October 1, 2012	1,997,240	April 1, 2013	3.67	-	-
October 1, 2012	1,997,234	July 1, 2013	3.67	-	-
October 1, 2012	1,997,244	October 1, 2013	3.67	-	-
October 1, 2012	1,997,195	January 1, 2014	3.67	-	-
October 1, 2012	1,997,249	April 1, 2014	3.67	-	-
October 1, 2012	1,997,225	July 1, 2014	3.67	-	-
October 1, 2012	1,997,239	October 1, 2014	3.67	-	-
	15,977,883		$ 3.67	-	$ -

Share based compensation recognized by plan for the years ended December 31, 2012 and 2011 are as follows:

	Year ended December 31, 2012	Year ended December 31, 2011
RSPIP	$ 6,200	$ 15,100
Stock Option Plan	2,878	-
Total share based compensation (note 21)	9,078	15,100
Capitalized	(1,858)	(2,752)
Net share based compensation expense	**$ 7,220**	**$ 12,348**

18. Net loss per share attributable to Advantage shareholders

The calculations of basic and diluted net loss per share are derived from both net loss attributable to Advantage common shareholders and weighted average shares outstanding, calculated as follows:

	Year ended December 31, 2012		Year ended December 31, 2011
Net loss attributable to Advantage shareholders			
Basic and diluted	$	(89,125)	$	(152,772)
Weighted average shares outstanding			
Basic and diluted		167,509,131		165,370,777

The calculation of diluted net loss per share for the years ended December 31, 2012 and 2011 excludes convertible debentures, as their impact would be anti-dilutive. Total weighted average shares issuable in exchange for the series of convertible debentures excluded from the diluted net loss per share calculation for the year ended December 31, 2012 was 10,029,070 (December 31, 2011 – 12,828,588 shares). As at December 31, 2012, the total convertible debentures outstanding were convertible to 10,029,070 shares (December 31, 2011 – 10,029,070 shares).

Restricted shares have been excluded from the calculation of diluted net loss per share for the years ended December 31, 2012 and 2011, as the impact would have been anti-dilutive. There were no restricted shares outstanding at December 31, 2012. Total weighted average shares issuable in exchange for the restricted shares and excluded from the diluted net loss per share calculation for the year ended December 31, 2011 was 1,192,566 shares.

The exercise price of the outstanding stock options exceeded the average market price for the period. Therefore, they have no effect on the calculation of diluted net loss per share.

19. Petroleum and natural gas sales

		Year ended December 31, 2012		Year ended December 31, 2011
Crude oil and natural gas liquid sales	$	164,860	$	186,014
Natural gas sales		104,045		169,274
Total petroleum and natural gas sales	**$**	**268,905**	**$**	**355,288**

20. Other income

		Year ended December 31, 2012		Year ended December 31, 2011
Gain on sale of property, plant and equipment	$	16,964	$	1,325
Miscellaneous income		595		647
Total other income	**$**	**17,559**	**$**	**1,972**

21. General and administrative expense (“G&A”)

	Year ended December 31, 2012	Year ended December 31, 2011
Salaries and benefits	$ 19,650	$ 20,778
Share based compensation (note 17)	9,078	15,100
Office rent	2,540	2,337
Other	3,568	3,955
Total G&A	**34,836**	**42,170**
Capitalized (note 10)	(6,656)	(7,583)
Net G&A	**$ 28,180**	**$ 34,587**

22. Finance expense

	Year ended December 31, 2012	Year ended December 31, 2011
Interest on bank indebtedness (note 11)	$ 12,436	$ 11,483
Interest on convertible debentures (note 12)	4,313	8,871
Accretion on convertible debentures (note 12)	3,218	3,360
Accretion of decomissioning liability (note 13)	6,300	5,748
Accretion of other liability (note 15)	32	99
Total finance expense	**$ 26,299**	**$ 29,561**

23. Supplemented cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2012	Year ended December 31, 2011
Source (use) of cash:		
Trade and other receivables	$ 9,687	$ (68)
Prepaid expenses and deposits	902	443
Trade and other accrued liabilities	(53,140)	25,662
	$ (42,551)	$ 26,037
Related to operating activities	$ (14,864)	$ 4,131
Related to financing activities	916	2,274
Related to investing activities	(28,603)	19,632
	$ (42,551)	$ 26,037

24. Commitments

Advantage has several lease commitments relating to office buildings and transportation. The estimated remaining annual minimum operating lease payments are as follows:

	December 31, 2012	December 31, 2011
2012	$ -	$ 15,543
2013	15,280	14,413
2014	12,499	11,812
2015	2,371	2,246
	$ 30,150	$ 44,014

25. Related party transactions

Transactions between Advantage and Longview

Advantage sold certain oil-weighted properties to Longview on April 14, 2011 (note 5).

Concurrent with the disposition, Advantage entered into a Technical Services Agreement ("TSA") with Longview. Under the TSA, Advantage provides the necessary personnel and technical services to manage Longview's business and Longview reimburses Advantage on a monthly basis for its share of administrative charges based on respective levels of production. All amounts paid are recorded as general and administrative expenses and measured at the fair value, which is the amount agreed upon by the transacting parties.

At December 31, 2012, amounts due from Longview totaled $2.2 million (December 31, 2011 - $1.7 million). Advantage charged Longview $5.3 million during the year ended December 31, 2012 (December 31, 2011 - $3.8 million) under the TSA. Dividends declared and paid or payable from Longview to Advantage during the year ended December 31, 2012 totaled $14.4 million (December 31, 2011 - $11.8 million). All amounts due to and from Longview are non-interest bearing in nature, are settled monthly and were incurred within the normal course of business. All inter-corporate balances, income and expenses resulting from inter-corporate transactions are eliminated.

