



2013 Annual Report

Non-Consolidated Financial and Operating Highlights ⁽¹⁾

	Three months ended		Year ended	
	December 31		December 31	
	2013	2012	2013	2012
Financial (\$000, except as otherwise indicated)				
Sales including realized hedging	\$ 34,304	\$ 36,556	\$ 142,943	\$ 126,749
per boe	\$ 20.57	\$ 19.15	\$ 20.08	\$ 15.97
Funds from operations	\$ 23,822	\$ 16,890	\$ 85,310	\$ 47,046
per share ⁽²⁾	\$ 0.14	\$ 0.10	\$ 0.51	\$ 0.28
per boe	\$ 14.30	\$ 8.85	\$ 11.98	\$ 5.94
Dividends received from Longview	\$ 2,961	\$ 3,172	\$ 12,479	\$ 14,350
per share ⁽²⁾	\$ 0.02	\$ 0.02	\$ 0.07	\$ 0.09
Total capital expenditures	\$ 69,512	\$ 35,849	\$ 155,370	\$ 130,570
Working capital deficit ⁽³⁾	\$ 49,034	\$ 35,467	\$ 49,034	\$ 35,467
Bank indebtedness	\$ 153,697	\$ 161,630	\$ 153,697	\$ 161,630
Convertible debentures (face value)	\$ 86,250	\$ 86,250	\$ 86,250	\$ 86,250
Shares outstanding at end of period (000)	168,383	168,383	168,383	168,383
Basic weighted average shares (000)	168,383	168,383	168,383	167,509
Operating				
Daily Production				
Natural gas (mcf/d)	108,260	116,929	113,947	122,069
Crude oil and NGLs (bbls/d)	79	1,261	507	1,337
Total mcf/d ⁽⁴⁾	108,734	124,495	116,989	130,091
Total boe/d ⁽⁴⁾	18,122	20,749	19,498	21,682
Average prices (including hedging)				
Natural gas (\$/mcf)	\$ 3.39	\$ 2.70	\$ 3.10	\$ 2.09
Crude oil and NGLs (\$/bbl)	\$ 77.01	\$ 65.21	\$ 76.01	\$ 68.35

(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

(4) A boe and mcf conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas equivalent to one barrel of oil.

CONTENTS

Message to Shareholders	3
Reserves	6
Consolidated Management's Discussion & Analysis	11
Consolidated Financial Statements	36
Consolidated Statement of Financial Position	41
Consolidated Statement of Comprehensive Loss	42
Consolidated Statement of Changes in Shareholders' Equity	43
Consolidated Statement of Cash Flows	44
Notes To The Consolidated Financial Statements	45

MESSAGE TO SHAREHOLDERS

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

Increased Funds from Operations driven by Glacier Production, Low Cost Structure and Improved Gas Prices

- Funds from operations for the fourth quarter of 2013, excluding dividends from Longview Oil Corp. (“Longview”), increased 41% to \$23.8 million or \$0.14 per share as compared to the fourth quarter of 2012. Funds from operations during 2013 increased 81% to \$85.3 million or \$0.51 per share as compared to 2012. The increase in funds from operations was supported by a continued reduction in Advantage’s cost structure due to development at Glacier and an increase in realized natural gas prices for the quarter and year.
- The tax free dividend income received from Longview amounted to \$3.0 million (\$0.02/share) during the fourth quarter of 2013 and \$12.5 million (\$0.07/share) for 2013 due to Advantage’s 45.1% ownership in the common shares of Longview in 2013.
- Glacier production increased to 135 mmcf/d (22,500 boe/d) in early March, approximately one month ahead of our Phase VI budget schedule. Production averaged 117.0 mmcf/d (19,498 boe/d) for 2013 and averaged 108.7 mmcf/d (18,122 boe/d) during the fourth quarter of 2013. The 2013 average production rate included the non-core assets from January 1 to April 30, 2013. Production during the fourth quarter of 2013 was impacted by minor facility outages at Glacier to accommodate field gathering system work in preparation for the eventual tie-in of new Phase VI Montney wells.
- The royalty rate in 2013 was 5.4% as compared to 5.7% during 2012. The reduction in royalty rate reflects the disposition of the non-core assets and increased production from Glacier where royalty rates of approximately 5% are realized on our Montney wells.
- Operating costs decreased 68% to \$0.28/mcfe (\$1.66/boe) in the fourth quarter of 2013 compared to the same period in 2012. The decrease in operating costs was due to the divestment of the higher cost non-core assets and the continued improvement in operating efficiencies achieved through our Glacier Montney development. Advantage’s operating costs for 2013 which included the non-core assets to April 30, 2013 decreased 47% to \$0.48/mcfe (\$2.88/boe) compared to 2012.
- Advantage’s operating netback during the fourth quarter of 2013 was \$3.00/mcfe which is 93% of our realized natural gas price of \$3.21/mcfe. This strong cash margin is due to the industry leading low cost structure at Glacier and is a key success factor in our go forward three year development plan which is targeted to deliver 190% cash flow per share growth at an average natural gas price of \$3.75/GJ.
- Total capital expenditures in the fourth quarter of 2013 were \$69.5 million and \$155.4 million for the 2013 year which resulted from ongoing activities in our Glacier Phase VI development program.
- On a pro forma basis after giving consideration to net proceeds of \$90 million received from the sale of the Longview common shares, Advantage’s bank debt was \$63.7 million and total debt was \$199.0 million as of December 31, 2013.
- Advantage’s estimated tax pools as of December 31, 2013 are approximately \$1.1 billion of which \$0.8 billion are categorized as immediately deductible at a rate of 100%.

Glacier Operations On-Track with Three Year Development Plan

Advantage's Glacier three year development plan is targeted to deliver 100% production per share growth and 190% cash flow per share growth. Production is expected to grow to 183 mmcf/d in 2015, 205 mmcf/d in 2016 and 245 mmcf/d in 2017. The three year development plan is supported by continuing strong operational results and a solid financial strategy which includes an improved balance sheet and hedging program. The three year development plan is designed to maintain an average total debt to forward cash flow ratio of 1.5x based on an average natural gas price of AECO Cdn \$3.75/GJ. Advantage has hedged an average of 47% of its forecast production through to Q1 2016 at an average price of \$3.86/mcf.

Strong Initial Production from New Phase VI Glacier Wells

- Only nine of the 22 new Phase VI Montney wells were required to ramp production to our 135 mmcf/d Phase VI target which was achieved approximately one month ahead of schedule. The remaining Phase VI wells will be brought on stream as required to maintain the 135 mmcf/d production rate through the balance of 2014.
- Advantage's record Upper Montney well at 05-20-76-12W6 which demonstrated a final production test rate of 21 mmcf/d was initially brought on production at rates of up to 21 mmcf/d and then restricted to approximately 10 mmcf/d for the last 80 days. The production rate has been restricted to manage the flow back of frac sand through well site equipment which is typical in most higher rate Montney wells. The 05-20-76-12W6 well is still producing at a strong flowing wellhead pressure of 7,620 kpa compared to our average gas gathering system pressure of 3,000 kpa. During the first 80 days of production, the 05-20-76-12W6 well has produced 0.7 bcf.
- Two Lower Montney wells located at 15-31-75-13W6 and 10-31-75-13W6 were initially brought on production at rates of up to 15 mmcf/d and 11 mmcf/d and then restricted to a rate of 8.0 mmcf/d for each well. The wells have produced for an average of 125 days and each well has produced approximately 1 bcf during this period. These wells, which were completed with slickwater and modified completion techniques, are demonstrating significantly improved performance compared to older Lower Montney wells.
- Since the winter of 2012, a total of 15 Upper and Lower Montney wells that were completed with slickwater and brought on production are demonstrating performance which is trending at or above our Phase VII budget type curve (based on an average initial 30 day production rate of 6.9 mmcf/d).
- Advantage's record Middle Montney well located at 12-02-76-12W6 which demonstrated a final production test rate of 13 mmcf/d, including 20 bbl/mmcf of free condensate, was initially brought on production at restricted rates of up to 9.5 mmcf/d. This well has been further rate restricted to approximately 6.0 mmcf/d for the last 20 days to manage the flow back of frac sand and to control the amount of free condensate that our facilities can handle at this time since our Glacier gas plant does not currently have liquid extraction or condensate stabilization processes installed. The 12-02-76-12W6 well is still producing at a strong wellhead pressure of 10,100 kPa compared to our average gas gathering system pressure of 3,000 kpa.

Glacier Phase VII Glacier Development Program Underway

- The Glacier Phase VII drilling program was accelerated during the first quarter of 2014 due to lower than anticipated capital expenditures in our Phase VI program. The lower capital spending resulted from improved drilling and well completion efficiencies which reduced well costs below our original budget estimates.
- To date, four new Phase VII wells have been rig released. One drilling rig is currently situated on a six well pad that will continue drilling through spring breakup. Two additional rigs will be deployed once weather conditions permit access to new drilling sites. A total of 33 wells are included in our Phase VII drilling program.
- Engineering design is nearing completion for the expansion of our 100% owned Glacier gas plant. The expansion work is targeted for completion during the second quarter of 2015 and includes the installation of a shallow cut liquids extraction process and increased natural gas processing capacity to accommodate our Phase VII production target of 183 mmcfe/d. The engineering design will allow our Glacier gas plant to ultimately provide 245 mmcfe/d of processing capacity to accommodate our three year development plan through to 2017.
- Design plans are also underway for increasing the transportation capacity of the sales gas lateral which connects the Glacier gas plant to TransCanada Pipeline's main sales pipeline to accommodate our three year development plan and beyond.

Advantage's strong operating and financial achievements during 2013 combined with simplification of the Corporate structure have positioned the company as an industry leading low cost Montney producer with strong growth. We look forward to reporting results on our progress as we execute Advantage's Glacier three year development plan.

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 Gross Working Interest basis (before royalty burdens and excluding royalty interests) 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) is included in Advantage's Annual Information Form ("AIF") and is available at www.advantageog.com and www.sedar.com.

Highlights – Gross Working Interest Reserves

	December 31, 2013	December 31, 2012
Proved plus probable reserves (mboe)	282,847	268,020
Present Value of 2P reserves discounted at 10%, before tax (\$000) ⁽¹⁾	2,118,740	\$1,694,555
Net Asset Value per Share discounted at 10%, before tax ⁽²⁾	\$11.44	\$9.26
Reserve Life Index (proved plus probable - years) ⁽³⁾	42.8	35.4
Reserves per Share (proved plus probable) ⁽²⁾	1.68	1.59
Bank debt per boe of reserves ⁽⁴⁾	\$0.54	\$0.60
Convertible debentures per boe of reserves ⁽⁴⁾	\$0.30	\$0.32

⁽¹⁾ Assumes that development 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, 2013 and 2012.

⁽³⁾ Based on Q4 average production and working 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.

Gross Working Interest Reserves

Summary as at December 31, 2013

	Light & Medium Oil (mdbl)	Heavy Oil (mdbl)	Natural Gas Liquids (mdbl)	Natural Gas Equivalent (mmcf)	Oil Equivalent (mboe)
Proved					
Developed Producing	6	-	758	205,253	34,973
Developed Non-producing	-	-	243	27,648	4,851
Undeveloped	-	-	6,084	759,424	132,655
Total Proved	6	-	7,085	992,325	172,479
Probable	1	-	5,949	626,509	110,368
Total Proved + Probable	7	-	13,034	1,618,834	282,847

**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	\$786,135	\$465,720	\$395,466
Developed Non-producing	117,613	69,208	58,238
Undeveloped	2,604,490	692,264	398,953
TOTAL PROVED	3,508,238	1,227,192	852,657
Probable	3,140,500	891,548	591,703
Total Proved + Probable	\$6,648,738	\$2,118,740	\$1,444,360

(1) Advantage's crude oil, natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2013 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 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, 2013 was based upon crude oil and natural gas pricing assumptions prepared by Sproule effective December 31, 2013. 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)
2014	94.65	92.64	4.00	4.17	0.94
2015	88.37	89.31	3.99	4.15	0.94
2016	84.25	89.63	4.00	4.17	0.94
2017	95.52	101.62	4.93	5.04	0.94
2018	96.96	103.14	5.01	5.12	0.94
2019	98.41	104.69	5.09	5.19	0.94
2020	99.89	106.26	5.18	5.27	0.94

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, 2012	\$34.58	\$9.26	\$5.80
Present value proved and probable reserves	\$6,648,738	\$2,118,740	\$1,444,360
Undeveloped land ⁽²⁾	6,831	6,831	6,831
Working capital (deficit) and other	(50,264)	(50,264)	(50,264)
Convertible debentures	(86,250)	(86,250)	(86,250)
Bank debt	(153,697)	(153,697)	(153,697)
Longview shares ⁽³⁾	90,353	90,353	90,353
Net asset value - December 31, 2013	\$6,455,711	\$1,925,713	\$1,251,333
Net asset value per Share ⁽¹⁾ - December 31, 2013	\$38.34	\$11.44	\$7.43

⁽¹⁾ Based on 168.383 million Shares outstanding at December 31, 2013 and 2012.

⁽²⁾ Represents amount paid for new 27,680 net acres of undeveloped land at Glacier.

⁽³⁾ Represents the net proceeds from the sale of Longview shares that closed February 28, 2014.

