# 2014 Annual Report

| Financial and Operating Highlights (1) | Three months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| **Financial ($000, except as otherwise indicated)** | | | | |
| Sales including realized hedging | **$ 46,409** | $ 34,304 | **$ 203,103** | $ 142,943 |
| Funds from operations | **$ 39,182** | $ 23,822 | **$ 164,010** | $ 85,310 |
| per share (2) | **$ 0.23** | $ 0.14 | **$ 0.97** | $ 0.51 |
| Total capital expenditures | **$ 87,086** | $ 69,512 | **$ 236,701** | $ 155,370 |
| Working capital deficit (3) | **$ 57,264** | $ 49,034 | **$ 57,264** | $ 49,034 |
| Bank indebtedness | **$ 109,970** | $ 153,697 | **$ 109,970** | $ 153,697 |
| Convertible debentures (face value) | **$ 86,250** | $ 86,250 | **$ 86,250** | $ 86,250 |
| Basic weighted average shares (000) | **170,068** | 168,383 | **169,482** | 168,383 |
| **Operating** | | | | |
| Daily Production | | | | |
| Natural gas (mcf/d) | **133,433** | 108,260 | **130,627** | 113,947 |
| Crude oil and NGLs (bbls/d) | **113** | 79 | **159** | 507 |
| Total mcfe/d (4) | **134,111** | 108,734 | **131,581** | 116,989 |
| Total boe/d (4) | **22,352** | 18,122 | **21,930** | 19,498 |
| Average prices (including hedging) | | | | |
| Natural gas ($/mcf) | **$ 3.72** | $ 3.39 | **$ 4.15** | $ 3.10 |
| Crude oil and NGLs ($/bbl) | **$ 71.35** | $ 77.01 | **$ 89.84** | $ 76.01 |
| **Cash netbacks ($/mcfe) (4)** | | | | |
| Petroleum and natural gas sales | **$ 3.82** | $ 3.25 | **$ 4.49** | $ 3.28 |
| Realized gains (losses) on derivatives | **(0.06)** | 0.18 | **(0.26)** | 0.07 |
| Royalties | **(0.18)** | (0.15) | **(0.21)** | (0.18) |
| Operating expense | **(0.34)** | (0.28) | **(0.32)** | (0.48) |
| Operating netback | **3.24** | 3.00 | **3.70** | 2.69 |
| General and administrative | **(0.11)** | (0.39) | **(0.15)** | (0.45) |
| Finance expense | **(0.20)** | (0.32) | **(0.21)** | (0.28) |
| Other income | **0.25** | 0.09 | **0.09** | 0.04 |
| Cash netbacks | **$ 3.18** | $ 2.38 | **$ 3.43** | $ 2.00 |

(1) Financial and operating highlights for continuing operations of Advantage.

(2) Based on basic 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 mcfe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas equivalent to one barrel of oil.

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## MESSAGE TO SHAREHOLDERS

### Funds from Operations Up 92%, Production Up 25%, Total Cash Costs Down 36%

- Advantage's audited fourth quarter and full year 2014 financial and operating results demonstrates the successful ongoing execution of our Glacier Montney development plan. Our operational outperformance at Glacier reflects our high quality Montney asset and our focus on preserving a strong balance sheet has maintained financial flexibility with an industry leading low cost structure and an attractive hedging position.

- Advantage reported a 92% increase in funds from operations to $164.0 million or $0.97 per share for 2014. Our operating netback for 2014 was $3.70/mcfe which represents 87% of our net sales price of $4.23/mcfe, including realized hedging.

- Glacier production increased 25% to average 131.6 mmcfe/d (21,930 boe/d) for 2014 due to continued growth from our Glacier Montney property (excludes production from non-core assets of 12 mmcfe/d which was disposed in early 2013). Corporate production and production per share increased 12% compared to 2013. Production increased 23% to 134.1 mmcfe/d (22,352 boe/d) for the fourth quarter of 2014 as compared to the same period of 2013.

- Industry leading total cash costs decreased 36% to $0.89/mcfe and includes operating expense ($0.32/mcfe), royalties ($0.21/mcfe), cash general and administrative expense ($0.15/mcfe), and finance expense ($0.21/mcfe).

- Advantage’s strong financial position supports our development program and includes an available bank line of $290 million on our total $400 million credit facility (28% drawn at December 31, 2014), a total year end debt to 2014 funds from operations of 1.5 times and a strong natural gas hedging program. The $86.3 million convertible debentures matured on January 30, 2015 and were settled with cash from our available credit facility.

- We have increased our natural gas commodity hedging positions to 57% of forecast production for 2015 at an average AECO Canadian price of $3.86/mcf, 46% of forecast production for 2016 at an average AECO Canadian price of $3.69/mcf, and 42% of forecast production for the first quarter of 2017 at an average AECO Canadian price of $3.65/mcf. These hedge positions exceed our current development plan AECO Canadian price assumptions.

## Outlook

Advantage has continued to successfully execute its development plan and is on-track to increase production from approximately 135 mmcfe/d to 183 mmcfe/d in July 2015. We anticipate production to average approximately 130 mmcfe/d to 135 mmcfe/d during the first half of 2015. During the second quarter of 2015, we expect production to be partially impacted by construction and commissioning activities due to our Glacier gas plant expansion.

To accommodate our growth, Advantage has secured TCPL firm sales transportation contracts averaging 97% of our production targets. Our development plan includes average production growth of 22% per year through 2017 and targets production growth to 183 mmcfe/d in July 2015, 205 mmcfe/d in April 2016 and 245 mmcfe/d in April 2017. As a result of well production and operating outperformance at Glacier, Advantage's 2015 capital program was reduced by $110 million from prior estimates while production growth remains unchanged and on schedule. The development plan is based on our natural gas price outlook of AECO Canadian $2.50/GJ to $3.30/GJ for 2015 to 2017 and our extensive hedge position (refer to Advantage's 2015 Guidance and Development Plan press release dated February 17, 2015).

Our solid 2014 operating and financial results reinforces the significant long term value opportunity that is available through development of our world class Glacier Montney asset. We remain focused on maintaining a strong balance sheet and improving capital efficiencies as we execute on our Montney development plan. We wish to thank our staff for their achievements and our Board of Directors and shareholders for their continued support.

## 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.

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, 2014 | December 31, 2013 |
|---|---|---|
| Proved plus probable reserves (mboe) | 300,558 | 282,847 |
| Present Value of 2P reserves discounted at 10%, before tax ($000)[1] | $2,297,158 | $2,118,740 |
| Net Asset Value per Share discounted at 10%, before tax [2] | $12.35 | $11.44 |
| Reserve Life Index (proved plus probable - years) [3] | 36.8 | 42.8 |
| Reserves per Share (proved plus probable) [2] | 1.77 | 1.68 |
| Bank debt per boe of reserves [4] | $0.37 | $0.54 |
| Convertible debentures per boe of reserves [4] | $0.29 | $0.30 |

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

[2] Based on 170.068 million Shares outstanding at December 31, 2014, and 168.383 million at December 31, 2013.

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

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

**Gross Working Interest Reserves**

**Summary as at December 31, 2014**

| | Oil (mbbl) | Natural Gas Liquids (mbbl) | Natural Gas (mmcf) | Equivalent (mboe) |
|---|---|---|---|---|
| **Proved** | | | | |
| Developed Producing | 5 | 1,455 | 270,361 | 46,520 |
| Developed Non-producing | - | 499 | 32,469 | 5,911 |
| Undeveloped | - | 6,488 | 798,870 | 139,633 |
| **Total Proved** | **5** | **8,442** | **1,101,700** | **192,063** |
| Probable | 2 | 7,240 | 607,516 | 108,495 |
| **Total Proved + Probable** | **7** | **15,682** | **1,709,216** | **300,558** |

**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 | $943,305 | $604,495 | $517,342 |
| Developed Non-producing | 139,958 | 83,027 | 67,923 |
| Undeveloped | 2,595,789 | 671,513 | 362,609 |
| **Total Proved** | **3,679,052** | **1,359,035** | **947,875** |
| Probable | 2,900,935 | 938,122 | 636,180 |
| **Total Proved + Probable** | **$6,579,987** | **$2,297,158** | **$1,584,055** |

(1) Advantage's crude oil, natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2014 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 net revenue estimated by Sproule represents the fair market value of the reserves.

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

**Sproule Price Forecasts**

The present value of future net revenue at December 31, 2014 was based upon natural gas and natural gas liquids pricing assumptions prepared by Sproule effective December 31, 2014. 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 | Alberta AECO-C Natural Gas ($Cdn/mmbtu) | Henry Hub Natural Gas ($US/mmbtu) | Edmonton Propane ($Cdn/bbl) | Edmonton Butane ($Cdn/bbl) | Edmonton Pentanes Plus ($Cdn/bbl) | Exchange Rate ($US/$Cdn) |
|---|---|---|---|---|---|---|
| 2015 | 3.32 | 3.25 | 34.77 | 50.34 | 78.60 | 0.85 |
| 2016 | 3.71 | 3.75 | 43.17 | 62.51 | 97.60 | 0.87 |
| 2017 | 3.90 | 4.00 | 48.57 | 70.32 | 109.80 | 0.87 |
| 2018 | 4.47 | 4.50 | 49.30 | 71.37 | 111.44 | 0.87 |
| 2019 | 5.05 | 5.00 | 50.04 | 72.44 | 113.12 | 0.87 |
| 2020 | 5.13 | 5.08 | 51.32 | 74.31 | 116.02 | 0.87 |
| 2021 | 5.22 | 5.15 | 52.09 | 75.42 | 117.76 | 0.87 |

**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, 2013 | $38.34 | $11.44 | $7.43 |
| Present value proved and probable reserves | $6,579,987 | $2,297,158 | $1,584,055 |
| Undeveloped land [(2)] | 9,803 | 9,803 | 9,803 |
| Working capital (deficit) and other | (10,708) | (10,708) | (10,708) |
| Convertible debentures | (86,250) | (86,250) | (86,250) |
| Bank debt | (109,970) | (109,970) | (109,970) |
| Net asset value - December 31, 2014 | $6,382,862 | $2,100,033 | $1,386,930 |
| Net asset value per Share [(1)] - December 31, 2014 | $37.53 | $12.35 | $8.16 |

[(1)] Based on 170.068 million Shares outstanding at December 31, 2014 and 168.383 million Shares outstanding at December 31, 2013