Key management compensation

The compensation paid or payable to officers and directors is as follows:

	December 31, 2012		December 31, 2011	
Salaries, director fees and short-term benefits	$	3,881	$	4,821
Share based compensation [1]		5,088		5,067
	$	8,969	$	9,888

(1) Represents the grant date fair value of restricted shares and stock options granted for the respective years.

As at December 31, 2012, there is a $3.5 million commitment (December 31, 2011 - $4.0 million) related to change of control or termination of employment of officers.

26. Segmented information

For the year ended December 31, 2012, the Corporation is comprised of two operating segments: Advantage Oil & Gas Ltd. ("Advantage") and Longview Oil Corp. ("Longview"). Advantage develops and operates natural gas focused properties in Alberta. Longview develops and operates primarily conventional oil and natural gas liquids focused properties in Alberta and Saskatchewan.

Results by operating segment for the years ended December 31, 2012 and 2011 are as follows:

	Year ended December 31, 2012			Year ended December 31, 2011		
(thousands of Canadian dollars)	**Advantage**	**Longview**	**Consolidated**	**Advantage**	**Longview**	**Consolidated**
Petroleum and natural gas sales	$ 129,131	$ 139,774	$ 268,905	$ 241,420	$ 113,868	$ 355,288
Less: royalties	(7,401)	(26,725)	(34,126)	(29,661)	(23,310)	(52,971)
Petroleum and natural gas revenue	121,730	113,049	234,779	211,759	90,558	302,317
Operating expense	(42,796)	(46,433)	(89,229)	(59,473)	(29,693)	(89,166)
General and administrative expense	(24,250)	(3,930)	(28,180)	(31,043)	(3,544)	(34,587)
Depreciation expense	(90,376)	(41,799)	(132,175)	(125,074)	(27,853)	(152,927)
Impairment of assets held for sale	(73,000)	-	(73,000)	-	-	-
Impairment of oil and gas properties	-	(31,865)	(31,865)	(187,684)	-	(187,684)
Exploration and evaluation expense	(140)	(41)	(181)	(2,846)	(209)	(3,055)
Finance expense	(19,316)	(6,983)	(26,299)	(24,934)	(4,627)	(29,561)
Gains (losses) on derivatives	(240)	3,098	2,858	(1,032)	1,507	475
Other income	17,527	32	17,559	832	1,140	1,972
Income (loss) before taxes and non-controlling interest	**(110,861)**	**(14,872)**	**(125,733)**	**(219,495)**	**27,279**	**(192,216)**
Income tax recovery	25,095	3,510	28,605	10,508	36,299	46,807
Net income (loss) and comprehensive income (loss) before non-controlling interest	**(85,766)**	**(11,362)**	**(97,128)**	**(208,987)**	**63,578**	**(145,409)**
Net (income) loss attributable to non-controlling interest	-	8,003	8,003	-	(7,363)	(7,363)
Net loss and comprehensive loss attributable to Advantage shareholders	**$ (85,766)**	**$ (3,359)**	**$ (89,125)**	**$ (208,987)**	**$ 56,215**	**$ (152,772)**
Total assets	$ 1,384,055	$ 529,741	$ 1,913,796	$ 1,419,344	$ 553,445	$ 1,972,789
Total liabilities	$ 470,647	$ 234,439	$ 705,086	$ 513,802	$ 220,056	$ 733,858
Expenditures on property plant and equipment	$ 130,490	$ 44,194	$ 174,684	$ 199,217	$ 54,957	$ 254,174
Dividends (paid) received	$ 14,350	$ (28,085)	$ (13,735)	$ 11,780	$ (18,695)	$ (6,915)

All transactions and balances included in amounts presented above between reportable operating segments are eliminated in the consolidated financial statements.

27. Subsequent event

On February 26, 2013, Advantage announced that it has formed a special committee of independent directors to oversee the strategic alternatives review process with the assistance of its advisors.

Directors

Stephen E. Balog [1][2][3]
Kelly I. Drader
Paul G. Haggis[1]
Andy J. Mah
Ronald A. McIntosh [1][2][3]
Sheila H. O'Brien [2][3]
Steven Sharpe

[1] Member of Audit Committee
[2] Member of Reserve Evaluation Committee
[3] Member of Human Resources, Compensation & Corporate Governance Committee

Officers

Andy J. Mah, President and CEO
Kelly I. Drader, CFO
Patrick J. Cairns, Senior Vice President
Craig Blackwood, Vice President, Finance
Neil Bokenfohr, Vice President, Exploitation

Corporate Secretary

Jay P. Reid, Partner
Burnet, Duckworth and Palmer LLP

Auditors

PricewaterhouseCoopers LLP

Bankers

The Bank of Nova Scotia
National Bank of Canada
Royal Bank of Canada
Canadian Imperial Bank of Commerce
Union Bank, Canada Branch
Alberta Treasury Branches
Wells Fargo Bank N.A., London Branch

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Abbreviations

bbls	- barrels
bbls/d	- barrels per day
boe	- barrels of oil equivalent (6 mcf = 1 bbl)
boe/d	- barrels of oil equivalent per day
mcf	- thousand cubic feet
mcf/d	- thousand cubic feet per day
mmcf	- million cubic feet
mmcf/d	- million cubic feet per day
bcf	- billion cubic feet
tcf	- trillion cubic feet
gj	- gigajoules
NGLs	- natural gas liquids
WTI	- West Texas Intermediate

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Toronto Stock Exchange Trading Symbols

Shares: AAV
5.00% Convertible Debentures: AAV.DBH

New York Stock Exchange Trading Symbol

Shares: AAV