Gross Working Interest Reserves Reconciliation

	Light & Medium Oil (mdbl)	Heavy Oil (mdbl)	Natural Gas Liquids (mdbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening balance Dec. 31, 2012	1,363	3	4,430	986,344	170,187
Extensions	-	-	2,927	96,420	18,997
Improved recovery	-	-	-	-	-
Infill Drilling	-	-	-	-	-
Discoveries	-	-	-	-	-
Economic factors	6	-	(16)	(1,489)	(258)
Technical revisions	30	-	2,315	54,793	11,477
Acquisitions	-	-	-	-	-
Dispositions	(1,302)	(3)	(2,477)	(102,152)	(20,807)
Production	(91)	-	(94)	(41,591)	(7,117)
Closing balance at Dec. 31, 2013	6	-	7,085	992,325	172,479

Gross Working Interest Reserves Reconciliation (continued)

Proved + Probable	Light & Medium Oil (mdbl)	Heavy Oil (mdbl)	Natural Gas Liquids (mdbl)	Natural Gas (mmcf)	Oil Equivalent (mboe)
Opening balance Dec. 31, 2012	2,190	9	6,413	1,556,450	268,020
Extensions	-	-	6,599	200,043	39,940
Improved recovery	-	-	-	-	-
Infill Drilling	-	-	-	-	-
Discoveries	-	-	-	-	-
Economic factors	11	1	(15)	(2,110)	(355)
Technical revisions	30	(1)	3,723	56,656	13,195
Acquisitions	-	-	-	-	-
Dispositions	(2,133)	(9)	(3,591)	(150,615)	(30,836)
Production	(91)	-	(94)	(41,591)	(7,117)
Closing balance at Dec. 31, 2013	7	-	13,035	1,618,833	282,847

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

2013 FD&A Costs – Gross Working Interest Reserves excluding Future Development Capital

	Proved	Proved + Probable
Capital expenditures (\$000)	\$155,370	\$155,370
Acquisitions net of dispositions (\$000)	(70,403) ⁽⁴⁾	(70,403) ⁽⁴⁾
Total capital (\$000)	\$84,967	\$84,967
Total mboe, end of year	172,479	282,847
Total mboe, beginning of year	170,187	268,020
Production, mboe	(7,117)	(7,117)
Reserve additions, mboe	9,409	21,944
2013 FD&A costs (\$/boe)	\$9.03	\$3.87
2012 FD&A costs (\$/boe)	\$3.09	\$2.01
Three year average FD&A costs (\$/boe)	\$(2.75)	\$(2.31)
2013 F&D costs (\$/boe)	\$5.14	\$2.94
2012 F&D costs (\$/boe)	\$3.44	\$2.24
Three year average F&D costs (\$/boe)	\$5.25	\$3.76

NI 51-101**2013 FD&A Costs – Gross Working Interest Reserves including Future Development Capital**

	Proved	Proved + Probable
Capital expenditures (\$000)	\$155,370	\$155,370
Acquisitions net of dispositions (\$000)	(70,403) ⁽⁴⁾	(70,403) ⁽⁴⁾
Net change in Future Development Capital (\$000)	152,889	272,189
Total capital (\$000)	\$237,856	\$357,156
Reserve additions, mboe	9,409	21,944
2013 FD&A costs (\$/boe)	\$25.28	\$16.28
2012 FD&A costs (\$/boe)	\$6.58	\$4.29
Three year average FD&A costs (\$/boe)	\$3.52	\$3.60
2013 F&D costs (\$/boe)	\$10.20	\$8.10
2012 F&D costs (\$/boe)	\$6.91	\$4.51
Three year average F&D costs (\$/boe)	\$8.77	\$6.59

⁽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.

⁽⁴⁾ Includes net cash proceeds from dispositions closed in 2013 and \$17.5 million of estimated net cash proceeds from the sale of investments in Questfire expected to close in 2014.

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of March 27, 2014, 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, 2013 and should be read in conjunction with the December 31, 2013 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. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated. The term "boe" or barrels of oil equivalent and "mcf" or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or mcf conversion ratio of six thousand cubic feet of natural gas equivalent to one barrel of oil (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.

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, effect of commodity prices on the Corporation's financial results, condition and performance; effect of changes in the \$US/\$Canadian exchange rate, changes in Canadian crude oil differentials between WTI and Canadian realized pricing, and quality and transportation adjustments on Advantage's realized prices; industry conditions, including effect of changes in commodity prices on the crude oil and natural gas industry and demand for crude oil and natural gas; the Corporation's hedging strategy, including its anticipated effect on the volatility of Advantage's future cash flows and the funding of its capital expenditure program and on the volatility of Longview Oil Corp.'s ("Longview") sales and stability of funds from operations; effect of commodity price risk management activities on the Corporation, including on cash flows, sales and credit risk; the Corporation's plans to mitigate credit risk; terms of the Corporation's and Longview's derivative contracts, including the timing of settlement of such contracts; effect of fluctuations in commodity prices and foreign exchange rates as compared to valuation assumptions on actual gains or losses realized on cash settlement of derivatives; average royalty rates and the impact of well depths, well production rates and commodity prices on average corporate royalty rates; projected royalty rates, including the estimated royalty rate for the life of a Glacier Montney horizontal well; Advantage's estimated operating costs at Glacier for the first quarter of 2014; Advantage's expectations regarding decreased general and administrative expenses through 2014, including the estimated amount of such expenses, as a result of the termination of the TSA (as defined herein) with Longview; terms of the Corporation's and Longview's equity compensation plans; 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; terms of the Corporation's and Longview's credit facilities, including timing of next review of the credit facilities; the Corporation's expectations regarding extension of Advantage's credit facilities at each annual review, effect of revisions or changes in reserve estimates and commodity prices on the borrowing base, and limitations on the utilization of hedging contracts; terms of the Corporation's convertible debentures; the ability of the Corporation to manage its capital structure, the Corporation's strategy for managing its capital structure, including the use of financial and operational forecasting processes, and the timing of reviews of capital structure and forecast information by management and the Board; future commitments and contractual obligations; effect of the Corporation's continual financial assessment processes on the Corporation's ability to mitigate risks; the Corporation's ability to satisfy all liabilities and commitments, including a working capital deficit, and meet future obligations as they become due; Advantage's focus on development of the natural gas resource play at Glacier; the Corporation's expectations as to its ability to maintain and increase production, as applicable, from Glacier at the levels and for the periods disclosed herein; the focus of each of the Corporation's and Longview's capital drilling program; the Corporation's drilling plans at Glacier; the Corporation's beliefs regarding the potential for Middle Montney natural gas liquids on certain recently acquired assets located southeast of Glacier and the terms of the licenses for such assets; Longview's plans to advance their waterflood projects in Alberta; and anticipated changes in accounting standards. 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; individual well productivity; 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; ability to access sufficient capital from internal and external sources; credit risk; 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; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and that the estimates of the Corporation's production, reserves and resources 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.

Consolidation of Longview Oil Corp.

At December 31, 2013, Advantage owned 21,150,010 common shares of Longview, representing an interest of approximately 45.1% in Longview. As Advantage held the single largest ownership interest of Longview and other ownership interests were comparatively dispersed, Advantage was considered to control Longview. Accordingly, the financial and operating results of Longview were consolidated 100% within Advantage and non-controlling interest was recognized which represented Longview's independent shareholders 54.9% 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. On February 4, 2014, Advantage entered into an agreement to sell its remaining 21,150,010 common shares of Longview at a price of \$4.45 per share. The offering closed on February 28, 2014 and Advantage received net proceeds of \$90.0 million, all of which were used to reduce existing bank indebtedness. Concurrent with closing, Advantage ceased to consolidate Longview.

A Technical Services Agreement ("TSA") existed between Advantage and Longview whereby Advantage provided the necessary personnel and technical services to manage Longview's business and Longview reimbursed Advantage on a monthly basis for its share of administrative charges based on respective levels of production. The officers of Longview provided services to Longview under the TSA but remained employees of Advantage. On February 1, 2014, Advantage and Longview terminated the TSA and Advantage has no future obligations to Longview for the provision of personnel and services. Appropriate staffing and systems are now in place to enable both organizations to run independently following termination of the TSA.

Non-core Asset Sales

The Advantage legal entity has systematically disposed of substantially all non-core assets since the third quarter of 2012 to focus on continued development of Advantage's core Glacier Montney natural gas asset. In accordance with the requirements of IFRS, Advantage ceased recognizing depreciation on property, plant and equipment effective when classified as held for sale. The carrying amounts of exploration and evaluation assets, property, plant and equipment, decommissioning liabilities and derivative liabilities associated with assets held for sale were presented separately on the statement of financial position and reflected at the lesser of fair value less costs to sell and carrying amount. Net cash proceeds from all disposition transactions were used to reduce outstanding bank indebtedness. The disposition transactions have had a pervasive impact on the financial and operating results and financial position of the Advantage legal entity such that historical financial and operating performance may not be indicative of actual future performance.

Advantage is now a pure play company focused on our signature Glacier Montney property. At December 31, 2013, Advantage's other assets included investments in Questfire Energy Corp. ("Questfire") including a \$32.6 million Convertible Senior Secured Debenture (the "Questfire Debenture") and 1.5 million Class B Shares of Questfire (the "Class B Shares"), which were received as partial consideration for certain asset dispositions.

On March 26, 2014, Advantage entered an agreement for Questfire to repurchase the Questfire Debenture at an aggregate purchase price of \$13.6 million. Questfire also agreed that it would make an offer to purchase by way of issuer bid, all of the Class B Shares at a purchase price of \$2.60 per share. Advantage expects to receive total proceeds of \$17.5 million on the disposition of its investments in Questfire.

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 or mcfe basis that comprise funds from operations. Funds from operations reconciled to cash provided by operating activities is as follows:

(\$000)	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Cash provided by operating activities	\$ 57,355	\$ 43,675	31 %	\$ 165,017	\$ 106,956	54 %
Expenditures on decommissioning liability	1,533	252	508 %	5,158	2,395	115 %
Changes in non-cash working capital	(16,818)	(7,152)	135 %	(4,052)	14,864	(127) %
Finance expense ⁽¹⁾	(4,508)	(4,246)	6 %	(17,618)	(16,749)	5 %
Funds from operations	\$ 37,562	\$ 32,529	15 %	\$ 148,505	\$ 107,466	38 %

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

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, 2013			Year ended December 31, 2013		
	Advantage	Longview	Consolidated	Advantage	Longview	Consolidated
Production						
Natural gas (mcf/d)	108,260	6,503	114,763	113,947	7,232	121,179
Crude oil (bbls/d)	63	4,226	4,289	249	4,226	4,475
NGLs (bbls/d)	16	506	522	258	522	780
Total (boe/d)	18,122	5,816	23,938	19,498	5,953	25,452
Natural gas (%)	100%	18%	80%	98%	20%	79%
Crude oil (%)	-%	73%	18%	1%	71%	18%
NGLs (%)	-%	9%	2%	1%	9%	3%
Natural Gas Prices (\$/mcf)						
Realized natural gas prices						
Excluding hedging	\$ 3.21	\$ 3.81	\$ 3.25	\$ 3.03	\$ 3.35	\$ 3.05
Including hedging	\$ 3.39	\$ 3.81	\$ 3.41	\$ 3.10	\$ 3.35	\$ 3.11
Crude Oil and NGLs Prices (\$/bbl)						
Realized crude oil prices						
Excluding hedging	\$ 77.79	\$ 79.15	\$ 79.13	\$ 84.23	\$ 84.70	\$ 84.67
Including hedging	\$ 77.79	\$ 74.09	\$ 74.15	\$ 84.40	\$ 80.30	\$ 80.52
Realized NGLs prices						
Excluding hedging	\$ 73.87	\$ 56.66	\$ 57.19	\$ 67.89	\$ 53.34	\$ 58.15
Realized crude oil and NGLs prices						
Excluding hedging	\$ 77.01	\$ 76.74	\$ 76.75	\$ 75.92	\$ 81.25	\$ 80.74
Including hedging	\$ 77.01	\$ 72.23	\$ 72.31	\$ 76.01	\$ 77.33	\$ 77.21
Cash netbacks (\$/boe)						
Petroleum and natural gas sales	\$ 19.52	\$ 66.70	\$ 30.98	\$ 19.68	\$ 68.87	\$ 31.19
Royalties	(0.91)	(11.97)	(3.60)	(1.06)	(12.10)	(3.64)
Realized gain (loss) on derivatives	1.05	(3.67)	(0.09)	0.40	(3.12)	(0.42)
Operating expense	(1.66)	(21.56)	(6.50)	(2.88)	(21.08)	(7.14)
Operating income	18.00	29.50	20.79	16.14	32.57	19.99
General and administrative expense ⁽¹⁾	(2.36)	(1.33)	(2.11)	(2.70)	(1.25)	(2.36)
Finance expense ⁽²⁾	(1.90)	(2.49)	(2.04)	(1.70)	(2.54)	(1.89)
Other income ⁽³⁾	0.56	-	0.41	0.24	0.30	0.26
Cash netbacks	\$ 14.30	\$ 25.68	\$ 17.05	\$ 11.98	\$ 29.08	\$ 16.00

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

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

(3) Other income excludes non-cash other income.