[(2)] Internal estimate

**Gross Working Interest Reserves Reconciliation**

| Proved | Oil (mbbl) | Natural Gas Liquids (mbbl) | Natural Gas (mmcf) | Oil Equivalent (mboe) |
|---|---|---|---|---|
| Opening balance Dec. 31, 2013 | 6.0 | 7,086 | 992,325 | 172,479 |
| Extensions | - | 502 | 24,066 | 4,513 |
| Improved recovery | - | - | - | - |
| Infill Drilling | - | 137 | 12,250 | 2,179 |
| Discoveries | - | - | - | - |
| Economic factors | - | 4 | (314) | (49) |
| Technical revisions | (0.5) | 771 | 121,053 | 20,946 |
| Acquisitions | - | - | - | - |
| Dispositions | - | - | - | - |
| Production | (0.6) | (57) | (47,679) | (8,005) |
| Closing balance at Dec. 31, 2014 | 4.9 | 8,442 | 1,101,700 | 192,063 |

**Gross Working Interest Reserves Reconciliation (continued)**

| Proved + Probable | Oil (mbbl) | Natural Gas Liquids (mbbl) | Natural Gas (mmcf) | Oil Equivalent (mboe) |
|---|---|---|---|---|
| Opening balance Dec. 31, 2013 | 7.0 | 13,035 | 1,618,833 | 282,847 |
| Extensions | - | 1,949 | 64,576 | 12,712 |
| Improved recovery | - | - | - | - |
| Infill Drilling | - | 193 | 17,170 | 3,054 |
| Discoveries | - | - | - | - |
| Economic factors | - | 5 | (557) | (88) |
| Technical revisions | 0.4 | 552 | 56,874 | 10,038 |
| Acquisitions | - | - | - | - |
| Dispositions | - | - | - | - |
| Production | (0.6) | (57) | (47,679) | (8,005) |
| Closing balance at Dec. 31, 2014 | 6.8 | 15,682 | 1,709,216 | 300,558 |

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

**2014 FD&A Costs – Gross Working Interest Reserves excluding Future Development Capital**

| | Proved | Proved + Probable |
|---|---|---|
| Capital expenditures ($000) | $236,701 | $236,701 |
| Total mboe, end of year | 192,063 | 300,558 |
| Total mboe, beginning of year | 172,479 | 282,847 |
| Production, mboe | (8,005) | (8,005) |
| Reserve additions, mboe | 27,589 | 25,716 |
| 2014 FD&A costs ($/boe) | $8.58 | $9.20 |
| 2013 FD&A costs ($/boe) | $9.03 | $3.87 |
| Three year average FD&A costs ($/boe) | $5.87 | $4.14 |
| 2014 F&D costs ($/boe) | $8.58 | $9.20 |
| 2013 F&D costs ($/boe) | $5.14 | $2.94 |
| Three year average F&D costs ($/boe) | $5.46 | $3.82 |

**NI 51-101**
**2014 FD&A Costs – Gross Working Interest Reserves including Future Development Capital**

| | Proved | Proved + Probable |
|---|---|---|
| Capital expenditures ($000) | $236,701 | $236,701 |
| Net changes in future development capital ($000) | 32,616 | (78,080) |
| Total capital ($000) | $269,317 | $158,621 |
| | | |
| Total mboe, end of year | 192,063 | 300,558 |
| Total mboe, beginning of year | 172,479 | 282,847 |
| Production, mboe | (8,005) | (8,005) |
| Reserve additions, mboe | 27,589 | 25,716 |
| | | |
| 2014 FD&A costs ($/boe) | $9.76 | $6.17 |
| 2013 FD&A costs ($/boe) | $25.28 | $16.28 |
| Three year average FD&A costs ($/boe) | $10.11 | $7.23 |
| 2014 F&D costs ($/boe) | $9.76 | $6.17 |
| 2013 F&D costs ($/boe) | $10.20 | $8.10 |
| Three year average F&D costs ($/boe) | $8.77 | $6.21 |

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

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

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

## CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of March 25, 2015, 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, 2014 and should be read in conjunction with the December 31, 2014 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 "mcfe" or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or mcfe 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, expected average production levels until July 2015 and anticipated increase to production levels in July, 2015; effect of commodity prices on the Corporation's financial results, condition and performance; industry conditions, including effect of changes in commodity prices, weather and general economic conditions on the crude oil and natural gas industry and demand for crude oil and natural gas; the Corporation's hedging activities; effect of commodity price risk management activities on the Corporation, including cash flows and sales; terms of the Corporation's derivative contracts, including the timing of settlement of such contracts; effect of fluctuations in commodity prices 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, commodity prices and gas cost allowance on average corporate royalty rates; projected royalty rates, including the estimated royalty rate for the life of a Glacier Montney horizontal well; expected timing of rig release, service and receipt of regulatory approvals for Advantage's water disposal well and the effect of such water disposal well on water handling capacity at Glacier and third party costs; terms of the Corporation's equity compensation plans; estimated tax pools at December 31, 2014; terms of the Corporation'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; future commitments and contractual obligations; the Corporation's strategy for managing its capital structure, including the use of equity and debt financing arrangements, adjusting capital spending, disposing of assets and the use of financial and operational forecasting processes to facilitate management of the Corporation's capital structure; the timing of reviews of capital structure and forecast information by management and the Board; effect of the Corporation's continual financial assessment processes on the Corporation's ability to mitigate risks; the Corporation's plans to fund the majority of its capital expenditures for the year ended December 31, 2015 from funds from operations; the Corporation's forecasted debt to trailing funds from operations ratio; 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 expectation that its current inventory of wells can maintain production at the levels disclosed herein through to completion of the Corporation's plant expansion at Glacier; anticipated timing of completion of the Corporation's plant expansion at Glacier; targeted level of production from Advantage's Phase VII program and the anticipated timing of achievement thereof; the Corporation's intentions to monitor debt levels to ensure an optimal mix of financing and cost of capital to provide a return to the Corporation's shareholders; Advantage's focus on development of the natural gas resource play at Glacier, including the anticipated timing of completion of the various phases of Advantage's development program at Glacier and expected timing of well completions; and the statements under "critical accounting estimates" in this MD&A. In addition, statements relating to "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the 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; receipt of required regulatory approvals; 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.

## Disposition of Longview and Discontinued Operations

Advantage owned 21,150,010 common shares of Longview Oil Corp. ("Longview") prior to February 28, 2014, representing an interest of approximately 45.1% of Longview. Since Advantage held the single largest ownership interest of Longview and other ownership interests were comparatively dispersed, Advantage was considered to control Longview. Accordingly, prior to February 28, 2014, 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. On February 28, 2014, Advantage sold the 21,150,010 common shares of Longview at a price of $4.45 per share and received net proceeds of $90.2 million, all of which were used to reduce existing bank indebtedness. Concurrently, Advantage derecognized all assets and liabilities of Longview from the consolidated statement of financial position and ceased to consolidate Longview subsequent to February 28, 2014.

Given that the Longview legal entity was an operating segment, the financial results for the Advantage legal entity are presented as "continuing operations" and for the Longview legal entity are presented as "discontinued operations" for all periods in the consolidated financial statements, as required by IFRS. This presentation has been consistently applied throughout this MD&A on a similar basis with the term "continuing operations" referring to the Advantage legal entity and "discontinued operations" referring to the Longview legal entity.

## 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. Management believes these adjustments to cash provided by operating activities increase comparability between reporting periods. Cash netbacks are dependent on the determination of funds from operations and include the primary cash sales and expenses on a per mcfe basis that comprise funds from operations. Funds from operations reconciled to cash provided by operating activities is as follows:

| ($000) | Three months ended December 31 2014 | Three months ended December 31 2013 | % change | Year ended December 31 2014 | Year ended December 31 2013 | % change |
|---|---|---|---|---|---|---|
| Cash provided by operating activities - continuing operations | $ 48,218 | $ 42,488 | 13 % | $ 169,907 | $ 99,366 | 71 % |
| Expenditures on decommissioning liability | 367 | 1,152 | (68) % | 446 | 4,664 | (90) % |
| Changes in non-cash working capital | (6,901) | (16,644) | (59) % | 3,924 | (6,623) | (159) % |
| Finance expense [1] | (2,502) | (3,174) | (21) % | (10,267) | (12,097) | (15) % |
| **Funds from operations - continuing operations** | **$ 39,182** | **$ 23,822** | **64 %** | **164,010** | **85,310** | **92 %** |
| Funds from operations - discontinued operations | - | 13,740 | (100) % | 10,019 | 63,195 | (84) % |
| **Funds from operations** | **$ 39,182** | **$ 37,562** | **4 %** | **$ 174,029** | **$ 148,505** | **17 %** |

[1] Finance expense excludes non-cash accretion expense.

## FINANCIAL AND OPERATING REVIEW – CONTINUING OPERATIONS

### Overview

| | Three months ended December 31 | | | | Year ended December 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | |
| | ($000) | per mcfe | ($000) | per mcfe | ($000) | per mcfe | ($000) | per mcfe |
| Natural gas and liquids sales | $ 47,186 | $ 3.82 | $ 32,546 | $ 3.25 | $ 215,653 | $ 4.49 | $ 140,090 | $ 3.28 |
| Realized gains (losses) on derivatives | (777) | (0.06) | 1,758 | 0.18 | (12,550) | (0.26) | 2,853 | 0.07 |
| Royalties | (2,209) | (0.18) | (1,523) | (0.15) | (10,076) | (0.21) | (7,534) | (0.18) |
| Operating expense | (4,184) | (0.34) | (2,772) | (0.28) | (15,412) | (0.32) | (20,515) | (0.48) |
| **Operating income and operating netbacks** | **40,016** | **3.24** | **30,009** | **3.00** | **177,615** | **3.70** | **114,894** | **2.69** |
| General and administrative [(1)] | (1,371) | (0.11) | (3,932) | (0.39) | (7,426) | (0.15) | (19,246) | (0.45) |
| Finance expense [(2)] | (2,502) | (0.20) | (3,174) | (0.32) | (10,267) | (0.21) | (12,097) | (0.28) |
| Other income [(3)] | 3,039 | 0.25 | 919 | 0.09 | 4,088 | 0.09 | 1,759 | 0.04 |
| **Funds from operations and cash netbacks** | **$ 39,182** | **$ 3.18** | **$ 23,822** | **$ 2.38** | **$ 164,010** | **$ 3.43** | **$ 85,310** | **$ 2.00** |
| **Per basic weighted average share** | **$ 0.23** | | **$ 0.14** | | **$ 0.97** | | **$ 0.51** | |

(1) General and administrative expense excludes share based compensation.
(2) Finance expense excludes non-cash accretion expense.
(3) Other income excludes non-cash other income.