(\$000, except as otherwise indicated)	Three months ended December 31, 2013			Year ended December 31, 2013		
	Advantage	Longview	Consolidated	Advantage	Longview	Consolidated
Sales including realized hedging						
Natural gas sales	\$ 31,984	\$ 2,280	\$ 34,264	\$ 126,038	\$ 8,840	\$ 134,878
Realized hedging gains	1,758	-	1,758	2,837	-	2,837
Natural gas sales including hedging	33,742	2,280	36,022	128,875	8,840	137,715
Crude oil and NGLs sales	562	33,407	33,969	14,052	140,812	154,864
Realized hedging gains (losses)	-	(1,966)	(1,966)	16	(6,789)	(6,773)
Crude oil and NGLs sales including hedging	562	31,441	32,003	14,068	134,023	148,091
Total	\$ 34,304	\$ 33,721	\$ 68,025	\$ 142,943	\$ 142,863	\$ 285,806
per boe	\$ 20.57	\$ 63.03	\$ 30.89	\$ 20.08	\$ 65.75	\$ 30.77
Royalties	\$ 1,523	\$ 6,405	\$ 7,928	\$ 7,534	\$ 26,297	\$ 33,831
per boe	\$ 0.91	\$ 11.97	\$ 3.60	\$ 1.06	\$ 12.10	\$ 3.64
Royalty Rate (percentage of petroleum and natural gas sales)	4.7%	17.9%	11.6%	5.4%	17.6%	11.7%
Operating expense	\$ 2,772	\$ 11,533	\$ 14,305	\$ 20,515	\$ 45,799	\$ 66,314
per boe	\$ 1.66	\$ 21.56	\$ 6.50	\$ 2.88	\$ 21.08	\$ 7.14
General and administrative expense⁽¹⁾	\$ 3,932	\$ 709	\$ 4,641	\$ 19,246	\$ 2,706	\$ 21,952
per boe	\$ 2.36	\$ 1.33	\$ 2.11	\$ 2.70	\$ 1.25	\$ 2.36
Interest on bank indebtedness	\$ 2,087	\$ 1,334	\$ 3,421	\$ 7,784	\$ 5,521	\$ 13,305
per boe	\$ 1.25	\$ 2.49	\$ 1.55	\$ 1.09	\$ 2.54	\$ 1.43
Interest on convertible debentures	\$ 1,087	\$ -	\$ 1,087	\$ 4,313	\$ -	\$ 4,313
per boe	\$ 0.65	\$ -	\$ 0.49	\$ 0.61	\$ -	\$ 0.46
Other income⁽²⁾	\$ 919	\$ -	\$ 919	\$ 1,759	\$ 655	\$ 2,414
per boe	\$ 0.56	\$ -	\$ 0.41	\$ 0.24	\$ 0.30	\$ 0.26
Funds from operations	\$ 23,822	\$ 13,740	\$ 37,562	\$ 85,310	\$ 63,195	\$ 148,505
per boe	\$ 14.30	\$ 25.68	\$ 17.05	\$ 11.98	\$ 29.08	\$ 16.00
per share ^{(3) (4)}	\$ 0.14	\$ 0.29	\$ 0.18	\$ 0.51	\$ 1.35	\$ 0.68
Dividends from Longview (declared by Longview)	\$ 2,961	\$ (6,570)	\$ (3,609)	\$ 12,479	\$ (27,670)	\$ (15,191)
Expenditures on property, plant and equipment	\$ 69,470	\$ 10,674	\$ 80,144	\$ 148,539	\$ 40,502	\$ 189,041
Expenditures on exploration and evaluation assets	42	146	188	6,831	146	6,977
Total capital spending	\$ 69,512	\$ 10,820	\$ 80,332	\$ 155,370	\$ 40,648	\$ 196,018
Debt and working capital						
Bank indebtedness				\$ 153,697	\$ 117,642	\$ 271,339
Convertible debentures				\$ 86,250	\$ -	\$ 86,250
Working capital deficit				\$ 49,034	\$ 9,486	\$ 58,520

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

(2) Other income excludes non-cash other income.

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

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

Overview

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Cash provided by operating activities (\$000)	\$ 57,355	\$ 43,675	31 %	\$ 165,017	\$ 106,956	54 %
Funds from operations (\$000)	\$ 37,562	\$ 32,529	15 %	\$ 148,505	\$ 107,466	38 %
per share ⁽¹⁾	\$ 0.18	\$ 0.14	29 %	\$ 0.68	\$ 0.47	45 %
per boe	\$ 17.05	\$ 13.05	31 %	\$ 16.00	\$ 10.53	52 %

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

For the three months ended December 31, 2013, Advantage realized an increase of 15% in funds from operations to \$37.6 million and an increase of 31% in cash netbacks to \$17.05 per boe, as compared to the fourth quarter of 2012. For the year ended December 31, 2013, Advantage realized an increase of 38% in funds from operations to \$148.5 million and an increase of 52% in cash netbacks to \$16.00 per boe, as compared to 2012. The increased funds from operations and cash netbacks have been primarily attributable to significantly improved commodity prices and partially offset by lower production due to non-core asset dispositions. Realized natural gas prices, excluding hedging, increased 9% for the three months and 41% for the year ended December 31, 2013, as compared to the same periods of 2012. Realized crude oil and NGLs prices, excluding hedging, increased 8% for the three months and 9% for the year ended December 31, 2013 when compared to 2012. Management has been proactive in mitigating commodity price risk and has entered numerous hedging contracts to March 31, 2016 (refer to the section “Commodity Price Risk”). Average daily production during the three months and year ended December 31, 2013 decreased as compared to the same periods of 2012 primarily attributable to significant non-core property dispositions, which was finalized on April 30, 2013, to create a pure play company focused on our signature Glacier Montney property. As a result of our continued focus at Glacier, Advantage has achieved an industry leading cost structure comprised of low royalty rates and operating expense with continued general and administrative cost reductions. 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, disposition of our ownership interest of Longview, and changes in commodity prices, historical financial and operating performance may not be indicative of actual future performance.

Petroleum and Natural Gas Sales and Hedging

(\$000)	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Natural gas sales	\$ 34,264	\$ 34,310	- %	\$ 134,878	\$ 104,045	30 %
Realized hedging gains (losses)	1,758	(2,619)	(167) %	2,837	(2,382)	(219) %
Natural gas sales including hedging	36,022	31,691	14 %	137,715	101,663	35 %
Crude oil and NGLs sales	33,969	40,122	(15) %	154,864	164,860	(6) %
Realized hedging gains (losses)	(1,966)	1,131	(274) %	(6,773)	1,412	(580) %
Crude oil and NGLs sales including hedging	32,003	41,253	(22) %	148,091	166,272	(11) %
Total ⁽¹⁾	\$ 68,025	\$ 72,944	(7) %	\$ 285,806	\$ 267,935	7 %

⁽¹⁾ Total excludes unrealized derivative gains and losses.

Total sales excluding hedging during the fourth quarter of 2013 was \$68.2 million, a decrease of \$6.2 million or 8% when compared to the same period of 2012 attributable to lower production due to non-core asset dispositions, partially offset by increased commodity prices. However, for the year ended December 31, 2013, total sales excluding hedging was \$289.7 million, an increase of \$20.8 million or 8% when compared to the same period of 2012 as increased commodity prices more than offset lower production from non-core asset dispositions. Realized natural gas prices, excluding hedging, increased 9% for the three months and 41% for the

year ended December 31, 2013, as compared to the same periods of 2012. Realized crude oil and NGLs prices, excluding hedging, increased 8% for the three months and 9% for the year ended December 31, 2013 when compared to 2012.

The Corporation's financial results and condition will be dependent on the prices received for crude oil and natural gas production. As such, the Corporation enters derivative contracts whereby realized hedging gains and losses partially offset commodity price fluctuations, which can positively or negatively impact sales. Management has been proactive in mitigating commodity price risk and has entered numerous hedging contracts to March 31, 2016 (refer to the section "Commodity Price Risk"). For the three months and year ended December 31, 2013, we recognized net realized derivative losses on settled derivative contracts as a result of higher crude oil prices, partially offset by realized derivative gains attributed from lower natural gas prices, as compared to our average hedge prices.

Production

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Natural gas (mcf/d)	114,763	125,455	(9) %	121,179	131,007	(8) %
Crude oil (bbls/d)	4,289	4,883	(12) %	4,475	4,799	(7) %
NGLs (bbls/d)	522	1,265	(59) %	780	1,283	(39) %
Total (boe/d)	23,938	27,057	(12) %	25,452	27,917	(9) %
Natural gas (%)	80%	77%		79%	78%	
Crude oil (%)	18%	18%		18%	17%	
NGLs (%)	2%	5%		3%	5%	

Average daily production during the three months and year ended December 31, 2013 decreased as compared to the same periods of 2012 primarily attributable to significant non-core property dispositions by Advantage.

Advantage's stand-alone production averaged 108.7 mmcf/d for the fourth quarter of 2013, as compared to 124.5 mmcf/d for the fourth quarter of 2012 due to several significant non-core gas weighted property dispositions from the third quarter of 2012 through to the second quarter of 2013 (exceeding 6,000 boe/d) to create a pure play company focused on our signature Glacier Montney property. Average daily production in 2013 from Glacier was 105 mmcf/d, an increase of 14% from the prior year due to continued strong well performance and development. In early March 2014 Glacier production reached the 135 mmcf/d Phase VI target approximately one month ahead of schedule. Nine new wells from Advantage's Glacier Phase VI program were brought on production to initially ramp production to 135 mmcf/d with the remaining 13 new wells from our Phase VI program expected to provide sufficient production inventory to maintain production at 135 mmcf/d through to the end of 2014.

At Longview, daily production averaged 5,816 boe/d for the fourth quarter of 2013 with 82% from crude oil and NGLs, an 8% decrease from the 6,308 boe/d realized during the fourth quarter of 2012. The majority of production declines related to natural gas which fell by 24% compared to the fourth quarter of 2012 while higher value crude oil production remained comparable to the same period of the prior year. On a year to date basis, total production averaged 5,953 boe/d versus 6,235 boe/d in 2012. The decrease in total production occurred as natural gas and NGL volumes declined by 19% and 9%, respectively, due to normal production declines, more than offsetting the 1% increase in crude oil production.

Commodity Prices and Marketing

Natural Gas

(\$/mcf, except where indicated)	Three months ended December 31			Year ended December 31		
	2013	2012	% change	2013	2012	% change
Realized natural gas prices						
Excluding hedging	\$ 3.25	\$ 2.97	9 %	\$ 3.05	\$ 2.17	41 %
Including hedging	\$ 3.41	\$ 2.75	24 %	\$ 3.11	\$ 2.12	47 %
AECO daily index	\$ 3.52	\$ 3.22	9 %	\$ 3.18	\$ 2.40	32 %
NYMEX (\$US/mmbtu)	\$ 3.63	\$ 3.36	8 %	\$ 3.67	\$ 2.80	31 %

Realized natural gas prices, excluding hedging, have increased significantly as compared to 2012 corresponding to increases in AECO prices. 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, that resulted in historic high inventory levels. Massive switching by electrical utilities from coal to natural gas during the 2012 summer combined with the 2012/2013 prolonged winter reduced the inventory levels to a more balanced market and a significant improvement in pricing during 2013.

Advantage's realized natural gas prices include deductions for unutilized sales gas pipeline fees associated with TransCanada pipeline firm service commitments of approximately 125 mmcf/d at Glacier for calendar 2013. We incur charges of approximately \$0.25/mcf on these service commitments and since Glacier production has averaged less than the commitments, the unutilized firm service costs reduced our realized natural gas prices in comparison to AECO prices. Advantage has been successful is partially mitigating such transportation commitments by assignment to third parties resulting in less unutilized firm service and lower deductions for 2013 as compared to 2012.

Crude Oil and NGLs

(\$/bbl, except where indicated)	Three months ended December 31			Year ended December 31		
	2013	2012	% change	2013	2012	% change
Realized crude oil prices						
Excluding hedging	\$ 79.13	\$ 75.78	4 %	\$ 84.67	\$ 78.88	7 %
Including hedging	\$ 74.15	\$ 78.30	(5) %	\$ 80.52	\$ 79.68	1 %
Realized NGLs prices						
Excluding hedging	\$ 57.19	\$ 52.28	9 %	\$ 58.15	\$ 55.99	4 %
Realized crude oil and NGLs prices						
Excluding hedging	\$ 76.75	\$ 70.94	8 %	\$ 80.74	\$ 74.05	9 %
Including hedging	\$ 72.31	\$ 72.94	(1) %	\$ 77.21	\$ 74.69	3 %
WTI (\$US/bbl)	\$ 97.50	\$ 88.20	11 %	\$ 98.00	\$ 94.19	4 %
\$US/\$Canadian exchange rate	\$ 0.95	\$ 1.01	(6) %	\$ 0.97	\$ 1.00	(3) %
Edmonton Light (\$/bbl)	\$ 86.88	\$ 84.55	3 %	\$ 93.43	\$ 86.73	8 %
WTI/Edmonton Light Differential (\$/bbl)	\$ (15.75)	\$ (2.78)	467 %	\$ (7.60)	\$ (7.46)	2 %

Realized crude oil and NGLs prices, excluding hedging, have increased as compared to 2012 due to modestly stronger Canadian realized pricing. The West Texas Intermediate benchmark price ("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 Canadian crude oil differentials between WTI and Canadian realized pricing, the \$US/\$Canadian exchange rate, and quality and transportation adjustments. Although differentials continue to remain volatile, the WTI/Edmonton Light differential during the year ended December 31, 2013 approximated that for the same period of 2012.

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. 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 separately limit the utilization of derivative contracts for each of Advantage and Longview. Advantage is allowed to hedge up to 65% of total estimated crude oil and natural gas production over the first three years and 50% over the fourth year. Longview is allowed to hedge up to 60% of total estimated crude oil and natural gas production over the first two years and 50% over the third year.

Advantage has entered into a number of natural gas hedges in support of our Glacier multi-year development plan. Our natural gas hedges will reduce the volatility of future cash flows through to March 2016. Our current hedging positions are summarized as follows:

Period	Forecast Production		Average Price AECO (\$Cdn.)
	Average Production Hedged	Hedged (net of royalties)	
Q1 2014 to Q4 2014	60.2 mmcf/d	48%	\$3.81/mcf
Q1 2015 to Q4 2015	75.8 mmcf/d	51%	\$3.90/mcf
Q1 2016	52.1 mmcf/d	31%	\$3.88/mcf

Longview has entered into a number of crude oil hedges to reduce the volatility of sales to provide a measure of stability to their funds from operations that will fund capital expenditures and dividend payments. Longview's current hedging positions are summarized as follows:

Period	Average Production Hedged	Average Price WTI (\$Cdn.)
Q1 2014 to Q4 2014	2,000 bbls/d	\$94.84/bbl

A summary of realized and unrealized hedging gains and losses for the years ended December 31, 2013 and 2012 are as follows:

(\$000)	Three months ended December 31			Year ended December 31		
	2013	2012	% change	2013	2012	% change
Realized gains (losses) on derivatives						
Natural gas	\$ 1,758	\$ (2,619)	(167) %	\$ 2,837	\$ (2,382)	(219) %
Crude oil	(1,966)	1,131	(274) %	(6,773)	1,412	(580) %
Total realized losses on derivatives	(208)	(1,488)	(86) %	(3,936)	(970)	306 %
Unrealized gains (losses) on derivatives						
Natural gas	(11,472)	4,058	(383) %	(6,043)	2,142	(382) %
Crude oil	1,133	(1,777)	(164) %	(4,769)	1,686	(383) %
Total unrealized gains (losses) on derivatives	(10,339)	2,281	(553) %	(10,812)	3,828	(382) %
Total gains (losses) on derivatives	\$ (10,547)	\$ 793	(1,430) %	\$ (14,748)	\$ 2,858	(616) %

For the three months and year ended December 31, 2013, we recognized net realized derivative losses on settled derivative contracts as a result of higher crude oil prices, partially offset by realized derivative gains attributed from lower natural gas prices, as compared to our average hedge prices. As at December 31, 2013, the fair value of the derivative contracts outstanding and to be settled was a net liability of approximately \$7.0 million, a change of \$8.1 million from the \$1.1 million net asset at December 31, 2012 due to generally stronger commodity prices. For the year ended December 31, 2013, this \$8.1 million loss due to the change in the fair value of the derivative contracts was recognized in income as an unrealized derivative loss (December 31, 2012 – \$3.8 million unrealized

derivative gain) together with the recognition of a \$2.7 million unrealized derivative loss associated with the net liability of derivative contracts outstanding that were subsequently assigned to Questfire upon disposition of corresponding assets. The valuation of the derivatives is the estimated fair value to settle the contracts as at December 31, 2013 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 from January 1, 2014 to March 31, 2016 corresponding to when the Corporation will recognize sales from production.

Royalties

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Royalties (\$000)	\$ 7,928	\$ 7,915	- %	\$ 33,831	\$ 34,126	(1) %
per boe	\$ 3.60	\$ 3.18	13 %	\$ 3.64	\$ 3.34	9 %
Royalty Rate (percentage of petroleum and natural gas sales)	11.6%	10.6%	1.0 %	11.7%	12.7%	(1.0) %

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. Our average corporate royalty rates are impacted by well depths, well production rates, and commodity prices.

Royalties for the three months and year ended December 31, 2013 are generally comparable to the same periods of 2012 whereby reduced royalties from disposed non-core properties that generally attracted higher royalty rates were offset by additional royalties attributed from stronger commodity prices. On a stand-alone basis, the royalty rate realized by each of Advantage and Longview for the current quarter was 4.7% and 17.9%, respectively. Advantage’s royalty rates are predominately based on our significant natural gas development at Glacier where the royalty rate for the life of a Glacier Montney horizontal well is approximately 5% due to industry provincial incentive programs. As production from Glacier has become a larger proportion of total production, we have experienced a continual reduction in our realized royalty rate.

Operating Expense

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Operating expense (\$000)	\$ 14,305	\$ 22,196	(36) %	\$ 66,314	\$ 89,229	(26) %
per boe	\$ 6.50	\$ 8.92	(27) %	\$ 7.14	\$ 8.73	(18) %

Operating expense for the three months and year ended December 31, 2013 decreased as compared to the same periods of 2012 attributable to significant non-core property dispositions.

Operating expense per boe realized by Advantage on a stand-alone basis for the fourth quarter of 2013 was \$1.66/boe (\$0.28/mcfe), compared to \$5.23/boe (\$0.87/mcfe) for the fourth quarter of 2012. Advantage operating costs have decreased with disposition of higher cost non-core assets from the third quarter of 2012 through to the second quarter of 2013. In the first quarter of 2014, Advantage estimates operating expenses at Glacier are \$0.27/mcfe due to the continued efficiencies created by processing our natural gas through our 100% owned Glacier gas plant.

At Longview, total operating expenses for the three months and year ended December 31, 2013 were comparable to the same periods of 2012. Although total operating costs have remained relatively stable, operating costs per boe for the year ended December 31, 2013 increased by 4% to \$21.08/boe, due to the variation of production during these periods. Additionally, to help stabilize fluctuating power costs, Longview has fixed the price of 0.8 MW at \$55.41/MWh for the period from January 2013 to December 2014.

General and Administrative Expense

	Three months ended December 31			Year ended December 31		
	2013	2012	% change	2013	2012	% change
General and administrative expense						
Cash expense (\$000)	\$ 4,641	\$ 6,067	(24) %	\$ 21,952	\$ 20,960	5 %
per boe	\$ 2.11	\$ 2.44	(14) %	\$ 2.36	\$ 2.05	15 %
Non-cash expense (\$000)	\$ 677	\$ 2,423	(72) %	\$ 5,456	\$ 7,220	(24) %
per boe	\$ 0.31	\$ 0.97	(68) %	\$ 0.59	\$ 0.71	(17) %
Total general and administrative expense (\$000)	\$ 5,318	\$ 8,490	(37) %	\$ 27,408	\$ 28,180	(3) %
per boe	\$ 2.42	\$ 3.41	(29) %	\$ 2.95	\$ 2.76	7 %
Employees at December 31				80	121	(34) %

Cash general and administrative (“G&A”) expense decreased for the three months ended December 31, 2013 as Advantage began to realize cost efficiencies associated with the non-core asset dispositions which was finalized on April 30, 2013. Cash G&A increased slightly for the year ended December 31, 2013 compared to 2012 due to one-time costs including retention and staff rationalization associated with the asset dispositions and costs incurred during Advantage’s strategic alternatives review process that commenced in early 2013 and was concluded on February 4, 2014. On February 1, 2014, Advantage and Longview terminated the TSA and Advantage has no future obligations to Longview for the provision of personnel and services. Appropriate staffing and systems are now in place to enable both organizations to run independently following termination of the TSA. As a result, Advantage currently has 25 full time employees and expects to incur significantly lower cash G&A that will continue to decrease through 2014 to approximately \$1.20/boe (\$0.20/mcfe).

Non-cash G&A expense is comprised of share based compensation. Advantage had a restricted share performance incentive plan that expired during the third quarter of 2012 and no Advantage restricted shares were granted during 2012. 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. 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 based on the determination of fair value on grant date, the estimated number of restricted shares or stock options to vest, and certain management estimates. The fair value of share based compensation is the estimated fair value on grant date calculated utilizing option pricing models, including estimates, assumptions and available market data. As such, the fair value determined on grant date and recognized as expense over the vesting period is not cash and the actual gains or losses realized on eventual vesting and exercise can vary materially from the fair value.

For the year ended December 31, 2013, 2.0 million stock options expired unexercised, 2.0 million stock options were exercised for cash consideration of approximately \$40,000, and 3.8 million new stock options were granted. Advantage stand-alone recognized \$5.2 million of compensation cost as non-cash G&A expense related to the amortization of the fair value of stock options granted over the vesting period.

Longview non-cash G&A expense is comprised of restricted shares and for the year ended December 31, 2013, no restricted shares were granted and \$0.3 million of compensation cost was recognized as non-cash G&A expense.

Depreciation Expense

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Depreciation expense (\$000)	\$ 27,882	\$ 26,453	5 %	\$ 111,188	\$ 132,175	(16) %
per boe	\$ 12.66	\$ 10.63	19 %	\$ 11.97	\$ 12.94	(7) %

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 the year ended December 31, 2013, depreciation expense has decreased compared to 2012 due to the reduced rate of depreciation per boe and lower production attributable to significant non-core property dispositions. The rate of depreciation per boe has decreased as Advantage ceased depreciation of assets held for sale in accordance with the requirements of IFRS (refer to the section “Non-core Asset Sales”).

Impairment of Assets Held for Sale

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% 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 Advantage assets held for sale were presented separately on the statement of financial position at December 31, 2012 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 year ended December 31, 2012. The sale of these assets has been completed (refer to the section “Non-core Asset Sales”).

Impairment of Oil and Gas Properties

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Impairment of oil and gas properties (\$000)	\$ -	\$ 31,865	(100) %	\$ -	\$ 31,865	(100) %

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.

Exploration and Evaluation Expense

(\$000)	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Exploration and evaluation expense	\$ 59	\$ 41	44 %	\$ 195	\$ 181	8 %

Exploration and evaluation expense represents exploration and evaluation costs related to undeveloped land that expired during the periods.

Interest on Bank Indebtedness

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Interest on bank indebtedness (\$000)	\$ 3,421	\$ 3,159	8 %	\$ 13,305	\$ 12,436	7 %
per boe	\$ 1.55	\$ 1.27	22 %	\$ 1.43	\$ 1.22	17 %
Average effective interest rate	5.1%	4.5%	0.6 %	5.0%	4.9%	0.1 %

Interest on bank indebtedness for 2013 has been slightly higher as compared to 2012 with a modest increase in effective interest rates and average bank indebtedness. Our consolidated bank indebtedness outstanding at the end of December 31, 2013 was \$271.3 million, a decrease of \$1.2 million from December 31, 2012, consisting of \$153.7 million and \$117.6 million for each of the legal entities Advantage and Longview, respectively. The Corporation's interest rates have increased due to the moderately higher debt to cash flow ratio as calculated pursuant to our Credit Facilities 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			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Interest on convertible debentures (\$000)	\$ 1,087	\$ 1,087	- %	\$ 4,313	\$ 4,313	- %
per boe	\$ 0.49	\$ 0.44	11 %	\$ 0.46	\$ 0.42	10 %
Accretion on convertible debentures (\$000)	\$ 843	\$ 808	4 %	\$ 3,346	\$ 3,218	4 %
per boe	\$ 0.38	\$ 0.32	19 %	\$ 0.36	\$ 0.31	16 %

Interest and accretion on convertible debentures for 2013 are comparable to 2012 as there have been no changes in our convertible debentures outstanding. We have \$86.2 million of 5% convertible debentures outstanding that are due to mature January 30, 2015.

Accretion on Decommissioning Liability

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Accretion on decommissioning liability (\$000)	\$ 840	\$ 1,613	(48) %	\$ 5,169	\$ 6,300	(18) %
per boe	\$ 0.38	\$ 0.65	(42) %	\$ 0.56	\$ 0.62	(10) %

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. 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 3.20% of the liability. The decommissioning liability has decreased significantly during 2013 primarily due to \$125.0 million derecognized attributable to non-core property dispositions and a \$37.9 million decrease in the net present value of the decommissioning liability due to an increase in the risk-free rate.

Other Income (Expense)

(\$000)	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Gain (loss) on sale of assets held for sale	\$ 505	\$ 5,476	(91) %	\$ (6,354)	\$ -	100 %
Gain (loss) on sale of property, plant and equipment	(1,800)	-	100 %	(1,800)	16,964	(111) %
Interest income - Questfire Debenture	492	-	100 %	1,312	-	100 %
Accretion income - Questfire Debenture	569	-	100 %	1,516	-	100 %
Unrealized loss - Questfire Class B Shares	(750)	-	100 %	(900)	-	100 %
Miscellaneous income	427	9	4,644 %	1,102	595	85 %
	\$ (557)	\$ 5,485	(110) %	\$ (5,124)	\$ 17,559	(129) %

On April 30, 2013, Advantage closed a disposition transaction with Questfire and consideration consisted of \$40.2 million of cash, the Questfire Debenture with a face value of \$32.6 million and 1.5 million Class B Shares of Questfire. As a result, Advantage has recognized a \$6.4 million loss on disposition as the fair value assigned to the consideration received was less than the carrying value of the assets held for sale. Advantage recognized \$1.3 million of interest income earned at a 6% interest rate on the Questfire Debenture. The fair value of the Questfire Debenture was based on a discounted cash flow model at a discount rate of 18% such that the fair value assigned of \$25.4 million was less than the face value. Advantage records accretion income each reporting period to increase the carrying value to the fair value by the maturity date and therefore recognized \$1.5 million of accretion income. The Class B Shares are recognized at fair value based on quoted trading prices and we recognized an unrealized loss of \$0.9 million associated with a decrease in the fair value since acquired.

During the fourth quarter of 2013, Longview disposed of a non-core property and recognized a loss of \$1.8 million as the consideration received was less than the carrying value of the assets.

Taxes

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2013, the Corporation recognized a deferred income tax expense of \$2.2 million as a result of the \$4.8 million net income before taxes and non-controlling interest. As at December 31, 2013, the Corporation had a deferred income tax asset balance of \$39.1 million and a deferred income tax liability balance of \$3.0 million.

Estimated Tax Pools

December 31, 2013

(\$ millions)

	<u>Advantage</u>	<u>Longview</u>	<u>Consolidated</u>
Canadian Development Expenses	\$ 140	\$ 50	\$ 190
Canadian Exploration Expenses	66	-	66
Canadian Oil and Gas Property Expenses	-	295	295
Non-capital losses	752	108	860
Undepreciated Capital Cost	161	62	223
Other	21	4	25
	\$ 1,140	\$ 519	\$ 1,659

Net Income Attributable to Non-Controlling Interest

At December 31, 2013, Advantage had a 45.1% ownership interest in Longview with the remaining 54.9% held by outside interests or non-controlling interests. As Advantage held the single largest ownership interest of Longview and other ownership interests were comparatively dispersed, Advantage was 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, 2013, Advantage recognized a \$6.0 million decrease to net income related to Longview's net income consolidated within Advantage's financial results but attributable to the non-controlling interests (December 31, 2012 – \$8.0 million increase to net income related to Longview's net loss consolidated within Advantage's financial results).

On February 4, 2014, Advantage entered into an agreement to sell its remaining 21,150,010 common shares of Longview at a price of \$4.45 per share. The offering closed on February 28, 2014 and Advantage received net proceeds of \$90.0 million, all of which were used to reduce existing bank indebtedness. Concurrent with closing, Advantage ceased to consolidate Longview. As a result, historical consolidated financial and operating performance may not be indicative of actual future performance.

Net Loss and Comprehensive Loss

	Three months ended			Year ended		
	December 31			December 31		
	2013	2012	% change	2013	2012	% change
Net loss and comprehensive loss (\$000)	\$ (5,403)	\$ (60,218)	(91) %	\$ (3,382)	\$ (89,125)	(96) %
per share - basic and diluted	\$ (0.03)	\$ (0.36)	(91) %	\$ (0.02)	\$ (0.53)	(96) %

Advantage's realized net loss for the year ended December 31, 2013, decreased \$85.7 million as compared to the same period of 2012. This improvement was primarily due to significantly higher funds from operations, less depreciation expense and no impairment losses, partially offset by losses recognized on non-core asset dispositions. Funds from operations have improved considerably during 2013 due to increases in commodity prices and continued lower royalties and operating costs. Depreciation expense has decreased due to the significant non-core gas weighted property dispositions that closed during the year. However, Advantage also recognized an \$8.2 million loss on the property dispositions as the fair value assigned to the consideration received was less than the carrying value of the assets. Advantage did not recognize any impairment losses during 2013, while in 2012 both Advantage and Longview recognized impairments that totaled \$104.9 million.