For the three months ended December 31, 2014, Advantage realized a 64% increase in funds from operations to $39.2 million and a 34% increase in cash netbacks to $3.18 per mcfe, as compared to the fourth quarter of 2013. Funds from operations for the year ended December 31, 2014, increased 92% to $164.0 million and cash netbacks increased 72% to $3.43 per mcfe, as compared to the same period of 2013. On a per share basis, funds from operations increased 64% and 90% to $0.23 and $0.97 for the three months and year ended December 31, 2014, respectively. The increased funds from operations and cash netbacks were driven by Glacier production growth, higher natural gas prices and a lower total cash cost structure. Glacier production during the three months and year ended December 31, 2014 was 23% and 25% higher than the same periods of 2013, as we continue to execute on our multi-year development plan. AECO daily prices during the three months and year ended December 31, 2014 was 2% and 41% higher than the same periods of 2013. We have also achieved an industry leading low cost structure whereby total cash costs for the year ended December 31, 2014, including royalties, operating expense, general and administrative expense, and finance expense have been reduced by 36% to $0.89 per mcfe as compared to 2013. The lower total cash cost structure resulted from transforming Advantage into a pure play Montney producer with a single focus on development of our Glacier, Alberta area.

Advantage has disposed of substantially all non-core assets to focus on continued development of its core Glacier Montney natural gas asset. Net cash proceeds received 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 Advantage such that historical financial and operating performance may not be indicative of actual future performance.

## Natural Gas and Liquids Sales and Hedging

| ($000) | Three months ended December 31 2014 | Three months ended December 31 2013 | % change | Year ended December 31 2014 | Year ended December 31 2013 | % change |
|---|---|---|---|---|---|---|
| Natural gas sales | $ 46,446 | $ 31,984 | 45 % | $ 210,444 | $ 126,038 | 67 % |
| Realized gains (losses) on derivatives | (777) | 1,758 | (144) % | (12,550) | 2,837 | (542) % |
| Natural gas sales including hedging | 45,669 | 33,742 | 35 % | 197,894 | 128,875 | 54 % |
| Liquids sales | 740 | 562 | 32 % | 5,209 | 14,052 | (63) % |
| Realized gain on derivative | - | - | - % | - | 16 | (100) % |
| Liquids sales including hedging | 740 | 562 | 32 % | 5,209 | 14,068 | (63) % |
| **Total** [(1)] | **$ 46,409** | **$ 34,304** | **35 %** | **$ 203,103** | **$ 142,943** | **42 %** |

(1) Total excludes unrealized derivative gains and losses.

Total sales excluding hedging for the three months ended December 31, 2014 was $47.2 million, an increase of $14.6 million or 45%, and for the year ended December 31, 2014 was $215.7 million, an increase of $75.6 million or 54%, when compared to the same periods of 2013. The increase in sales has been attributable to improved natural gas prices and higher natural gas production.

## Production

| | Three months ended December 31 2014 | Three months ended December 31 2013 | % change | Year ended December 31 2014 | Year ended December 31 2013 | % change |
|---|---|---|---|---|---|---|
| Natural gas (mcf/d) | 133,433 | 108,260 | 23 % | 130,627 | 113,947 | 15 % |
| Liquids (bbls/d) | 113 | 79 | 43 % | 159 | 507 | (69) % |
| **Total - mcfe/d** | **134,111** | **108,734** | **23 %** | **131,581** | **116,989** | **12 %** |
| **- boe/d** | **22,352** | **18,122** | **23 %** | **21,930** | **19,498** | **12 %** |
| Natural gas (%) | 99% | 100% | | 99% | 97% | |
| Liquids (%) | 1% | - % | | 1% | 3% | |

Production for the fourth quarter of 2014 increased 23% as compared to the fourth quarter of 2013. Glacier production increased 25% during the year ended December 31, 2014 as compared to 2013 but was partially offset by non-core conventional asset sales of approximately 12 mmcfe/d which closed in April 2013. We expect production to average approximately 130 mmcfe/d to 135 mmcfe/d until July 2015 when production is scheduled to increase to 183 mmcfe/d according to our 2015 Guidance and Development Plan Update news release, issued February 17, 2015.

## Commodity Prices and Marketing

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| **Average Realized Pricing** | | | | | | |
| Natural gas, excluding hedging ($/mcf) | $ 3.78 | $ 3.21 | 18 % | $ 4.41 | $ 3.03 | 46 % |
| Natural gas, including hedging ($/mcf) | $ 3.72 | $ 3.39 | 10 % | $ 4.15 | $ 3.10 | 34 % |
| Liquids, including hedging ($/bbl) | $ 71.35 | $ 77.01 | (7) % | $ 89.84 | $ 76.01 | 18 % |
| **Benchmark Prices** | | | | | | |
| AECO daily ($/mcf) | $ 3.61 | $ 3.52 | 2 % | $ 4.47 | $ 3.18 | 41 % |
| NYMEX ($US/mmbtu) | $ 3.95 | $ 3.63 | 9 % | $ 4.38 | $ 3.67 | 19 % |
| Edmonton Light ($/bbl) | $ 75.54 | $ 86.88 | (13) % | $ 94.50 | $ 93.43 | 1 % |

Advantage's current production from Glacier is approximately 99% natural gas. Realized natural gas prices, excluding hedging, increased significantly as compared to 2013, corresponding to the increase in AECO prices. Natural gas prices remained low throughout much of 2013 due to a stronger supply to demand situation. Prices improved dramatically during early 2014 as a result of an extremely cold 2013/2014 winter that increased demand and reduced North American storage levels well below the five-year average. During the second half of 2014, natural gas prices decreased due to the continued strength of U.S. storage injections caused by record supply levels and reduced demand from a moderate 2014 summer followed by a mild 2014/2015 winter. Advantage has hedged approximately 57% of forecast production, net of royalties, for calendar 2015 at an average natural gas price of $3.86/mcf to support our Glacier development plan.

## Commodity Price Risk

The Corporation's financial results and condition will be dependent on the prices received for natural gas production. Natural gas prices have fluctuated widely and are determined by supply and demand factors, including weather, and general economic conditions in natural gas consuming and producing regions throughout North America. Management has been proactive in entering into derivatives for the purpose of hedging and has mitigated commodity price risk by entering natural gas hedging contracts to March 31, 2017 in support of our Glacier multi-year development plan. Our Credit Facilities allow Advantage to hedge up to 65% of total estimated natural gas and liquids production over the first three years and 50% over the fourth year.

Our current hedging positions are summarized as follows:

| Period | Average Production Hedged | Forecast Production Hedged (net of royalties) | Average Price AECO ($Cdn.) |
|---|---|---|---|
| Q1 2015 to Q4 2015 | 82.9 mmcf/d | 57% | $3.86/mcf |
| Q1 2016 to Q4 2016 | 84.1 mmcf/d | 46% | $3.69/mcf |
| Q1 2017 | 80.6 mmcf/d | 42% | $3.65/mcf |

A summary of realized and unrealized hedging gains and losses for the three months and year ended December 31, 2014 and 2013 are as follows:

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| ($000) | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Realized gains (losses) on derivatives | $ (777) | $ 1,758 | (144) % | $ (12,550) | $ 2,853 | (540) % |
| Unrealized gains (losses) on derivatives | 55,243 | (11,472) | (582) % | 47,786 | (6,043) | (891) % |
| **Total gains (losses) on derivatives** | **$ 54,466** | **$ (9,714)** | **(661) %** | **$ 35,236** | **$ (3,190)** | **(1,205) %** |

For the three months and year ended December 31, 2014, we realized derivative losses as a result of higher natural gas prices as compared to our average hedge prices. For the year ended December 31, 2014, $47.8 million was recognized in income as an unrealized derivative gain (December 31, 2013 – $6.0 million unrealized derivative loss), being the increase in fair value to a net derivative asset of $46.6 million at December 31, 2014 as compared to a net derivative liability at December 31, 2013. The fair value of the net derivative asset is the estimated value to settle the contracts as at a point in time. As such, unrealized derivative gains and losses are not cash 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. These derivative contracts will settle from January 1, 2015 to March 31, 2017 corresponding to when the Corporation will recognize sales from production.

### Royalties

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Royalties ($000) | $ 2,209 | $ 1,523 | 45 % | $ 10,076 | $ 7,534 | 34 % |
| per mcfe | $ 0.18 | $ 0.15 | 20 % | $ 0.21 | $ 0.18 | 17 % |
| Royalty Rate (percentage of natural gas and liquids sales) | 4.7% | 4.7% | - % | 4.7% | 5.4% | (0.7) % |

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. Our average corporate royalty rates are impacted by well depths, well production rates, commodity prices, and gas cost allowance. The expected royalty rate for the life of a Glacier Upper and Lower Montney horizontal well is approximately 5% before gas cost allowance due to industry provincial incentive programs. Total royalties paid during the three months and year ended December 31, 2014 are higher than 2013 due to stronger natural gas prices and increased natural gas production while the overall royalty rate has decreased slightly.

### Operating Expense

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Operating expense ($000) | $ 4,184 | $ 2,772 | 51 % | $ 15,412 | $ 20,515 | (25) % |
| per mcfe | $ 0.34 | $ 0.28 | 21 % | $ 0.32 | $ 0.48 | (33) % |

For the year ended December 31, 2014, operating expense was $0.32/mcfe, a decrease of 33% as compared to 2013. Operating costs have decreased with the disposition of higher cost non-core assets and due to the increased production from our 100% owned Glacier gas plant. Operating expense per mcfe for the fourth quarter of 2014 was $0.34/mcfe due to higher third party water disposal and trucking costs resulting from the flowback of additional water from well completions.