Cash Netbacks

	Three months ended December 31				Year ended December 31			
	2013		2012		2013		2012	
	\$000	per boe	\$000	per boe	\$000	per boe	\$000	per boe
Petroleum and natural gas sales	\$ 68,233	\$ 30.98	\$ 74,432	\$ 29.90	\$ 289,742	\$ 31.19	\$ 268,905	\$ 26.32
Royalties	(7,928)	(3.60)	(7,915)	(3.18)	(33,831)	(3.64)	(34,126)	(3.34)
Realized loss on derivatives	(208)	(0.09)	(1,488)	(0.60)	(3,936)	(0.42)	(970)	(0.09)
Operating expense	(14,305)	(6.50)	(22,196)	(8.92)	(66,314)	(7.14)	(89,229)	(8.73)
Operating income	45,792	20.79	42,833	17.20	185,661	19.99	144,580	14.16
General and administrative ⁽¹⁾	(4,641)	(2.11)	(6,067)	(2.44)	(21,952)	(2.36)	(20,960)	(2.05)
Finance expense ⁽²⁾	(4,508)	(2.04)	(4,246)	(1.71)	(17,618)	(1.89)	(16,749)	(1.64)
Other income ⁽³⁾	919	0.41	9	-	2,414	0.26	595	0.06
Funds from operations and cash netbacks	\$ 37,562	\$ 17.05	\$ 32,529	\$ 13.05	\$ 148,505	\$ 16.00	\$ 107,466	\$ 10.53

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

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

(3) Other income excludes non-cash other income.

For the three months ended December 31, 2013, Advantage realized an increase of 15% in funds from operations to \$37.6 million and an increase of 31% in cash netbacks to \$17.05 per boe, as compared to the fourth quarter of 2012. For the year ended December 31, 2013, Advantage realized an increase of 38% in funds from operations to \$148.5 million and an increase of 52% in cash netbacks to \$16.00 per boe, as compared to 2012. The increased funds from operations and cash netbacks have been primarily attributable to significantly improved commodity prices and partially offset by lower production due to non-core asset dispositions. Realized natural gas prices, excluding hedging, increased 9% for the three months and 41% for the year ended December 31, 2013, as compared to the same periods of 2012.

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.

(\$ millions)	Payments due by period		
	Total	2014	2015
Building leases	\$ 1.5	\$ 1.5	\$ -
Pipeline/transportation	13.1	11.8	1.3
Bank indebtedness ⁽¹⁾			
- principal	272.5	-	272.5
- interest	20.1	13.6	6.5
Convertible debentures ⁽²⁾			
- principal	86.2	-	86.2
- interest	6.4	4.3	2.1
Total contractual obligations	\$ 399.8	\$ 31.2	\$ 368.6

- (1) As at December 31, 2013, the Corporation's bank indebtedness was governed by credit facility agreements for each of Advantage and Longview with a syndicate of financial institutions. Under the terms of the agreements, the facilities are reviewed annually, with the next reviews scheduled in June 2014. 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. On disposition of Advantage's investment in Longview on February 28, 2014, there is only one credit facility agreement remaining for Advantage (refer to the section "Consolidation of Longview Oil Corp").
- (2) As at December 31, 2013, 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:

(\$000, except as otherwise indicated)	December 31, 2013		
	Advantage	Longview	Consolidated
Bank indebtedness (non-current)	\$ 153,697	\$ 117,642	\$ 271,339
Working capital deficit ⁽¹⁾	49,034	9,486	58,520
Net debt	202,731	127,128	329,859
Convertible debentures maturity value (non-current)	86,250	-	86,250
Total debt	\$ 288,981	\$ 127,128	\$ 416,109
Shares outstanding	168,382,838	46,928,094	
Shares closing market price (\$/share)	\$ 4.61	\$ 4.81	
Market capitalization ⁽²⁾	\$ 776,245	\$ 225,724	

- (1) Working capital deficit is a non-GAAP measure that includes trade and other receivables, prepaid expenses and deposits, and trade and other accrued liabilities.
- (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 investments. 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. In order to strengthen our financial position and balance our cash flows, Advantage has systematically disposed of substantially all non-core assets including its investment in the common shares of Longview. The net cash proceeds from all disposition transactions were used to reduce outstanding bank indebtedness. Advantage is now a pure play company focused on our signature Glacier Montney property. We will continue to be very cognizant of improving our financial flexibility in the current environment.

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, 2013, Advantage had 168.4 million common shares outstanding and there were no changes in share capital during the year ended December 31, 2013. As at March 27, 2014, Advantage had 169.1 million common shares outstanding.

The Corporation had \$86.2 million of 5.00% convertible debentures outstanding at December 31, 2013 that were convertible to 10.0 million common shares based on the applicable conversion price and will mature in January 2015 (December 31, 2012 - \$86.2 million outstanding and convertible to 10.0 million common shares). 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, 2013, Advantage had consolidated bank indebtedness outstanding of \$271.3 million consisting of \$153.7 million and \$117.6 million for each of the legal entities Advantage and Longview, respectively. Bank indebtedness has decreased \$1.2 million since December 31, 2012. On October 24, 2013, Advantage announced an increase in the credit facility borrowing base from \$230 million to \$300 million which combined with Longview's existing \$200 million borrowing base resulted in a consolidated borrowing base of \$500 million as at December 31, 2013 (the "Credit Facilities"). Advantage's 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 2014. There can be no assurance that the credit facilities will be renewed at the current borrowing base levels at that time. On disposition of Advantage's investment in Longview on February 28, 2014, Advantage received net proceeds of \$90.0 million that was used to reduce existing bank indebtedness, and there is only one credit facility agreement remaining for Advantage (refer to the section "Consolidation of Longview Oil Corp")

Advantage had a consolidated working capital deficiency of \$58.5 million as at December 31, 2013. Our working capital includes items expected for normal operations such as trade receivables, prepaids, deposits, and trade payables and accruals. 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. Our working capital is normally in a deficit position due to our continuing capital development activities. The working capital deficit has increased as at December 31, 2013 in conjunction with commencement of our Phase VI capital development program at Glacier to increase production to 135 mmcf/d. We do not anticipate any problems in satisfying working capital deficit and meeting future obligations as they become due as they can be satisfied with funds from operations, our available Credit Facilities, or proceeds from sale of investments.

Non-Controlling Interest

On completion of Longview's initial public offering on April 14, 2011, Advantage owned 29,450,010 common shares of Longview representing a 63% equity ownership with the remaining 37% equity ownership held by outside interests or non-controlling interests. On May 22, 2012, Advantage sold 8,300,000 Longview common shares to a syndicate of underwriters at a price of \$9.00 per common share for gross proceeds of \$74.7 million. At December 31, 2013, Advantage owned 21,150,010 common shares of Longview, representing an interest of approximately 45.1% in Longview. As Advantage held the single largest ownership interest of Longview at December 31, 2013 and other ownership interests were comparatively dispersed, Advantage was considered to control Longview. As such, Advantage's consolidated financial statements at December 31, 2013 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 was continually adjusted for the independent shareholders' share of Longview's net income or loss that was consolidated within Advantage's financial results and reduced for dividends declared by Longview to the independent shareholders. Therefore, for the year ended December 31, 2013, Advantage recognized a \$6.0 million decrease to net income related to Longview's net income consolidated within Advantage's financial results but attributable to the non-controlling interests. This \$6.0 million increased non-controlling interest on the statement of financial position with a decrease of \$15.2 million related to dividends declared by Longview to the non-controlling interest ownership.

On February 4, 2014, Advantage entered into an agreement to sell its remaining 21,150,010 common shares of Longview at a price of \$4.45 per share. The offering closed on February 28, 2014 and Advantage received net proceeds of \$90.0 million, all of which were used to reduce existing bank indebtedness. Concurrent with closing, Advantage ceased to consolidate Longview.

Capital Expenditures

(\$000)	Three months ended		Year ended	
	December 31		December 31	
	2013	2012	2013	2012
Drilling, completions and workovers	\$ 72,043	\$ 40,792	\$ 162,703	\$ 134,630
Well equipping and facilities	7,991	6,508	26,204	39,281
Land and seismic	31	(65)	55	-
Other	79	-	79	773
Expenditures on property, plant and equipment	80,144	47,235	189,041	174,684
Expenditures on exploration and evaluation assets	188	377	6,977	377
Proceeds from property dispositions ⁽¹⁾	(2,457)	(2,996)	(54,855)	(13,967)
Net capital expenditures⁽²⁾	\$ 77,875	\$ 44,616	\$ 141,163	\$ 161,094

(1) Proceeds from property dispositions represents the net cash proceeds and excludes all other forms of consideration.

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

The Advantage legal entity spent \$148.5 million on property, plant and equipment for the year ended December 31, 2013, substantially all of which was incurred at Glacier. Advantage continues to focus on development of our Montney natural gas resource play at Glacier, Alberta where we will continue to employ a phased development approach. During the first quarter of 2013, we finished our Phase V capital program with an inventory of wells that maintained average daily production from Glacier for the 2013 year at 105 mmcf/d, an increase of 14% from the prior year due to continued strong well performance and development. Our Phase VI Glacier capital program commenced in the third quarter of 2013 with three drilling rigs and in early March 2014 Glacier production reached the 135 mmcf/d target approximately one month ahead of schedule. Nine new wells from Advantage's Glacier Phase VI program were brought on production to initially ramp production to 135 mmcf/d with the remaining 13 new wells from our Phase VI program expected to provide sufficient production inventory to maintain production at 135 mmcf/d through to the end of 2014. Additionally, Advantage has spent \$6.7 million on exploration and evaluation assets to acquire an additional 43.25 sections (27,680 acres) of 100% working interest Montney lands. These lands are located southeast of Glacier in a fairway that we believe is prospective for Middle Montney natural gas liquids. These land parcels are held under licenses which will not expire until September 2017 and can be extended for an additional five years with the drilling of two horizontal wells. These lands can also be continued indefinitely under production. Our total acreage position in the Montney has increased to 125.65 gross (120.35 net) sections.

For the year ended December 31, 2013, Longview spent \$40.6 million on property, plant and equipment and exploration and evaluation assets which included \$27.0 million in Saskatchewan, \$5.8 million at Sunset, \$3.2 million at Nevis, and \$1.7 million at Westeros, with the remaining spending for miscellaneous projects. Longview drilled a total of 18.1 net (24 gross) wells at a 95% success rate, adding production of 1,738 boe/d (89% light oil). Consistent with their business strategy, Longview developed and executed a sustainable and balanced 2013 budget that preserved a strong balance sheet and utilized funds from operations to maintain their dividend policy and fund substantially all of their capital expenditures. Longview's 2014 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. In addition, they plan on continuing to advance their waterflood projects in Alberta through further enhancement of injection facilities in preparation for future in-fill drilling programs.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the years ended December 31, 2013 and 2012 and the sources of funding to meet those requirements:

(\$000)	Year ended December 31	
	2013	2012
Sources of funds		
Funds from operations	\$ 148,505	\$ 107,466
Property dispositions	54,855	13,967
Change in non-cash working capital and other	14,657	-
Proceeds from Longview financing	-	71,563
Increase in bank indebtedness	-	40,268
	\$ 218,017	\$ 233,264
Uses of funds		
Expenditures on property, plant and equipment	\$ 189,041	\$ 174,684
Dividends declared by Longview to non-controlling interest	15,191	13,735
Expenditures on exploration and evaluation assets	6,977	377
Expenditures on decommissioning liability	5,158	2,395
Decrease in bank indebtedness	1,650	-
Change in non-cash working capital and other	-	42,073
	\$ 218,017	\$ 233,264

Funds from operations have increased primarily attributable to significantly improved commodity prices and partially offset by lower production due to non-core asset dispositions. The funds from operations and \$54.9 million in net cash proceeds from the non-core asset dispositions were primarily used to fund capital expenditures during the current year. Bank indebtedness was relatively unchanged during 2013 and 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, 2013	Year ended Dec. 31, 2012	Year ended Dec. 31, 2011
Total sales (before royalties) (\$000)	\$ 289,742	\$ 268,905	\$ 355,288
Net loss (\$000)	\$ (3,382)	\$ (89,125)	\$ (152,772)
per share - basic and diluted	\$ (0.02)	\$ (0.53)	\$ (0.92)
Total assets (\$000)	\$ 1,765,244	\$ 1,913,796	\$ 1,972,789
Long term financial liabilities (\$000) ⁽¹⁾	\$ 353,793	\$ 351,619	\$ 308,574

⁽¹⁾ Long term financial liabilities exclude derivative liability, decommissioning liability and deferred income tax liability.