### General and Administrative Expense

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| General and administrative expense | | | | | | |
| Cash expense ($000) | $ 1,371 | $ 3,932 | (65) % | $ 7,426 | $ 19,246 | (61) % |
| per mcfe | $ 0.11 | $ 0.39 | (72) % | $ 0.15 | $ 0.45 | (67) % |
| Share based compensation ($000) | $ 577 | $ 656 | (12) % | $ 2,153 | $ 5,180 | (58) % |
| per mcfe | $ 0.05 | $ 0.07 | (29) % | $ 0.04 | $ 0.12 | (67) % |
| Total general and administrative expense ($000) | $ 1,948 | $ 4,588 | (58) % | $ 9,579 | $ 24,426 | (61) % |
| per mcfe | $ 0.16 | $ 0.46 | (65) % | $ 0.19 | $ 0.57 | (67) % |
| Employees at December 31 | | | | 27 | 80 | (66) % |

Cash general and administrative ("G&A") expense has decreased as significant cost efficiencies were realized with the non-core asset dispositions and termination of the Technical Services Agreement with Longview on February 1, 2014 whereby Advantage had previously provided the necessary personnel and technical services to manage Longview's business. Cash G&A in 2013 included 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.

Share based compensation represents non-cash G&A expense associated with Advantage's stock option plan and restricted and performance award plan that are designed to provide for long term compensation to service providers. Share based compensation for

the three months and year ended December 31, 2014 has decreased as a result of staff rationalization. As at December 31, 2014, a total of 5.1 million stock options and 0.4 million performance awards are unexercised which represents only 3.3% of the 10% of Advantage's total outstanding common shares which are eligible to be granted to service providers.

## Depreciation Expense

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Depreciation expense ($000) | $ 21,329 | $ 17,958 | 19 % | $ 85,460 | $ 72,140 | 18 % |
| per mcfe | $ 1.73 | $ 1.80 | (4) % | $ 1.78 | $ 1.69 | 5 % |

Depreciation of natural gas and liquids properties is provided on the units-of–production method based on total proved and probable reserves, including future development costs, on a component basis. Depreciation expense was higher during 2014 due to the continued increase in production at Glacier. The rate of depreciation expense recognized at Glacier decreased in 2014 as total costs, including future development costs, as a proportion of total proved and probable reserves declined due to the continued efficiency of production additions. Depreciation expense per mcfe was modestly lower during the year ended December 31, 2013 as Advantage ceased depreciation of assets held for sale for the period of January 1, 2013 to April 30, 2013.

## Finance Expense

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Finance expense | | | | | | |
| Cash expense ($000) | $ 2,502 | $ 3,174 | (21) % | $ 10,267 | $ 12,097 | (15) % |
| per mcfe | $ 0.20 | $ 0.32 | (38) % | $ 0.21 | $ 0.28 | (25) % |
| Accretion expense ($000) | $ 1,124 | $ 1,123 | - % | $ 4,525 | $ 6,128 | (26) % |
| per mcfe | $ 0.09 | $ 0.11 | (18) % | $ 0.09 | $ 0.14 | (36) % |
| Total finance expense ($000) | $ 3,626 | $ 4,297 | (16) % | $ 14,792 | $ 18,225 | (19) % |
| per mcfe | $ 0.29 | $ 0.43 | (33) % | $ 0.30 | $ 0.42 | (29) % |
| Bank indebtedness ($000) | | | | $ 109,970 | $ 153,697 | (28) % |

Cash finance expense from interest on bank indebtedness and the convertible debenture have decreased compared to 2013, due to the lower average bank indebtedness. Our bank indebtedness outstanding as at December 31, 2014 was $110.0 million, a decrease of $43.7 million from December 31, 2013. The Corporation's interest rates on bank indebtedness have decreased due to the lower debt to cash flow ratios as calculated pursuant to our Credit Facilities and are primarily based on short term bankers' acceptance rates plus a stamping fee.

Accretion expense represents non-cash charges that increase the carrying value of the convertible debenture and decommissioning liability as a result of the passage of time. The convertible debenture outstanding at December 31, 2014 matured on January 30, 2015, and was settled from the Credit Facilities. Accretion expense for the year ended December 31, 2014 is lower than 2013 as the decommissioning liability decreased in April 2013 with the closing of non-core asset sales.

## Other Income (Expense)

| ($000) | Three months ended December 31 2014 | Three months ended December 31 2013 | % change | Year ended December 31 2014 | Year ended December 31 2013 | % change |
|---|---|---|---|---|---|---|
| Interest income - Questfire Debenture | $ - | $ 492 | (100) % | $ 455 | $ 1,312 | (65) % |
| Accretion income - Questfire Debenture | - | 569 | (100) % | 557 | 1,516 | (63) % |
| Loss on disposition - Questfire Debenture | - | - | - % | (13,833) | - | 100 % |
| Unrealized gain (loss) - Questfire Class B Shares | - | (750) | (100) % | 150 | (900) | (117) % |
| Gain (loss) on sale of assets | - | 505 | (100) % | (1,489) | (6,354) | (77) % |
| Miscellaneous income | 3,039 | 427 | 612 % | 3,633 | 447 | 713 % |
| | $ 3,039 | $ 1,243 | 144 % | $ (10,527) | $ (3,979) | 165 % |

Advantage recognized interest and accretion income earned on the Questfire Debenture from April 2013 up to the first quarter of 2014, the time during which we owned the Debenture. During the first quarter of 2014, Advantage accepted a proposal from Questfire to redeem the Questfire Debenture for an aggregate purchase price of $13.6 million and Advantage recognized a loss of $13.8 million representing the difference from the carrying value. Advantage also accepted a Questfire offer to purchase by way of issuer bid, all of the Class B Shares at a price of $2.60 per share. Advantage received $3.9 million in the second quarter of 2014 for the Class B Shares and recognized a net gain of $0.2 million. Advantage recognized a loss of $1.5 million in the second quarter related to the finalization of the gain and loss calculations attributable to non-core asset dispositions that closed in 2013. During the fourth quarter of 2014, Advantage settled a dispute with a former joint venture partner related to properties which Advantage had disposed. The effect of this settlement resulted in net funds received by Advantage of $3.0 million.

## Taxes

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2014, the Corporation recognized a deferred income tax expense of $30.4 million as a result of the $105.0 million income before taxes from continuing operations. As at December 31, 2014, the Corporation had a deferred income tax liability balance of $33.4 million.

Estimated tax pools at December 31, 2014, are as follows:

| | ($ millions) |
|---|---|
| Canadian Development Expenses | $ 219 |
| Canadian Exploration Expenses | 66 |
| Canadian Oil and Gas Property Expenses | 3 |
| Non-capital losses | 734 |
| Capital losses | 158 |
| Undepreciated Capital Cost | 169 |
| Other | 10 |
| | **$ 1,359** |

## Net Income (Loss) and Comprehensive Income (Loss) from Continuing Operations

| | Three months ended December 31 | | | Year ended December 31 | | |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | % change | 2014 | 2013 | % change |
| Net income (loss) and comprehensive income (loss) from continuing operations ($000) | $ 53,682 | $ (6,273) | (956) % | $ 74,597 | $ (8,297) | (999) % |
| per share - basic and diluted | $ 0.32 | $ (0.04) | (900) % | $ 0.44 | $ (0.05) | (980) % |

Advantage's net income from continuing operations for 2014 has increased significantly as compared to 2013 primarily due to higher funds from operations attributable to increased Glacier production, stronger natural gas prices and a lower cost structure. All reporting periods were affected by derivative gains and losses from our ongoing commodity price risk management activities. For the year ended December 31, 2014, Advantage has recognized total gains on derivatives of $35.2 million as compared to a $3.2 million total loss on derivatives for the same period of 2013. One-time non-cash losses of approximately $15.2 million were recognized on disposition of Questfire investments and non-core properties in the first half of 2014.

## Contractual Obligations and Commitments

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

| | | Payments due by period | | | | | |
|---|---|---|---|---|---|---|---|
| ($ millions) | | Total | 2015 | 2016 & 2017 | 2018 & 2019 | 2020 | After 2020 |
| Building leases | | $ 5.2 | $ 1.1 | $ 2.3 | $ 1.8 | $ - | $ - |
| Pipeline/transportation | | 119.5 | 17.1 | 37.7 | 31.3 | 9.6 | 23.8 |
| Bank indebtedness [(1)] | - principal | 110.3 | - | 110.3 | - | - | - |
| | - interest | 10.1 | 6.8 | 3.3 | - | - | - |
| Convertible debenture [(2)] | - principal | 86.3 | 86.3 | - | - | - | - |
| | - interest | 2.1 | 2.1 | - | - | - | - |
| **Total contractual obligations** | | **$ 333.5** | **$ 113.4** | **$ 153.6** | **$ 33.1** | **$ 9.6** | **$ 23.8** |

(1) As at December 31, 2014, the Corporation's bank indebtedness was governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed annually, with the next review scheduled in June 2015. The facility is revolving and extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

(2) As at December 31, 2014, Advantage had an $86.2 million convertible debenture outstanding that was convertible to common shares based on an established conversion price. The convertible debenture matured on January 30, 2015, and was settled from the Credit Facilities.

## Liquidity and Capital Resources

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

| ($000, except as otherwise indicated) | | December 31, 2014 |
|---|---|---|
| Bank indebtedness (non-current) | $ | 109,970 |
| Working capital deficit [(1)] | | 57,264 |
| Net debt | | 167,234 |
| Convertible debenture maturity value (current) | | 86,250 |
| **Total debt** | **$** | **253,484** |
| Shares outstanding | | 170,067,650 |
| Shares closing market price ($/share) | $ | 5.56 |
| **Market capitalization [(2)]** | **$** | **945,576** |
| **Total capitalization** | **$** | **1,199,060** |
| **Total debt to funds from operations [(3)]** | | **1.5** |

(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.

(3) Total debt is a non-GAAP measure that includes bank indebtedness, working capital deficit and the convertible debenture maturity value. Total debt to funds from operations is calculated by dividing total debt by funds from operations.

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 deficit, 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, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

Management of the Corporation's capital structure is facilitated through its financial and operational forecasting processes. Selected forecast information is frequently provided to the Board of Directors. 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 and has $290 million available on our $400 million credit facility at December 31, 2014. For the year ended December 31, 2015, we will be funding our capital expenditures from funds from operations and our Credit Facilities, and have estimated that our total debt to trailing funds from operations ratio will be approximately 2.1 based on a $2.50/GJ natural gas price. We will continue to be very cognizant of maintaining financial flexibility in the current environment.