Quarterly Performance

(\$000, except as otherwise indicated)	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Daily production								
Natural gas (mcf/d)	114,763	118,875	123,843	127,398	125,455	126,606	132,411	139,664
Crude oil and NGLs (bbls/d)	4,811	4,738	5,366	6,127	6,148	5,724	5,880	6,582
Total (boe/d)	23,938	24,551	26,007	27,360	27,057	26,825	27,949	29,859
Average prices								
Natural gas (\$/mcf)								
Excluding hedging	\$ 3.25	\$ 2.47	\$ 3.48	\$ 3.00	\$ 2.97	\$ 2.07	\$ 1.65	\$ 2.02
Including hedging	\$ 3.41	\$ 2.62	\$ 3.37	\$ 3.05	\$ 2.75	\$ 2.07	\$ 1.67	\$ 2.02
AECO daily index	\$ 3.52	\$ 2.45	\$ 3.55	\$ 3.20	\$ 3.22	\$ 2.28	\$ 1.90	\$ 2.17
Crude oil and NGLs (\$/bbl)								
Excluding hedging	\$ 76.75	\$ 93.52	\$ 80.35	\$ 74.18	\$ 70.94	\$ 72.07	\$ 70.97	\$ 81.48
Including hedging	\$ 72.31	\$ 85.82	\$ 78.57	\$ 73.12	\$ 72.94	\$ 73.06	\$ 71.73	\$ 80.41
WTI (\$US/bbl)	\$ 97.50	\$ 105.82	\$ 94.23	\$ 94.34	\$ 88.20	\$ 92.19	\$ 93.51	\$ 102.94
Total sales including realized hedging	\$ 68,025	\$ 66,091	\$ 76,363	\$ 75,327	\$ 72,944	\$ 62,615	\$ 58,526	\$ 73,850
Net income (loss)	\$ (5,403)	\$ (1,342)	\$ 8,342	\$ (4,979)	\$ (60,218)	\$ (2,769)	\$ (15,579)	\$ (10,559)
per share - basic	\$ (0.03)	\$ (0.01)	\$ 0.05	\$ (0.03)	\$ (0.36)	\$ (0.02)	\$ (0.10)	\$ (0.06)
- diluted	\$ (0.03)	\$ (0.01)	\$ 0.05	\$ (0.03)	\$ (0.36)	\$ (0.02)	\$ (0.10)	\$ (0.06)
Funds from operations	\$ 37,562	\$ 34,475	\$ 40,171	\$ 36,297	\$ 32,529	\$ 24,703	\$ 18,243	\$ 31,991

The table above highlights the Corporation's performance for the fourth quarter of 2013 and also for the preceding seven quarters. 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. Wet weather delayed our Glacier capital program that resumed in September 2012 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 2012 and first quarter 2013 production. Production decreased in the second and third quarters of 2013 as we completed our final significant non-core asset disposition on April 30, 2013.

During the third quarter of 2013, sales and funds from operations decreased due to a temporary collapse in AECO prices that impacted the entire Alberta natural gas industry attributable to a significant increase in the TransCanada interruptible tolls for the transportation of natural gas from Alberta. This situation improved in the fourth quarter of 2013 with higher AECO prices for the new natural gas contract year that began November 1, 2013.

Advantage has generally recognized 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 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.

Changes in Accounting Policies

The Corporation has adopted, as required, the following new and revised standards along with any consequential amendments, effective January 1, 2013.

IFRS 10 Consolidated Financial Statements

IFRS 10 is a new standard that has replaced SIC 12, "Consolidation – Special Purpose Entities" and IAS 27 "Consolidated and Separate Financial Statements". The new standard eliminates the risks and rewards approach and establishes control as the single basis for determining the consolidation of an entity. We have determined that the new standard has no effect on the 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.

IFRS 11 – Joint Arrangements, IAS 28 – Investments in Associates and Joint Ventures

IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities, Non-Monetary Contributions by Ventures and requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation depending on the contractual rights and obligations of the parties that jointly controls the arrangement. Joint ventures will be accounted for using the equity method of accounting as set out in IAS 28 whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses. The Corporation determined all of its joint arrangements to be joint operations as defined in IFRS 11 and that the adoption and application of these standards did not result in any changes in the accounting for joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 provides the required disclosures for interests in subsidiaries, investees and joint arrangements. These disclosures 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. The adoption of this standard did not result in any changes or additions to existing disclosures with respect to Questfire Energy Corp, an investee, or the Corporation's interests in joint arrangements. With respect to Longview Oil Corp., a subsidiary, the Corporation has disclosed dividends paid to non-controlling interests as well as summarized information about the assets, liabilities, profit or loss and cash flows of Longview Oil Corp., in order to assist readers in understanding the interest that non-controlling interests have in the Corporation's activities and cash flows in note 27 of the consolidated financial statements.

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. The adoption of this standard did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

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. The adoption of this standard did not result in any changes or additions to existing disclosures.

IAS 36 Impairment of Assets

In May 2013, the IASB issued an amendment to IAS 36, Impairment of Assets. The amendment removes certain disclosures of the recoverable amount of a CGU. The amendment is effective retrospectively for annual periods beginning on or after January 1, 2014. As allowed by the standard, the Corporation early adopted the amendment in the current period. No additional disclosures were required as a result of this early adoption.

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.

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, 2013. 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, 2013, 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, 2013. 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, 2013 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.

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 27, 2014

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, 2013 and 2012, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years ended December 31, 2013 and 2012. The external auditors conducted their audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have unlimited and unrestricted access to the Audit Committee.



Andy J. Mah
President and Chief Executive Officer
March 27, 2014



Craig Blackwood
Vice President Finance and Chief Financial Officer

Management's Report on Internal Control over Financial Reporting

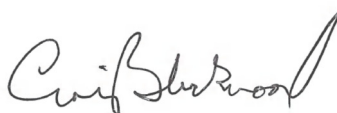
The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. Under the supervision of 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, 2013, 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, 2013, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinion.



Andy J. Mah
President and Chief Executive Officer
March 27, 2014



Craig Blackwood
Vice President Finance and Chief Financial Officer



March 27, 2014

Independent Auditor's Report

To the Shareholders of Advantage Oil & Gas Ltd.

We have completed integrated audits of Advantage Oil & Gas Ltd.'s 2013 and 2012 consolidated financial statements and its internal control over financial reporting as at December 31, 2013. 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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 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, 2013, based on criteria established in Internal Control - Integrated Framework (1992), 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, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by COSO.

PricewaterhouseCoopers LLP

Chartered Accountants

Calgary, Alberta

March 27, 2014

Consolidated Statement of Financial Position

(thousands of Canadian dollars)

	Notes	December 31, 2013	December 31, 2012
ASSETS			
Current assets			
Trade and other receivables	6	\$ 32,016	\$ 32,657
Prepaid expenses and deposits		3,357	5,143
Derivative asset	12	143	2,186
Assets held for sale	5	-	222,877
Total current assets		35,516	262,863
Non-current assets			
Derivative asset	12	2,329	-
Investment - Questfire Class B Shares	8	3,750	-
Investment - Questfire Debenture	9	26,876	-
Exploration and evaluation assets	7	10,270	2,381
Property, plant and equipment	10	1,647,434	1,605,659
Deferred income tax asset	16	39,069	42,893
Total non-current assets		1,729,728	1,650,933
Total assets		\$ 1,765,244	\$ 1,913,796
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		\$ 93,893	\$ 84,979
Derivative liability	12	8,340	1,096
Liabilities associated with assets held for sale	5	-	136,540
Total current liabilities		102,233	222,615
Non-current liabilities			
Derivative liability	12	1,183	-
Bank indebtedness	13	271,339	272,511
Convertible debenture	14	82,454	79,108
Decommissioning liability	15	100,616	126,224
Deferred income tax liability	16	3,006	4,628
Total non-current liabilities		458,598	482,471
Total liabilities		560,831	705,086
SHAREHOLDERS' EQUITY			
Share capital	17	2,229,598	2,229,598
Convertible debentures equity component	14	8,348	8,348
Contributed surplus		92,276	84,962
Deficit		(1,255,588)	(1,252,206)
Total shareholders' equity attributable to Advantage shareholders		1,074,634	1,070,702
Non-controlling interest		129,779	138,008
Total shareholders' equity		1,204,413	1,208,710
Total liabilities and shareholders' equity		\$ 1,765,244	\$ 1,913,796

Commitments (note 25)

Subsequent events (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, 2013	Year ended December 31, 2012
Petroleum and natural gas sales	20	\$ 289,742	\$ 268,905
Less: royalties		(33,831)	(34,126)
Petroleum and natural gas revenue		255,911	234,779
Operating expense		(66,314)	(89,229)
General and administrative expense	21	(27,408)	(28,180)
Depreciation expense	10	(111,188)	(132,175)
Impairment of assets held for sale	5	-	(73,000)
Impairment of oil and gas properties	10	-	(31,865)
Exploration and evaluation expense	7	(195)	(181)
Finance expense	22	(26,133)	(26,299)
Gains (losses) on derivatives	12	(14,748)	2,858
Other income (expenses)	23	(5,124)	17,559
Income (loss) before taxes and non-controlling interest		4,801	(125,733)
Income tax recovery (expense)	16	(2,202)	28,605
Net income (loss) and comprehensive income (loss) before non-controlling interest		2,599	(97,128)
Net (income) loss attributable to non-controlling interest		(5,981)	8,003
Net loss and comprehensive loss attributable to Advantage shareholders		\$ (3,382)	\$ (89,125)
Net loss per share attributable to Advantage shareholders	19		
Basic		\$ (0.02)	\$ (0.53)
Diluted		\$ (0.02)	\$ (0.53)

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, 2012		\$ 2,229,598	\$ 8,348	\$ 84,962	\$ (1,252,206)	\$ 1,070,702	\$ 138,008	\$ 1,208,710
Net loss and comprehensive loss		-	-	-	(3,382)	(3,382)	5,981	2,599
Share based compensation	17, 18	-	-	7,314	-	7,314	-	7,314
Change in ownership interest, share based compensation		-	-	-	-	-	981	981
Dividends declared by Longview (\$0.59 per Longview share)		-	-	-	-	-	(15,191)	(15,191)
Balance, December 31, 2013		\$ 2,229,598	\$ 8,348	\$ 92,276	\$ (1,255,588)	\$ 1,074,634	\$ 129,779	\$ 1,204,413
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	17, 18	14,814	-	(6,671)	-	8,143	-	8,143
Change in ownership interest, sale of 8,300,000 shares of Longview		-	-	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

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Notes	Year ended December 31, 2013	Year ended December 31, 2012
Operating Activities			
Income (loss) before taxes and non-controlling interest		\$ 4,801	\$ (125,733)
Add (deduct) items not requiring cash:			
Share based compensation	18	5,456	7,220
Depreciation expense	10	111,188	132,175
Impairment of assets held for sale	5	-	73,000
Impairment of oil and gas properties	10	-	31,865
Exploration and evaluation expense	7	195	181
Unrealized loss (gain) on derivatives	12	10,812	(3,828)
(Gain) loss on sale of property, plant and equipment	10, 23	1,800	(16,964)
Loss on sale of assets held for sale	5, 23	6,354	-
Unrealized loss - Questfire Class B Shares	8, 23	900	-
Accretion income - Questfire Debenture	9, 23	(1,516)	-
Finance expense	22	26,133	26,299
Expenditures on decommissioning liability	5, 15	(5,158)	(2,395)
Changes in non-cash working capital	24	4,052	(14,864)
Cash provided by operating activities		165,017	106,956
Financing Activities			
Proceeds from sale of shares in Longview		-	71,563
Increase (decrease) in bank indebtedness	13	(1,650)	40,268
Dividends paid by Longview		(15,443)	(13,318)
Interest paid		(17,140)	(17,190)
Cash provided by (used in) financing activities		(34,233)	81,323
Investing Activities			
Expenditures on property, plant and equipment	10, 24	(179,265)	(201,429)
Expenditures on exploration and evaluation assets	7	(6,977)	(377)
Property dispositions		55,458	13,527
Cash used in investing activities		(130,784)	(188,279)
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, 2013 and 2012

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 300, 440 – 2nd 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 consolidated 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 consolidated financial statements are based on IFRS issued and outstanding as of March 27, 2014, 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 12.

(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. The only significant operating subsidiary is Longview Oil Corp. (“Longview”), a public Canadian corporation that is a junior oil-focused development and production company with properties located in Western Canada. Advantage owns 45.1% of the common shares of Longview at December 31, 2013. Because the remaining ownership is dispersed, Advantage is considered to control Longview. Therefore, Longview is accounted for on a consolidated basis in these financial statements. The remaining 54.9% 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 is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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 arrangements

A significant portion of the Corporation's oil and natural gas activities involve joint operations. The consolidated financial statements include the Corporation's share of these joint operations 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 assets and 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.

On April 30, 2013, Advantage completed the sale of substantially all non-core assets (see note 5). Proceeds received consisted of cash and non-cash consideration. The Questfire Class B Shares have been classified as financial assets at fair value through profit or loss. The Questfire Debenture has been classified as financial assets at amortized cost.

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 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.

3. Significant accounting policies (continued)

(p) Changes in accounting policies

The Corporation has adopted, as required, the following new and revised standards along with any consequential amendments, effective January 1, 2013.

IFRS 10 Consolidated Financial Statements

IFRS 10 is a new standard that has replaced SIC 12, “Consolidation – Special Purpose Entities” and IAS 27 “Consolidated and Separate Financial Statements”. The new standard eliminates the risks and rewards approach and establishes control as the single basis for determining the consolidation of an entity. We have determined that the new standard has no effect on the 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.

IFRS 11 – Joint Arrangements, IAS 28 – Investments in Associates and Joint Ventures

IFRS 11 supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities, Non-Monetary Contributions by Ventures and requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation depending on the contractual rights and obligations of the parties that jointly controls the arrangement. Joint ventures will be accounted for using the equity method of accounting as set out in IAS 28 whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses. The Corporation determined all of its joint arrangements to be joint operations as defined in IFRS 11 and that the adoption and application of these standards did not result in any changes in the accounting for joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 provides the required disclosures for interests in subsidiaries, investees and joint arrangements. These disclosures 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. The adoption of this standard did not result in any changes or additions to existing disclosures with respect to Questfire Energy Corp, an investee, or the Corporation’s interests in joint arrangements. With respect to Longview Oil Corp., a subsidiary, the Corporation has disclosed dividends paid to non-controlling interests as well as summarized information about the assets, liabilities, profit or loss and cash flows of Longview Oil Corp., in order to assist readers in understanding the interest that non-controlling interests have in the Corporation’s activities and cash flows in note 26.

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. The adoption of this standard did not require any adjustments to the valuation techniques used by the Corporation to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

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. The adoption of this standard did not result in any changes or additions to existing disclosures.

IAS 36 Impairment of Assets

In May 2013, the IASB issued an amendment to IAS 36, Impairment of Assets. The amendment removes certain disclosures of the recoverable amount of a CGU. The amendment is effective retrospectively for annual periods beginning on or after January 1, 2014. As allowed by the standard, the Corporation early adopted the amendment in the current period. No additional disclosures were required as a result of this early adoption.

3. Significant accounting policies (continued)

(q) 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.