## Shareholders' Equity and Convertible Debentures

As at December 31, 2014, Advantage had 170.1 million common shares outstanding. During 2014, Advantage issued 1.7 million common shares to service providers in exchange for the exercise of 7.4 million stock options including 5.0 million stock options that vested during 2013 but could not be exercised due to trading blackout restrictions imposed by the previous strategic review process that was terminated on February 4, 2014. Additionally, 4.3 million stock options were forfeited/cancelled in 2014 due to staff rationalization associated with the asset dispositions. For the year ended December 31, 2014, 3.8 million stock options and 0.4 million performance awards were granted to service providers with a vesting term of three years. As at December 31, 2014, a total of 5.1 million stock options and 0.4 million performance awards are unexercised which represents only 3.3% of the 10% of Advantage's total outstanding common shares which are eligible to be granted to service providers. As at March 25, 2015, Advantage had 170.3 million common shares outstanding.

The Corporation had $86.2 million of 5.00% convertible debentures outstanding at December 31, 2014 that were convertible to 10.0 million common shares based on the applicable conversion price (December 31, 2013 - $86.2 million outstanding and convertible to 10.0 million common shares). The convertible debentures matured on January 30, 2015 and was settled from the Credit Facilities.

## Bank Indebtedness, Credit Facilities and Other Obligations

At December 31, 2014, Advantage had bank indebtedness outstanding of $110.0 million. Bank indebtedness has decreased $43.7 million since December 31, 2013 due to net proceeds received from the disposition of investments in Longview and Questfire, and strong funds from operations. Advantage's credit facilities borrowing base is $400 million and is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation (the "Credit Facilities"). The borrowing base for the Credit Facilities is determined by the banking syndicate through a thorough evaluation of our reserve estimates based upon their own commodity price expectations. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. The next annual review is scheduled to occur in June 2015. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage had a working capital deficiency of $57.3 million as at December 31, 2014, an increase from the prior quarter due to the relatively high level of capital expenditure activity underway at December 31, 2014. 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. We do not anticipate any problems in satisfying the working capital deficit and meeting future obligations as they become due as they can be satisfied with funds from operations and our available Credit Facilities.

## Capital Expenditures

| | Three months ended December 31 | | Year ended December 31 | |
|---|---|---|---|---|
| **($000)** | **2014** | **2013** | **2014** | **2013** |
| Drilling, completions and workovers | $ 66,144 | $ 65,182 | $ 195,802 | $ 135,507 |
| Well equipping and facilities | 20,292 | 4,257 | 37,662 | 12,977 |
| Land and seismic | - | 31 | - | 55 |
| Expenditures on property, plant and equipment | 86,436 | 69,470 | 233,464 | 148,539 |
| Expenditures on exploration and evaluation assets | 650 | 42 | 3,237 | 6,831 |
| Proceeds from property dispositions (1) | - | (505) | - | (52,903) |
| **Net capital expenditures (2)** | **$ 87,086** | **$ 69,007** | **$ 236,701** | **$ 102,467** |

(1) Proceeds from property dispositons 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.

Advantage invested $233.5 million on property, plant and equipment at Glacier for the year ended December 31, 2014. We ramped up our capital development program at Glacier in the third quarter of 2013 resulting in additional production during the first quarter of 2014, and we reached our target of 135 mmcfe/d in March 2014. We have since maintained production between 130 mmcfe/d and 135 mmcfe/d. Enhanced well performance and lower production declines from wells drilled have exceeded expectations. The last well from our most recent capital program is now not anticipated to be required to be placed on production until July 2015.

Our most recent capital program consisted of drilling 33 new Montney wells, and was designed to grow production at Glacier to 183 mmcfe/d including 900 bbls/d of natural gas liquids by July 2015. Drilling commenced in March 2014 with one rig drilling through spring breakup and then increasing to three drilling rigs in July 2014. All 33 Montney wells have now been drilled and rig released and 22 of the 33 wells have been completed and will be available to increase production to our target volume of 183 mmcfe/d in July 2015 and hold production at that level until the first quarter of 2016. The remaining 11 wells will be completed and brought on production as required in 2016. First quarter 2015 activity, which consisted of drilling 10 wells and completing 6 wells is included as part of the Corporation's 2015 capital budget.

Advantage's 100% owned Glacier gas plant is currently being expanded with commissioning expected in July 2015. Processing capacity is being expanded to 250 mmcf/d including 70 mmcf/d of spare capacity to meet future production growth in 2016 and 2017. Additionally, the plant will be capable of processing varying amounts of dry and liquids rich gas production with the installation of natural gas liquids extraction and condensate stabilization equipment.

In 2014 Advantage acquired 9 additional sections of land with Lower Doig/Montney rights in the greater Glacier area. Advantage now holds a total of 129 sections (82,560 acres) of either Lower Doig or Montney rights.

Firm service transportation commitments have been secured to coincide with Advantage's 2016 production target of 205 mmcfe/d.

### Sources and Uses of Funds

The following table summarizes the various funding requirements during the years ended December 31, 2014 and 2013 and the sources of funding to meet those requirements:

| ($000) | Year ended December 31 2014 | | Year ended December 31 2013 | |
|---|---|---|---|---|
| **Sources of funds** | | | | |
| Funds from operations | $ | 164,010 | $ | 85,310 |
| Disposition of Longview investment | | 90,153 | | - |
| Disposition of Questfire investments | | 17,500 | | - |
| Change in non-cash working capital and other | | 7,830 | | 16,390 |
| Dividends received from Longview | | 1,692 | | 12,691 |
| Property dispositions | | - | | 52,903 |
| | **$** | **281,185** | **$** | **167,294** |
| **Uses of funds** | | | | |
| Expenditures on property, plant and equipment | $ | 233,464 | $ | 148,539 |
| Decrease in bank indebtedness | | 44,038 | | 7,260 |
| Expenditures on exploration and evaluation assets | | 3,237 | | 6,831 |
| Expenditures on decommissioning liability | | 446 | | 4,664 |
| | **$** | **281,185** | **$** | **167,294** |

The increased funds from operations combined with proceeds from the disposition of investments in Longview and Questfire were used to fund capital expenditures and repay a significant portion of bank indebtedness. Bank indebtedness has been significantly reduced 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.

## FINANCIAL AND OPERATING REVIEW – DISCONTINUED OPERATIONS

The following financial and operating highlights for Longview to February 28, 2014 have been presented to provide additional information with respect to the Longview segment prior to disposition.

| | Year ended December 31 2014 [(1)] | | Year ended December 31 2013 | |
|---|---|---|---|---|
| Production (boe/d) | | 5,622 | | 5,953 |
| Funds from operations ($000) | $ | 9,693 | $ | 63,195 |
| Net capital expenditures ($000) | $ | 19,092 | $ | 38,696 |
| Net income (loss) and comprehensive income (loss) from discontinued operations ($000) | $ | (58,894) | $ | 4,915 |
| per share - basic and diluted | $ | (0.35) | $ | 0.03 |

(1) Represents the financial and operating results for the Longview segment for the 59 days from January 1, 2014 to February 28, 2014.

Financial and operating results from Longview for 2014 are significantly impacted, particularly the reduction in funds from operations, as it only represents 59 days due to the disposition of Longview on February 28, 2014 as opposed to the 365 days for the year ended December 31, 2013. Advantage has recognized a consolidated net loss of $58.9 million from the Longview segment during the first quarter of 2014 due to a $58.8 million loss on disposition as the net proceeds received by Advantage were less than the carrying value of the net assets.

### Annual Financial Information

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

| | Year ended Dec. 31, 2014 | Year ended Dec. 31, 2013 | Year ended Dec. 31, 2012 |
|---|---|---|---|
| **Continuing Operations - Advantage** | | | |
| Total sales (before royalties) ($000) | $ 215,653 | $ 140,090 | $ 129,131 |
| Net income (loss) ($000) | $ 74,597 | $ (8,297) | $ (85,766) |
| per share - basic and diluted | $ 0.44 | $ (0.05) | $ (0.51) |
| Total assets ($000) | $ 1,454,767 | $ 1,309,543 | $ 1,424,010 |
| Long term financial liabilities ($000) [1] | $ 110,482 | $ 236,151 | $ 239,724 |
| **Discontinued Operations - Longview** | | | |
| Total sales (before royalties) ($000) | $ 24,715 | $ 149,652 | $ 139,774 |
| Net income (loss) ($000) | $ (58,894) | $ 4,915 | $ (3,359) |
| per share - basic and diluted | $ (0.35) | $ 0.03 | $ (0.02) |
| Total assets ($000) | $ - | $ 455,701 | $ 489,786 |
| Long term financial liabilities ($000) [1] | $ - | $ 117,642 | $ 111,895 |

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

## Quarterly Performance

| ($000, except as otherwise indicated) | 2014 Q4 | 2014 Q3 | 2014 Q2 | 2014 Q1 | 2013 Q4 | 2013 Q3 | 2013 Q2 | 2013 Q1 |
|---|---|---|---|---|---|---|---|---|
| **Continuing Operations - Advantage** | | | | | | | | |
| Daily production | | | | | | | | |
| Natural gas (mcf/d) | 133,433 | 131,553 | 134,912 | 122,481 | 108,260 | 111,518 | 116,469 | 119,692 |
| Liquids (bbls/d) | 113 | 161 | 200 | 164 | 79 | 105 | 554 | 1,308 |
| Total (mcfe/d) | 134,111 | 132,519 | 136,112 | 123,465 | 108,734 | 112,148 | 119,793 | 127,540 |
| Average prices | | | | | | | | |
| Natural gas ($/mcf) | | | | | | | | |
| Excluding hedging | $ 3.78 | $ 4.03 | $ 4.71 | $ 5.21 | $ 3.21 | $ 2.46 | $ 3.47 | $ 2.98 |
| Including hedging | $ 3.72 | $ 3.80 | $ 4.27 | $ 4.89 | $ 3.39 | $ 2.63 | $ 3.35 | $ 3.04 |
| AECO daily | $ 3.61 | $ 4.02 | $ 4.69 | $ 5.59 | $ 3.52 | $ 2.45 | $ 3.55 | $ 3.20 |
| Liquids ($/bbl) | | | | | | | | |
| Including hedging | $ 71.35 | $ 83.14 | $ 102.41 | $ 94.10 | $ 77.01 | $ 95.13 | $ 73.22 | $ 75.58 |
| Edmonton Light ($/bbl) | $ 75.54 | $ 97.07 | $ 105.65 | $ 99.99 | $ 86.88 | $ 104.96 | $ 92.99 | $ 88.78 |
| Total sales including realized hedging | $ 46,409 | $ 47,190 | $ 54,265 | $ 55,239 | $ 34,304 | $ 27,857 | $ 39,184 | $ 41,598 |
| Net income (loss) | $ 53,682 | $ 14,201 | $ 24,330 | $ (17,616) | $ (6,273) | $ (3,187) | $ 6,543 | $ (5,380) |
| per share - basic and diluted | $ 0.32 | $ 0.08 | $ 0.14 | $ (0.10) | $ (0.04) | $ (0.02) | $ 0.04 | $ (0.03) |
| Funds from operations | $ 39,182 | $ 36,818 | $ 42,561 | $ 45,449 | $ 23,822 | $ 16,516 | $ 23,488 | $ 21,484 |
| **Discontinued Operations - Longview** | | | | | | | | |
| Total sales including realized hedging | $ - | $ - | $ - | $ 23,237 | $ 33,721 | $ 38,234 | $ 37,179 | $ 33,729 |
| Net income (loss) | $ - | $ - | $ - | $ (58,894) | $ 870 | $ 1,845 | $ 1,799 | $ 401 |
| per share - basic and diluted [1] | $ - | $ - | $ - | $ (0.35) | $ 0.01 | $ 0.01 | $ 0.01 | $ - |
| Funds from operations | $ - | $ - | $ - | $ 9,693 | $ 13,740 | $ 17,959 | $ 16,683 | $ 14,813 |

[1] Per share amounts based on weighted average basic and diluted shares outstanding of Advantage Oil & Gas Ltd.

The table above highlights the Corporation's performance for the fourth quarter of 2014 and also for the preceding seven quarters for both continuing and discontinued operations. Production during the first quarter of 2013 reflects the last full interim period in which Advantage owned non-core assets. As of April 30, 2013, the sale of these non-core assets was completed and Advantage was transformed into a pure play Montney producer with a single focus on development of our Glacier, Alberta area. Accordingly, production was lower from the second to fourth quarters of 2013. We ramped up our capital development program at Glacier in the third quarter of 2013 resulting in additional production during the first quarter of 2014, and we reached our target of 135 mmcfe/d in March 2014. Currently, Advantage has an inventory of 33 wells drilled from our most recent capital program. We have in excess of 185 mmcf/d of first month productivity from 22 completed wells and a number of older wells which are currently shut-in due to plant capacity constraints. These standing wells will be utilized to increase production to 183 mmcfe/d in July 2015 and are capable of sustaining production to early 2016. The remaining 11 wells drilled from our 2014 program will be completed and brought on production as required in 2016.

During the third quarter of 2013, sales and funds from operations decreased due to significant reductions in AECO prices that impacted the entire Alberta natural gas industry. Sales and funds from operations increased dramatically in 2014 primarily attributable to improved natural gas prices and production growth. In 2013, Advantage has reported net losses primarily driven by weak natural gas prices. In the first quarter of 2014, Advantage recognized a $13.8 million loss on redemption of the Questfire Debenture and a $58.8 million loss on disposition of the Longview operating segment as the net proceeds received by Advantage were less than the carrying value of the net assets. As a pure Montney producer Advantage now has a much simpler capitalization structure and a strong balance sheet to continue its multi-year development plan. Advantage's production growth at Glacier has resulted in increased total sales including realized hedging, net income and funds from operations from the second quarter of 2014 to the fourth quarter of 2014.

## 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 natural gas and liquids prices, operating expense, royalty burden changes, and future development costs. Reserve estimates impact net income and comprehensive income through depreciation and impairment of natural gas and liquids properties. The reserve estimates are also used to assess the borrowing base 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 base of the Corporation.

Management's process of determining the provision for deferred income taxes, the provision for decommissioning liability costs and related accretion expense and the fair values initially assigned to the convertible debentures liability and equity components 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

There have been no changes in accounting policies during the year ended December 31, 2014.

## Accounting Pronouncements not yet Adopted

Standards issued but not yet effective up to the date of issuance of the Corporation's financial statements are evaluated as to whether we expect changes to our financial reporting when they become effective. As at March 25, 2015, we do not expect any of the standards issued but not effective to result in changes to our current financial reporting when they become effective.

## 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, 2014. 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, 2014, 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 (2013) 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, 2014. 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, 2014 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 25, 2015

## Consolidated Financial Statements

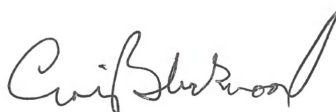
### Management's Responsibility for Financial Statements

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, 2014 and 2013, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended December 31, 2014 and 2013. 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 25, 2015

Craig Blackwood
Vice President Finance and Chief Financial Officer

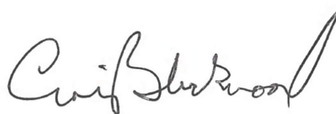
**Management's Report on Internal Control over Financial Reporting**

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 (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, we have concluded that as of December 31, 2014, 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, 2014, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinion.

Andy J. Mah
President and Chief Executive Officer
March 25, 2015



Craig Blackwood
Vice President Finance and Chief Financial Officer

March 25, 2015

## Independent Auditor's Report

**To the Shareholders of Advantage Oil & Gas Ltd.**

We have completed integrated audits of Advantage Oil & Gas Ltd.'s 2014 and 2013 consolidated financial statements and its internal control over financial reporting as at December 31, 2014. 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, 2014 and December 31, 2013 and the consolidated statements of comprehensive income (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, 2014 and December 31, 2013 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013), 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, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

PricewaterhouseCoopers LLP

**Chartered Accountants**

## Consolidated Statement of Financial Position

| (thousands of Canadian dollars) | Notes | December 31, 2014 | December 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Trade and other receivables | 5 | $ 21,974 | $ 32,016 |
| Prepaid expenses and deposits | | 2,503 | 3,357 |
| Derivative asset | 10 | 31,595 | 143 |
| Total current assets | | **56,072** | **35,516** |
| **Non-current assets** | | | |
| Derivative asset | 10 | 14,961 | 2,329 |
| Investments | 6 | - | 30,626 |
| Exploration and evaluation assets | 7 | 9,803 | 10,270 |
| Property, plant and equipment | 8 | 1,373,931 | 1,647,434 |
| Deferred income tax asset | 14 | - | 39,069 |
| Total non-current assets | | **1,398,695** | **1,729,728** |
| Total assets | | **$ 1,454,767** | **$ 1,765,244** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other accrued liabilities | | $ 81,741 | $ 93,893 |
| Derivative liability | 10 | - | 8,340 |
| Convertible debenture | 12 | 85,941 | - |
| Total current liabilities | | **167,682** | **102,233** |
| **Non-current liabilities** | | | |
| Derivative liability | 10 | - | 1,183 |
| Performance incentive plan | 17(b) | 512 | - |
| Bank indebtedness | 11 | 109,970 | 271,339 |
| Convertible debenture | 12 | - | 82,454 |
| Decommissioning liability | 13 | 48,878 | 100,616 |
| Deferred income tax liability | 14 | 33,399 | 3,006 |
| Total non-current liabilities | | **192,759** | **458,598** |
| Total liabilities | | **360,441** | **560,831** |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 15 | 2,234,959 | 2,229,598 |
| Convertible debenture equity component | 12 | 8,348 | 8,348 |
| Contributed surplus | | 90,904 | 92,276 |
| Deficit | | (1,239,885) | (1,255,588) |
| Total shareholders' equity attributable to Advantage shareholders | | **1,094,326** | **1,074,634** |
| Non-controlling interest | | - | 129,779 |
| Total shareholders' equity | | **1,094,326** | **1,204,413** |
| Total liabilities and shareholders' equity | | **$ 1,454,767** | **$ 1,765,244** |

**Commitments** (note 23)
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 Income (Loss)

| (thousands of Canadian dollars, except for per share amounts) | Notes | Year ended December 31 2014 | 2013 |
|---|---|---|---|
| *Continuing operations* | | | |
| Natural gas and liquids sales | 18 | $ 215,653 | $ 140,090 |
| Less: royalties | | (10,076) | (7,534) |
| Natural gas and liquids revenue | | 205,577 | 132,556 |
| Operating expense | | (15,412) | (20,515) |
| General and administrative expense | 19 | (9,579) | (24,426) |
| Depreciation expense | 8 | (85,460) | (72,140) |
| Exploration and evaluation expense | 7 | (53) | - |
| Finance expense | 20 | (14,792) | (18,225) |
| Gains (losses) on derivatives | 10 | 35,236 | (3,190) |
| Other income (expenses) | 21 | (10,527) | (3,979) |
| **Income (loss) before taxes from continuing operations** | | **104,990** | **(9,919)** |
| Income tax recovery (expense) | 14 | (30,393) | 1,622 |
| **Net income (loss) and comprehensive income (loss) from continuing operations** | | **74,597** | **(8,297)** |
| ***Discontinued operations*** | | | |
| **Net income (loss) from discontinued operations** | 24 | **(58,894)** | **4,915** |
| **Net income (loss) and comprehensive income (loss)** | | **$ 15,703** | **$ (3,382)** |
| **Net income (loss) per share** | 16 | | |
| Basic and diluted - from continuing operations | | **$ 0.44** | **$ (0.05)** |
| Basic and diluted - from discontinued operations | | **(0.35)** | **0.03** |
| Basic and diluted | | **$ 0.09** | **$ (0.02)** |

See accompanying Notes to the Consolidated Financial Statements

## Consolidated Statement of Changes in Shareholders' Equity

| (thousands of Canadian dollars) | Notes | Share capital | Convertible debenture equity component | Contributed surplus | Deficit | Total shareholders' equity attributable to Advantage shareholders | Non-controlling interest | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| Balance, December 31, 2013 | | $ 2,229,598 | $ 8,348 | $ 92,276 | $ (1,255,588) | **$ 1,074,634** | $ 129,779 | **$ 1,204,413** |
| Net income (loss) and comprehensive income (loss) | | | | | 15,703 | **15,703** | (85) | **15,618** |
| Share based compensation | 15, 17 | 5,361 | - | (1,372) | - | **3,989** | - | **3,989** |
| Change in ownership interest, share based compensation | | - | - | - | - | **-** | 334 | **334** |
| Dividends declared by Longview ($0.04 per Longview share) | | - | - | - | - | **-** | (1,032) | **(1,032)** |
| Disposition of Longview | 3b, 24 | - | - | - | - | **-** | (128,996) | **(128,996)** |
| **Balance, December 31, 2014** | | **$ 2,234,959** | **$ 8,348** | **$ 90,904** | **$ (1,239,885)** | **$ 1,094,326** | **$ -** | **$ 1,094,326** |

| (thousands of Canadian dollars) | Notes | Share capital | Convertible debenture 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 | 15, 17 | - | - | 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** |