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 12 – valuation of financial instruments;
- Note 5 – valuation and impairment of assets held for sale;
- Note 10 – valuation of property, plant and equipment;
- Note 7 & 10 – impairment of exploration and evaluation assets and property, plant and equipment;
- Note 9, 12 & 14 – valuation of convertible debentures;
- Note 15 – measurement of decommissioning liability;
- Note 16 – measurement of deferred income tax; and
- Note 18 – 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, 2013, Advantage controls 45.1% 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 7).

(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 7 & 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. Assets held for sale

On February 5, 2013, Advantage announced that it had signed a definitive agreement (the “Transaction”) with Questfire Energy Corp. (“Questfire”) for the sale of certain oil and gas properties. The Transaction closed on April 30, 2013. The Transaction, along with another minor sale that closed in January 2013, constituted the sale of substantially all of the non-core assets of the Advantage legal entity. All Advantage legal entity assets and associated liabilities presented as held for sale at December 31, 2012 have been derecognized from the Consolidated Statement of Financial Position. Consideration received by Advantage from Questfire consisted of \$40.2 million of cash, a Convertible Senior Secured Debenture (“Questfire Debenture”) with a face value of \$32.6 million and a fair value of \$25.4 million at closing based on an 18% discount rate applied to future cash flows, and 1.5 million Class B Shares of Questfire (“Questfire Class B Shares”) with a fair value of \$4.7 million at closing.

The following table provides detail of the assets and liabilities classified as held for sale as at December 31, 2013:

Assets held for sale	
Balance at December 31, 2011	\$ -
Transferred from property, plant and equipment - cost (note 10)	581,444
Transferred from property, plant and equipment - accumulated depreciation and impairment losses (note 10)	(288,694)
Transferred from exploration and evaluation assets (note 7)	3,127
Impairment of assets held for sale	(73,000)
Balance at December 31, 2012	\$ 222,877
Additions	590
Change in decommissioning liability	(5,483)
Disposals	(216,731)
Transferred to exploration and evaluation assets (note 7)	(1,253)
Balance at December 31, 2013	\$ -
Liabilities associated with assets held for sale	
Balance at December 31, 2011	\$ -
Transferred from decommissioning liability (note 15)	136,540
Balance at December 31, 2012	\$ 136,540
Change in decommissioning liability	(5,483)
Accretion - decommissioning liability	582
Expenditures on decommissioning liability	(2,060)
Transferred from derivative liability	2,671
Disposals - decommissioning liability and derivative liability	(127,541)
Transferred to decommissioning liability (note 15)	(4,709)
Balance at December 31, 2013	\$ -

For the year ended December 31, 2013, Advantage realized a loss on sale of assets held for sale of \$6.4 million.

6. Trade and other receivables

	December 31, 2013	December 31, 2012
Trade receivables	\$ 26,317	\$ 26,154
Receivables from joint venture partners	4,204	5,708
Other	1,495	795
	\$ 32,016	\$ 32,657

7. Exploration and evaluation assets

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 5)	(3,127)
Balance at December 31, 2012	\$ 2,381
Additions	6,977
Dispositions	-
Exploration and evaluation expense	(195)
Transferred from assets held for sale (note 5)	1,253
Transferred to property, plant and equipment (note 10)	(146)
Balance at December 31, 2013	\$ 10,270

8. Investment – Questfire Energy Corp. – Class B Shares

Advantage received as proceeds of the Transaction (note 5), 1,500,000 Questfire Class B Shares. The Questfire Class B Shares are convertible at the option of Questfire any time after September 30, 2014, into a number of Class A Shares of Questfire (“Questfire Class A Shares”) equal to \$10.00 divided by the greater of \$1.00 and the then current market price of Questfire Class A Shares. The Questfire Class B Shares are convertible at the option of Advantage any time after November 30, 2016 on the same basis.

9. Investment – Questfire Energy Corp. – Convertible Senior Secured Debenture

Advantage received as proceeds of the Transaction (note 5), a Convertible Senior Secured Debenture of Questfire with a face value of \$32.6 million. The terms of the Questfire Debenture are defined in the Indenture Agreement (the “Indenture”): The Debenture bears interest at a rate of 6.0% per annum from April 30, 2013 to April 30, 2014, 7% per annum from May 1, 2014 to April 30, 2015, and 9% per annum from May 1, 2015 to maturity on April 30, 2016. The Questfire Debenture only becomes convertible at the option of Advantage for 30 days after any of the following events: October 31, 2015; April 1, 2016; a default by Questfire as defined in the Indenture; any conversion of Questfire Class B Shares into Questfire Class A Shares effected by Questfire; a change of control of Questfire as defined in the Indenture; the election by Questfire to satisfy an interest payment in Questfire Class A Shares in accordance with terms defined in the Indenture. If converted, the Questfire Debenture will be converted into Questfire Class A Shares at the then current market price of the latter.

10. Property, plant and equipment

Cost	Oil & gas properties	Furniture and equipment	Total
Balance at December 31, 2011	\$ 2,352,639	\$ 4,467	\$ 2,357,106
Additions	173,911	773	174,684
Change in decommissioning liability (note 15)	11,095	-	11,095
Disposals	(6,443)	-	(6,443)
Transferred from exploration and evaluation assets (note 7)	2,305	-	2,305
Transferred to assets held for sale (note 5)	(581,444)	-	(581,444)
Balance at December 31, 2012	\$ 1,952,063	\$ 5,240	\$ 1,957,303
Additions	188,451	-	188,451
Change in decommissioning liability (note 15)	(30,387)	-	(30,387)
Disposals	(5,876)	-	(5,876)
Transferred from exploration and evaluation assets (note 7)	146	-	146
Balance at December 31, 2013	\$ 2,104,397	\$ 5,240	\$ 2,109,637

Accumulated depreciation and impairment losses	Oil & gas properties	Furniture and equipment	Total
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 5)	(288,694)	-	(288,694)
Balance at December 31, 2012	\$ 349,092	\$ 2,552	\$ 351,644
Depreciation	110,650	538	111,188
Disposals	(629)	-	(629)
Balance at December 31, 2013	\$ 459,113	\$ 3,090	\$ 462,203

Net book value	Oil & gas properties	Furniture and equipment	Total
At December 31, 2012	\$ 1,602,971	\$ 2,688	\$ 1,605,659
At December 31, 2013	\$ 1,645,284	\$ 2,150	\$ 1,647,434

During the year ended December 31, 2013, Advantage capitalized general and administrative expenditures directly related to development activities of \$11.7 million (December 31, 2012 - \$6.7 million).

Advantage included future development costs of \$2.1 billion (December 31, 2012 – \$1.8 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%.

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.

10. Property, plant and equipment (continued)

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

11. Related party transactions

Transactions between Advantage and Longview

At December 31, 2013 and 2012, Advantage and Longview were bound by a Technical Services Agreement (“TSA”). 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, 2013, amounts due from Longview totaled \$1.4 million (December 31, 2012 - \$2.2 million). Advantage charged Longview \$5.2 million during the year ended December 31, 2013 (December 31, 2012 - \$5.3 million) under the Technical Services Agreement (“TSA”). Dividends declared and paid or payable from Longview to Advantage during the year ended December 31, 2013 totaled \$12.5 million (December 31, 2012 - \$14.4 million). All amounts due to and from Longview are non-interest bearing in nature, 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 on consolidation.

Key management compensation

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

	December 31, 2013	December 31, 2012
Salaries, director fees and short-term benefits	\$ 5,916	\$ 3,881
Share based compensation ⁽¹⁾	1,180	5,088
	<u>\$ 7,096</u>	<u>\$ 8,969</u>

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

As at December 31, 2013, there is a \$1.9 million commitment (December 31, 2012 - \$3.5 million) related to change of control or termination of employment of officers.

12. Financial risk management

Financial instruments of the Corporation include trade and other receivables, deposits, investment in Questfire Class B Shares, investment in Questfire Debenture, trade and other accrued liabilities, bank indebtedness, convertible debentures 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 and bank indebtedness are all classified as financial liabilities at amortized cost. As at December 31, 2013, 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 Questfire Debenture has been classified as a financial asset at amortized cost. As at December 31, 2013, there was no significant difference between the carrying amount reported on the Consolidated Statement of Financial Position and the estimated fair value of the financial asset. No value was assigned to the conversion option, due to its restrictions and short term to maturity.

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 resulting in fair values that will vary over time as market conditions change. As at December 31, 2013, the estimated fair value of the outstanding convertible debenture obligation was \$86.7 million (December 31, 2012 - \$86.0 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. Financial assets measured at fair value based on a level 1 input consist solely of the investment in Questfire Class B Shares, using a quoted market price. The Corporation does not have any financial 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 assets and liabilities measured at fair value on a recurring basis, such as 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.

12. 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, oil and natural gas marketers, companies with whom we enter into hedging contracts, and Questfire. The maximum exposure to credit risk is as follows:

	December 31, 2013	December 31, 2012
Trade and other receivables	\$ 32,016	\$ 32,657
Deposits	1,548	2,780
Derivative asset	2,472	2,186
Questfire debenture	26,876	-
	\$ 62,912	\$ 37,623

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, 2013, \$0.9 million or 2.9% of trade and other receivables are outstanding for 90 days or more (December 31, 2012 - \$0.7 million or 2.2% 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, 2013 or 2012.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for \$13.0 million of the trade and other receivables at December 31, 2013 (December 31, 2012 - \$12.6 million).

12. 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, 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 mitigate 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 14). 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, 2013 and 2012 are as follows:

December 31, 2013	Less than one year	One to three years	Three to five years	Thereafter	Total
Trade and other accrued liabilities	\$ 93,893	\$ -	\$ -	\$ -	\$ 93,893
Derivative liability	8,340	1,183	-	-	9,523
Bank indebtedness - principal	-	272,521	-	-	272,521
- interest	13,626	6,496	-	-	20,122
Convertible debentures - principal	-	86,250	-	-	86,250
- interest	4,313	2,156	-	-	6,469
	\$ 120,172	\$ 368,606	\$ -	\$ -	\$ 488,778

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

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.

12. 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 13). Under the terms of the agreements, the facilities are reviewed annually, with the next reviews scheduled in June 2014. 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, 2013 would result in a \$2.5 million change in net loss for the year ended December 31, 2013. 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, 2013 would result in a \$13.6 million change in net loss for the year ended December 31, 2013.

As at December 31, 2013, the Corporation's hedging positions are summarized as follows:

Natural gas - AECO

Period	Average Production Hedged	Average Price AECO - \$Cdn.
Q1 2014 to Q4 2014	60.2 mmcf/d	\$3.81/mcf
Q1 2015 to Q4 2015	59.2 mmcf/d	\$3.86/mcf
Q1 2016	42.7 mmcf/d	\$3.90/mcf

Crude oil – WTI

Period	Average Production Hedged	Average Price WTI - \$Cdn.
Q1 2014 to Q4 2014	2,000 bbls/d	\$94.84/bbl

12. Financial risk management (continued)

(c) Price and currency risk (continued)

As at December 31, 2013, the fair value of the derivatives outstanding resulted in an asset of \$2.5 million (December 31, 2012 – \$2.2 million) and a liability of \$9.5 million (December 31, 2012 – \$1.1 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, 2013, \$14.7 million was recognized in net loss as a derivative loss (December 31, 2012 - \$2.9 million derivative gain). The table below summarizes the realized and unrealized gains (losses) on derivatives.

	Year ended December 31, 2013	Year ended December 31, 2012
Realized loss on derivatives	\$ (3,936)	\$ (970)
Unrealized gain (loss) on derivatives	(10,812)	3,828
	\$ (14,748)	\$ 2,858

(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, 2013, net income (loss) and comprehensive income (loss) would have changed by \$2.0 million (December 31, 2012 - \$2.8 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 investments. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

12. Financial risk management (continued)

(e) Capital management (continued)

Advantage's capital structure as at December 31, 2013 and 2012 is as follows:

	December 31, 2013	December 31, 2012
Bank indebtedness (non-current) (note 13)	\$ 271,339	\$ 272,511
Working capital deficit ⁽¹⁾	58,520	47,179
Net debt	329,859	319,690
Convertible debentures maturity value (non-current)	86,250	86,250
Total debt	\$ 416,109	\$ 405,940
Shares outstanding (note 17)	168,382,838	168,382,838
Share closing market price (\$/share)	\$ 4.61	\$ 3.20
Market capitalization ⁽²⁾	776,245	538,825
Total capitalization	\$ 1,192,354	\$ 944,765

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

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

13. Bank indebtedness

	December 31, 2013	December 31, 2012
Revolving credit facility:		
Advantage	\$ 154,370	\$ 161,630
Longview	118,151	112,541
Discount on Bankers Acceptances and other fees	(1,182)	(1,660)
Balance, end of year	\$ 271,339	\$ 272,511

As at December 31, 2013, the Corporation had 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 2014 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 four years. Further, the aggregate of such contracts cannot hedge greater than 65% of total estimated petroleum and natural gas production over three years and 50% over the fourth year, in the Advantage legal entity, and cannot hedge greater than 60% of total estimated petroleum and natural gas production over two years and 50% over the third year in the Longview 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, 2013 and 2012. 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

13. Bank indebtedness (continued)

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, 2013, the average effective interest rate on the outstanding amounts under the facilities was approximately 5.0% (December 31, 2012 – 4.9%). Advantage has no letters of credit issued and outstanding at December 31, 2013 or December 31, 2012.

14. Convertible debenture

The convertible unsecured subordinated debenture pays an annual coupon of 5%, paid semi-annually on January 31st and July 31st of each year and is 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 debenture including fair market values initially assigned and issuance costs are as follows:

Trading symbol	AAV.DBH
Issue date	Dec. 31, 2009
Maturity date	Jan. 30, 2015
Conversion price	\$ 8.60
Liability component	\$ 73,019
Equity component	13,231
Gross proceeds	86,250
Issuance costs	(3,735)
Net proceeds	\$ 82,515

The convertible debenture is redeemable at the option of the Corporation, upon providing appropriate advance notification as per the debenture indenture: Redemption can only occur during the period after January 31, 2013 and on or before January 30, 2015, provided that the Current Market Price exceeds 125% of the Conversion Price. The redemption price is \$1,000 per debenture, plus accrued and unpaid interest.