See accompanying Notes to the Consolidated Financial Statements

## Consolidated Statement of Cash Flows

| (thousands of Canadian dollars) | Notes | Year ended December 31 2014 | 2013 |
|---|---|---|---|
| **Operating Activities** | | | |
| Income (loss) before taxes from continuing operations | | $ 104,990 | $ (9,919) |
| Add (deduct) items not requiring cash: | | | |
| Share based compensation | 15, 17 | 2,153 | 5,180 |
| Depreciation expense | 8 | 85,460 | 72,140 |
| Exploration and evaluation expense | 7 | 53 | - |
| Unrealized loss (gain) on derivatives | 10 | (47,786) | 6,043 |
| Loss on sale of assets | 21 | 1,489 | 6,354 |
| Accretion income - Questfire Debenture | 6, 21 | (557) | (1,516) |
| Loss on disposition of Questfire Debenture | 6 | 13,833 | - |
| Unrealized loss (gain) - Questfire Class B Shares | 6 | (150) | 900 |
| Finance expense | 20 | 14,792 | 18,225 |
| Expenditures on decommissioning liability | 13 | (446) | (4,664) |
| Changes in non-cash working capital | 22 | (3,924) | 6,623 |
| Cash provided by operating activities - continuing operations | | **169,907** | **99,366** |
| Cash provided by operating activities - discontinued operations | 24 | **12,434** | **65,651** |
| Cash provided by operating activities | | **182,341** | **165,017** |
| **Financing Activities** | | | |
| Decrease in bank indebtedness | 11 | (44,038) | (7,260) |
| Interest paid | | (9,956) | (11,756) |
| Cash used in financing activities - continuing operations | | **(53,994)** | **(19,016)** |
| Cash provided by (used in) financing activities - discontinued operations | 24 | **435** | **(15,217)** |
| Cash used in financing activities | | **(53,559)** | **(34,233)** |
| **Investing Activities** | | | |
| Expenditures on property, plant and equipment | 8, 22 | (221,810) | (139,716) |
| Expenditures on exploration and evaluation assets | 7 | (3,237) | (6,831) |
| Disposition of investments | 6 | 17,500 | - |
| Property dispositions | | (211) | 53,506 |
| Cash used in investing activities - continuing operations | | **(207,758)** | **(93,041)** |
| Cash provided by (used in) investing activities - discontinued operations | 24 | **78,976** | **(37,743)** |
| Cash used in investing activities | | **(128,782)** | **(130,784)** |
| Net change in cash | | - | - |
| Cash, beginning of year | | - | - |
| Cash, end of year | | $ - | $ - |

See accompanying Notes to the Consolidated Financial Statements

For the years ended December 31, 2014 and 2013

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 natural gas and liquids development and production corporation with a significant position in the Montney resource play 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 25, 2015, 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 10.

### (c) Functional and presentation currency

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

## 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.

## 3. Significant accounting policies (continued)

### (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. The only significant operating subsidiary was Longview Oil Corp. ("Longview"), a public Canadian corporation that was a junior oil-focused development and production company with properties located in Western Canada. At December 31, 2013, Advantage owned 45.1% of the common shares of Longview. Because the remaining ownership was dispersed, Advantage was considered to control Longview. Therefore, Longview was accounted for on a consolidated basis in these financial statements. The remaining 54.9% ownership was disclosed as non-controlling interest. All inter-corporate balances, income and expenses resulting from inter-corporate transactions were eliminated.

On February 28, 2014, the Corporation closed an offering (the "Offering") to sell the 21.15 million Longview common shares for net proceeds of $90.2 million. The results of operations of Longview from January 1, 2014 to February 28, 2014 are consolidated into the results of operations of the Corporation. Because Longview was an operating segment, its results are presented as "discontinued operations" for the periods January 1, 2014 to February 28, 2014 and the year ended December 31, 2013 as required by IFRS 5, *non-current assets held for sale and discontinued operations* (see note 24). On February 28, 2014, Advantage derecognized all assets, liabilities and the non-controlling interest of Longview from the consolidated statement of financial position as it had lost control of Longview as defined in IFRS 10, *consolidated financial statements*.

(ii) Joint arrangements

A significant portion of the Corporation's natural gas and liquids 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. Proceeds received consisted of cash and non-cash consideration. The Questfire Class B Shares were classified as financial assets at fair value through profit or loss. The Questfire Debenture was classified as a financial asset at amortized cost. Questfire repurchased these assets by way of agreement on March 26, 2014, and their balance is $Nil at December 31, 2014. (see note 6).

## 3. Significant accounting policies (continued)

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

(i) Recognition and measurement

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 natural gas and liquids 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.

Development and production costs

Items of property, plant and equipment, which include natural gas and liquids properties, 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 natural gas and liquids properties, have different useful lives, they are accounted for as separate items (major components).

(ii) Subsequent costs

Costs incurred subsequent to development and production that are significant are recognized as natural gas and liquids 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 natural gas and liquids 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 natural gas and liquids properties is depreciated using the units-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.

## 3. Significant accounting policies (continued)

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

(iv) Dispositions

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

(v) Impairment

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 of disposition. 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 of disposition 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 of disposition 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 natural gas and liquids 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).

### (e) 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)

### (f) 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 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.

On April 14, 2014, the Board of Directors approved a Restricted and Performance Award Incentive Plan to provide share based compensation for service providers. Awards granted under this plan are presently expected to be settled in cash, as the Corporation has not sought the approval of shareholders required to settle the awards in shares. In accordance with the requirements of IFRS 2, *Share Based Payments*, a liability is recorded as compensation expense is recognized. The liability is revalued at each reporting date and at the date of settlement. These changes in fair value are recognized in profit or loss for the period. The types and timing of awards under this plan are described in further detail in note 0.

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.

### (g) Revenue

Revenue from the sale of natural gas and liquids is recorded when the significant risks and rewards of ownership of the product is substantially transferred to the buyer.

### (h) Finance expense

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

### (i) 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 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.

### (j) 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.

## 4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated 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. Significant estimates and judgments made in the preparation of the consolidated financial statements are outlined below.

### (a) Reserves base

The natural gas and liquids development and production properties are depreciated on a units-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 natural gas and liquids in place, recovery factors and future natural gas and liquids 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.

### (b) Determination of cash generating unit

Management has determined there to be a single cash generating unit ("Glacier") on the basis of its ability to generate independent cash flows, similar reserve characteristics, geographical location, and shared infrastructure, namely a single processing plant owned by Advantage.

### (c) 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 of disposition. 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 & 8).

### (d) 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.

### (e) Income taxes

Income tax laws and regulations are subject to change. Deferred tax liabilities that arise from temporary differences between recorded amounts on the statement of financial position and their respective tax bases will be payable in future periods. The amount of a deferred tax liability is subject to management's best estimate of when a temporary difference will reverse and expected changes in income tax rates. These estimates by nature involve significant measurement uncertainty.

## 5. Trade and other receivables

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Trade receivables | $ 19,607 | $ 26,317 |
| Receivables from joint venture partners | 1,386 | 4,204 |
| Other | 981 | 1,495 |
| | **$ 21,974** | **$ 32,016** |

## 6. Investments

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Questfire Class B Shares | $ - | $ 3,750 |
| Questfire Convertible Senior Secured Debenture | - | 26,876 |
| | **$ -** | **$ 30,626** |

On March 26, 2014, Advantage entered into agreements whereby Questfire purchased both the Class B Shares and the Convertible Senior Secured Debenture for proceeds of $3.9 million and $13.6 million, respectively.

## 7. Exploration and evaluation assets

| | |
|---|---|
| Balance at December 31, 2012 | $ 2,381 |
| Additions | 6,977 |
| Exploration and evaluation expense | (195) |
| Transferred to property, plant and equipment (note 8) | (146) |
| Transferred from assets held for sale | 1,253 |
| Balance at December 31, 2013 | **$ 10,270** |
| Additions | 3,237 |
| Disposition of Longview (notes 3b and 24) | (2,335) |
| Exploration and evaluation expense | (53) |
| Transferred to property, plant and equipment (note 8) | (1,316) |
| Balance at December 31, 2014 | **$ 9,803** |

## 8. Property, plant and equipment

| Cost | Natural gas and liquids properties | Furniture and equipment | Total |
|---|---|---|---|
| Balance at December 31, 2012 | **$ 1,952,063** | **$ 5,240** | **$ 1,957,303** |
| Additions | 188,451 | - | 188,451 |
| Change in decommissioning liability (note 13) | (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** |
| Additions | 252,556 | - | 252,556 |
| Change in decommissioning liability (note 13) | 19,938 | - | 19,938 |
| Disposition of Longview (notes 3b and 24) | (664,090) | - | (664,090) |
| Transferred from exploration and evaluation assets (note 7) | 1,316 | - | 1,316 |
| Balance at December 31, 2014 | **$ 1,714,117** | **$ 5,240** | **$ 1,719,357** |

| Accumulated depreciation | Natural gas and liquids properties | Furniture and equipment | Total |
|---|---|---|---|
| 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** |
| Depreciation | 91,168 | 430 | 91,598 |
| Disposition of Longview (notes 3b and 24) | (208,375) | - | (208,375) |
| Balance at December 31, 2014 | **$ 341,906** | **$ 3,520** | **$ 345,426** |

| Net book value | Natural gas and liquids properties | Furniture and equipment | Total |
|---|---|---|---|
| At December 31, 2013 | $ 1,645,284 | $ 2,150 | $ 1,647,434 |
| At December 31, 2014 | $ 1,372,211 | $ 1,720 | $ 1,373,931 |

During the year ended December 31, 2014, Advantage capitalized general and administrative expenditures directly related to development activities of $7.5 million (December 31, 2013 - $11.7 million).

Advantage included future development costs of $1.7 billion (December 31, 2013 – $2.1 billion) in property, plant and equipment costs subject to depreciation.

## 9. Related party transactions

*Transactions between Advantage and Longview*

Up until February 28, 2014, Advantage and Longview were bound by a Technical Services Agreement ("TSA"). Under the TSA, 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. All amounts paid were recorded as general and administrative expenses and measured at the fair value, which was the amount agreed upon by the transacting parties.