The balance of the convertible debenture outstanding at December 31, 2013 and changes in the liability and equity components during the years ended December 31, 2013 and 2012 are as follows:

Trading symbol	AAV.DBH	5.00%
Debentures outstanding	\$ 86,250	
Liability component:		
Balance at December 31, 2011		75,890
Accretion of discount		3,218
Balance at December 31, 2012	\$ 79,108	
Accretion of discount		3,346
Balance at December 31, 2013	\$ 82,454	
Equity component:		
Balance at December 31, 2012	\$ 8,348	
Balance at December 31, 2013	\$ 8,348	

There were no conversions of convertible debentures during the years ended December 31, 2013 and 2012.

15. 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 2014 and 2073. A risk-free rate of 3.20% (December 31, 2012 – 2.37%) and an inflation factor of 2% (December 31, 2012 – 2%) were used to calculate the fair value of the decommissioning liability at December 31, 2013. A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2013	Year ended December 31, 2012
Balance, beginning of year	\$ 126,224	\$ 253,796
Accretion expense	4,587	6,300
Liabilities incurred	3,908	3,637
Change in estimates	1,335	(6,252)
Effect of change in risk-free rate	(35,630)	13,710
Property dispositions	(1,419)	(6,032)
Liabilities settled	(3,098)	(2,395)
	95,907	262,764
Transferred from (to) assets held for sale (note 5)	4,709	(136,540)
Balance, end of year	\$ 100,616	\$ 126,224

16. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
Current income tax expense	\$ -	\$ -
Deferred income tax expense (recovery)	2,202	(28,605)
Income tax expense (recovery)	\$ 2,202	\$ (28,605)

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, 2013	Year ended December 31, 2012
Income (loss) before taxes and non-controlling interest	\$ 4,801	\$ (125,733)
Combined federal and provincial income tax rates	25.00%	25.00%
Expected income tax expense (recovery)	1,200	(31,433)
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	2,094	2,281
Change in estimated pool balances	(2,350)	1,022
Difference between current and expected tax rates	1,258	(475)
	\$ 2,202	\$ (28,605)
Effective tax rate	45.87%	22.75%

The Canadian combined statutory tax rate remained unchanged at 25.00% for 2013 and 2012.

16. Income taxes (continued)

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, 2011	\$ 238,341	\$ (704)	\$ 237,637
Charged (credited) to income	(1,095)	971	(124)
Balance at December 31, 2012	237,246	267	237,513
Charged (credited) to income	(18,807)	(2,058)	(20,865)
Balance at December 31, 2013	\$ 218,439	\$ (1,791)	\$ 216,648

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
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)
Charged (credited) to income	40,594	(11,422)	(6,105)	23,067
Balance at December 31, 2013	\$ (25,623)	\$ (215,569)	\$ (11,519)	\$ (252,711)

Net deferred income tax liability (asset)	Longview	Advantage	Total
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)
Charged (credited) to income	3,824	(1,622)	2,202
Balance at December 31, 2013	\$ (39,069)	\$ 3,006	\$ (36,063)

At December 31, 2013, Advantage has a \$100 million outside basis difference related to its investment in Longview. It is not probable that Advantage can utilize the capital loss that would be generated when the temporary difference reverses. Accordingly, Advantage has not recognized a deferred income tax asset of \$12.5 million relating to its investment in Longview.

The estimated tax pools available at December 31, 2013 are as follows:

	Longview	Advantage	Total
Canadian development expenses	\$ 50,349	\$ 139,553	\$ 189,902
Canadian exploration expenses	-	65,945	65,945
Canadian oil and gas property expenses	295,479	-	295,479
Non-capital losses	108,033	752,108	860,141
Undepreciated capital cost	61,910	160,791	222,701
Other	3,365	21,701	25,066
	\$ 519,136	\$ 1,140,098	\$ 1,659,234

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

17. 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, 2011	166,304,040	\$	2,214,784
Share based compensation (note 18)	2,078,798		14,814
Balance at December 31, 2012 and 2013	168,382,838	\$	2,229,598

18. 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. On vesting, common shares were issued to the service providers in exchange for the restricted shares outstanding. On July 9, 2012, Advantage’s Restricted Share Performance Incentive Plan expired and no new Advantage restricted shares were granted during 2012 or 2013. During the year ended December 31, 2012, Advantage issued 2,078,798 common shares to service providers in exchange for vested restricted shares.

The following table is a continuity of restricted shares:

	Restricted Shares
Balance at December 31, 2011	2,117,710
Granted	-
Vested (note 17)	(2,078,798)
Forfeited	(38,912)
Balance at December 31, 2012 and 2013	-

18. Share based compensation (continued)

(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. Options are granted with exercise prices that approximate the market price of common shares at the date of grant. Share based compensation costs of the Stock Option Plan are determined using a Black-Scholes-Merton valuation model, using weighted average assumptions as follows:

Volatility	42%
Expected forfeiture rate	0.25%
Dividend rate	0%
Risk-free rate	1.04%

Volatility is based on historical stock prices at the close-of-trade-day over a historical time period.

The following tables summarize information about changes in stock options outstanding at December 31, 2013:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2011	-	\$ -
Granted	15,996,366	3.67
Forfeited	(18,483)	3.67
Balance at December 31, 2012	15,977,883	\$ 3.67
Expired	(1,994,658)	3.67
Exercised	(1,994,641)	3.67
Granted	3,804,675	3.69
Forfeited/cancelled	(2,732,416)	3.68
Balance at December 31, 2013	13,060,843	\$ 3.68

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
\$3.67 - \$3.69	13,060,843	0.50	\$ 3.68	-	\$ -

Share based compensation recognized by plan for the years ended December 31, 2013 and 2012 are as follows:

	Year ended December 31, 2013	Year ended December 31, 2012
RSPIP	\$ 420	\$ 6,200
Stock Option Plan	7,874	2,878
Total share based compensation (note 21)	8,294	9,078
Capitalized	(2,838)	(1,858)
Net share based compensation expense	\$ 5,456	\$ 7,220

19. 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, 2013	Year ended December 31, 2012
Net loss attributable to Advantage shareholders		
Basic and diluted	\$ (3,382)	\$ (89,125)
Weighted average shares outstanding		
Basic and diluted	168,382,838	167,509,131

The calculation of diluted net loss per share for the years ended December 31, 2013 and 2012 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 years ended December 31, 2013 and 2012 was 10,029,070 shares. As at December 31, 2013 and 2012, the total convertible debentures outstanding were convertible to 10,029,070 shares.

The calculation of diluted net loss per share for the year ended December 31, 2013 excluded stock options, as their impact would have been anti-dilutive. Total weighted average shares issuable in exchange for outstanding stock options for the year ended December 31, 2013 was 1,445,884 shares (December 31, 2012 – nil).

Restricted shares have been excluded from the calculation of diluted net loss per share, as there were no restricted shares outstanding at December 31, 2013 and 2012.

20. Petroleum and natural gas sales

	Year ended December 31, 2013	Year ended December 31, 2012
Crude oil and natural gas liquid sales	\$ 154,864	\$ 164,860
Natural gas sales	134,878	104,045
Total petroleum and natural gas sales	\$ 289,742	\$ 268,905

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

	Year ended December 31, 2013	Year ended December 31, 2012
Salaries and benefits	\$ 22,877	\$ 19,650
Share based compensation (note 18)	8,294	9,078
Office rent	2,109	2,540
Other	5,863	3,568
Total G&A	39,143	34,836
Capitalized (note 10)	(11,735)	(6,656)
Net G&A	\$ 27,408	\$ 28,180

22. Finance expense

	Year ended December 31, 2013	Year ended December 31, 2012
Interest on bank indebtedness (note 13)	\$ 13,305	\$ 12,436
Interest on convertible debentures (note 14)	4,313	4,313
Accretion on convertible debentures (note 14)	3,346	3,218
Accretion of decommissioning liability (note 15)	5,169	6,300
Accretion of other liability	-	32
Total finance expense	\$ 26,133	\$ 26,299

23. Other income (expenses)

	Year ended December 31, 2013	Year ended December 31, 2012
Loss on sale of assets held for sale	\$ (6,354)	\$ -
Gain (loss) on sale of property, plant and equipment	(1,800)	16,964
Interest income - Questfire Debenture	1,312	-
Accretion income - Questfire Debenture	1,516	-
Unrealized loss - Questfire Class B Shares	(900)	-
Miscellaneous income	1,102	595
Total other income (expenses)	\$ (5,124)	\$ 17,559

24. Supplemented cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2013	Year ended December 31, 2012
Source (use) of cash:		
Trade and other receivables	\$ 641	\$ 9,687
Prepaid expenses and deposits	1,786	902
Trade and other accrued liabilities	8,914	(53,140)
	\$ 11,341	\$ (42,551)
Related to operating activities	\$ 4,052	\$ (14,864)
Related to financing activities	(259)	916
Related to investing activities	7,548	(28,603)
	\$ 11,341	\$ (42,551)

25. 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, 2013	December 31, 2012
2013	-	15,280
2014	13,260	12,499
2015	4,305	2,371
Total commitments	\$ 17,565	\$ 30,150

26. Segmented information

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 year ended December 31, 2013 and 2012 are as follows:

(thousands of Canadian dollars)	Year ended December 31, 2013			Year ended December 31, 2012		
	Advantage	Longview	Consolidated	Advantage	Longview	Consolidated
Petroleum and natural gas sales	\$ 140,090	\$ 149,652	\$ 289,742	\$ 129,131	\$ 139,774	\$ 268,905
Less: royalties	(7,534)	(26,297)	(33,831)	(7,401)	(26,725)	(34,126)
Petroleum and natural gas revenue	132,556	123,355	255,911	121,730	113,049	234,779
Operating expense	(20,515)	(45,799)	(66,314)	(42,796)	(46,433)	(89,229)
General and administrative expense	(24,426)	(2,982)	(27,408)	(24,250)	(3,930)	(28,180)
Depreciation expense	(72,140)	(39,048)	(111,188)	(90,376)	(41,799)	(132,175)
Impairment of assets held for sale	-	-	-	(73,000)	-	(73,000)
Impairment of oil and gas properties	-	-	-	-	(31,865)	(31,865)
Exploration and evaluation expense	-	(195)	(195)	(140)	(41)	(181)
Finance expense	(18,225)	(7,908)	(26,133)	(19,316)	(6,983)	(26,299)
Gains (losses) on derivatives	(3,190)	(11,558)	(14,748)	(240)	3,098	2,858
Other income (expenses)	(3,979)	(1,145)	(5,124)	17,527	32	17,559
Income (loss) before taxes and non-controlling interest	(9,919)	14,720	4,801	(110,861)	(14,872)	(125,733)
Income tax recovery (expense)	1,622	(3,824)	(2,202)	25,095	3,510	28,605
Net income (loss) and comprehensive income (loss) before non-controlling interest	(8,297)	10,896	2,599	(85,766)	(11,362)	(97,128)
Net (income) loss attributable to non-controlling interest	-	(5,981)	(5,981)	-	8,003	8,003
Net loss and comprehensive loss attributable to Advantage shareholders	\$ (8,297)	\$ 4,915	\$ (3,382)	\$ (85,766)	\$ (3,359)	\$ (89,125)
Total assets	\$ 1,309,543	\$ 455,701 ⁽¹⁾	\$ 1,765,244	\$ 1,424,010	\$ 489,786 ⁽¹⁾	\$ 1,913,796
Total liabilities	\$ 346,416	\$ 214,415 ⁽¹⁾	\$ 560,831	\$ 470,647	\$ 234,439 ⁽¹⁾	\$ 705,086
Cash flows from operating activities	\$ 99,366	\$ 65,651	\$ 165,017	\$ 40,560	\$ 66,396	\$ 106,956
Expenditures on property, plant and equipment	\$ 147,949	\$ 40,502	\$ 188,451	\$ 130,490	\$ 44,194	\$ 174,684
Dividends received (paid)	\$ 12,479	\$ (27,670)	\$ (15,191) ⁽²⁾	\$ 14,350	\$ (28,085)	\$ (13,735) ⁽²⁾

⁽¹⁾ These items are presented before inter-company eliminations.

⁽²⁾ Consolidated figure represents dividends paid to non-controlling interests.

27. Subsequent events

On February 4, 2014 the Corporation announced the following: That its strategic alternatives review process was completed and did not result in an acceptable proposal; that the Technical Services Agreement (“TSA”) between the Corporation and Longview was terminated; and that the Corporation had entered into an agreement to sell the 21.15 million Longview common shares owned by Advantage at a price of \$4.45 per share for net proceeds of \$90.0 million. The offering closed on February 28, 2014. As at December 31, 2013, the carrying value of Advantage’s investment in Longview was \$111.5 million.

On March 26, 2014, Advantage entered an agreement for Questfire to repurchase the Questfire Debenture at an aggregate purchase price of \$13.6 million. Questfire also agreed that it would make an offer to purchase by way of issuer bid, all of the Class B Shares at a purchase price of \$2.60 per share. Advantage expects to receive total proceeds of \$17.5 million on the disposition of its investments in Questfire.

Directors

Stephen E. Balog ⁽¹⁾⁽²⁾⁽³⁾
Paul G. Haggis ⁽¹⁾⁽²⁾⁽³⁾
Andy J. Mah
Ronald A. McIntosh ⁽¹⁾⁽²⁾⁽³⁾

⁽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
Craig Blackwood, Vice President, Finance and CFO
Neil Bokenfohr, Senior Vice President

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., /Canada 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

Corporate Office

300, 440 – 2nd Avenue SW
Calgary, Alberta T2P 5E9
(403) 718-8000

Contact Us

Toll free: 1-866-393-0393
Email: ir@advantageog.com
Visit our website at www.advantageog.com

Toronto Stock Exchange Trading Symbols

Shares: AAV
5.00% Convertible Debentures: AAV.DBH

New York Stock Exchange Trading Symbol

Shares: AAV