Advantage charged Longview $0.1 million during the period from January 1, 2014 to February 28, 2014 (year ended December 31, 2013 - $5.2 million) under the TSA. Dividends declared and paid or payable from Longview to Advantage during the period from January 1, 2014 to February 28, 2014 totaled $0.8 million (year ended December 31, 2013 - $12.5 million). All amounts due to Advantage from Longview were non-interest bearing in nature, and were incurred within the normal course of business. Upon closing of the Offering (note 3(b)), the TSA was terminated, and all intercompany balances were settled.

## 9. Related party transactions (continued)

*Key management compensation*

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

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Salaries, director fees and short-term benefits | $ 2,297 | $ 5,916 |
| Share based compensation [(1)] | 2,669 | 1,180 |
| | $ 4,966 | $ 7,096 |

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

As at December 31, 2014, there is a $2.3 million commitment (December 31, 2013 - $1.9 million) related to change of control or termination of employment of officers.

## 10. Financial risk management

Financial instruments of the Corporation include trade and other receivables, deposits, trade and other accrued liabilities, bank indebtedness, convertible debenture, derivative assets and liabilities, and performance incentive plan liability.

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, 2014, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

The Corporation has a convertible debenture obligation outstanding, of which the liability component has been classified as a financial liability at amortized cost. The convertible debenture has fixed terms and interest rates resulting in fair values that will vary over time as market conditions change. As at December 31, 2014, the estimated fair value of the outstanding convertible debenture obligation was $86.3 million (December 31, 2013 - $86.7 million). The fair value of the liability component of the convertible debenture was determined based on the current public trading activity of the debenture.

Fair value is determined following a three level hierarchy:

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly. Such inputs can be corroborated with other observable inputs for substantially the complete term of the contract. Derivative assets and liabilities and the performance incentive plan liability are measured at fair value on a recurring basis. For derivative assets and liabilities, pricing inputs include quoted forward prices for commodities, foreign exchange rates, volatility and risk-free rate discounting, all of which can be observed or corroborated in the marketplace. For the performance incentive plan liability, pricing inputs include estimates of forfeitures and risk-free rate discounting. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices and share price 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.

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

| | | December 31, 2014 | | December 31, 2013 |
|---|---|---|---|---|
| Trade and other receivables | $ | 21,974 | $ | 32,016 |
| Deposits | | 1,210 | | 1,548 |
| Derivative asset | | 46,556 | | 2,472 |
| Questfire debenture | | - | | 26,876 |
| | **$** | **69,740** | **$** | **62,912** |

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 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, 2014, $0.6 million or 2.6% of trade and other receivables are outstanding for 90 days or more (December 31, 2013 - $0.9 million or 2.9% 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, 2014 or 2013.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for $14.7 million of the trade and other receivables at December 31, 2014 (December 31, 2013 - $13.0 million).

## 10. 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 $400 million credit facility agreements. Although the credit facilities are a source of liquidity risk, the facilities also mitigates liquidity risk by enabling Advantage to manage interim cash flow fluctuations. The terms of the credit facilities are such that they provide Advantage adequate flexibility to evaluate and assess liquidity issues if and when they arise. Additionally, the Corporation regularly monitors liquidity related to obligations by evaluating forecasted cash flows, optimal debt levels, capital spending activity, working capital requirements, and other potential cash expenditures. This continual financial assessment process further enables the Corporation to mitigate liquidity risk.

Advantage has a convertible debenture outstanding that matured on January 30, 2015 (note 12). Interest payments are made semi-annually with excess cash provided by operating activities. As the debenture becomes due, the Corporation can satisfy the obligation in cash or issue shares at a price determined in the applicable debenture agreement. This settlement alternative allows the Corporation to adequately manage liquidity, plan available cash resources and implement an optimal capital structure.

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

The timing of cash outflows relating to financial liabilities as at December 31, 2014 and 2013 are as follows:

| December 31, 2014 | | Less than one year | One to three years | Three to five years | Thereafter | Total |
|---|---|---|---|---|---|---|
| Trade and other accrued liabilities | | $ 81,741 | $ - | $ - | $ - | $ 81,741 |
| Bank indebtedness | - principal | - | 110,332 | - | - | 110,332 |
| | - interest [(1)] | 6,847 | 3,283 | - | - | 10,130 |
| Convertible debenture | - principal | 86,250 | - | - | - | 86,250 |
| | - interest | 2,144 | - | - | - | 2,144 |
| | | **$ 176,982** | **$ 113,615** | **$ -** | **$ -** | **$ 290,597** |

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

| 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 [(1)] | 13,626 | 6,496 | - | - | 20,122 |
| Convertible debenture | - principal | - | 86,250 | - | - | 86,250 |
| | - interest | 4,313 | 2,156 | - | - | 6,469 |
| | | **$ 120,172** | **$ 368,606** | **$ -** | **$ -** | **$ 488,778** |

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

## 10. Financial risk management (continued)

The Corporation's bank indebtedness does not have specific maturity dates. It is governed by credit facility agreements with a syndicate of financial institutions (note 11). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in June 2015. 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 natural gas prices used to calculate the fair value of the natural gas derivatives at December 31, 2014 would result in a $12.1 million change in net income for the year ended December 31, 2014.

As at December 31, 2014, the Corporation's natural gas hedging positions are summarized as follows:

| Period | Average Production Hedged | Average Price AECO ($Cdn.) |
|---|---|---|
| Q1 2015 to Q4 2015 | 78.2 mmcf/d | $3.90/mcf |
| Q1 2016 to Q4 2016 | 56.9 mmcf/d | $3.93/mcf |
| Q1 2017 | 47.4 mmcf/d | $3.95/mcf |

As at December 31, 2014, the fair value of the derivatives outstanding resulted in an asset of $46.6 million (December 31, 2013 – $2.5 million) and a liability of $Nil (December 31, 2013 – $9.5 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, 2014, $30.9 million was recognized in net income as a derivative gain (December 31, 2013 - $14.7 million derivative loss). The table below summarizes the realized and unrealized gains (losses) on derivatives recognized in net income (loss).

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Realized loss on derivatives | $ (14,028) | $ (3,936) |
| Unrealized gain (loss) on derivatives | 44,941 | (10,812) |
| | **$ 30,913** | **$ (14,748)** |
| From continuing operations | $ 35,236 | $ (3,190) |
| From discontinued operations | (4,323) | (11,558) |
| | **$ 30,913** | **$ (14,748)** |

### (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, 2014, net income (loss) and comprehensive income (loss) would have changed by $0.7 million (December 31, 2013 - $2.0 million) based on the average debt balance outstanding during the year.

## 10. Financial risk management (continued)

### (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, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

Advantage's capital structure as at December 31, 2014 and December 31, 2013 is as follows:

| | December 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| Bank indebtedness (non-current) (note 11) | $ | 109,970 | $ | 271,339 |
| Working capital deficit [1] | | 57,264 | | 58,520 |
| Net debt | | 167,234 | | 329,859 |
| Convertible debentures maturity value (current) | | 86,250 | | 86,250 |
| **Total debt** | **$** | **253,484** | **$** | **416,109** |
| Shares outstanding (note 15) | | 170,067,650 | | 168,382,838 |
| Share closing market price ($/share) | $ | 5.56 | $ | 4.61 |
| Market capitalization [2] | | 945,576 | | 776,245 |
| **Total capitalization** | **$** | **1,199,060** | **$** | **1,192,354** |

(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.

## 11. Bank indebtedness

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| Revolving credit facility: | | |
| Advantage | $ 110,332 | $ 154,370 |
| Longview | - | 118,151 |
| Discount on Bankers Acceptances and other fees | (362) | (1,182) |
| **Balance, end of year** | **$ 109,970** | **$ 271,339** |

As at December 31, 2014, the Corporation had credit facilities (the "Credit Facilities") of $400 million. The Credit Facilities are comprised of a $20 million extendible revolving operating loan facility from one financial institution and $380 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 Corporation's debt to cash flow ratio. The Credit Facilities are 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 2015 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 a non-revolving term facility 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 natural gas and liquids production over three years and 50% over the fourth year. The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The only financial covenant is a requirement for the Corporation 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, 2014 and 2013. Breach of any covenant will result in an event of default in which case the Corporation has 20 days to remedy such default. If the default is not remedied or waived, and if required by the lenders, the administrative agent of the lenders has the option to declare all obligations under the credit facilities to be immediately due and payable without further demand, presentation, protest, days of grace, or notice of any kind. Interest payments under the debentures are subordinated to the repayment of any amounts owing under the Credit Facilities and are not permitted if the Corporation is in default of such Credit Facilities or if the amount of outstanding indebtedness under such facilities exceeds the then existing current borrowing base. For the year ended December 31, 2014, the average effective interest rate on the outstanding amounts under the facilities was approximately 3.8% (December 31, 2013 – 5.0%). Advantage has $2.5 million letters of credit issued and outstanding at December 31, 2014 (December 31, 2013 - $Nil).

## 12. 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, 2014 and changes in the liability and equity components during the years ended December 31, 2014 and 2013 are as follows:

| | | **5.00%** |
|---|---|---|
| Trading symbol | | AAV.DBH |
| Debentures outstanding | $ | 86,250 |
| Liability component: | | |
| Balance at December 31, 2012 | | **79,108** |
| Accretion of discount | | 3,346 |
| Balance at December 31, 2013 | **$** | **82,454** |
| Accretion of discount | | 3,487 |
| Balance at December 31, 2014 | **$** | **85,941** |
| Equity component: | | |
| Balance at December 31, 2013 | **$** | **8,348** |
| Balance at December 31, 2014 | **$** | **8,348** |

There were no convertible debenture conversions during the years ended December 31, 2014 and 2013. On January 30, 2015, both the principal and final interest payment were settled with cash drawn from the credit facility, with the exception of $0.01 million, which was converted to 1,162 common shares.

## 13. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids 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 2015 and 2074. A risk-free rate of 2.33% (December 31, 2013 – 3.20%) and an inflation factor of 2% (December 31, 2013 – 2%) were used to calculate the fair value of the decommissioning liability at December 31, 2014. A reconciliation of the decommissioning liability is provided below:

| | Year ended December 31, 2014 | | Year ended December 31, 2013 | |
|---|---|---|---|---|
| Balance, beginning of year | $ | 100,616 | $ | 126,224 |
| Accretion expense | | 1,364 | | 4,587 |
| Liabilities incurred | | 4,218 | | 3,908 |
| Change in estimates | | 683 | | 1,335 |
| Effect of change in risk-free rate | | 15,037 | | (35,630) |
| Property dispositions | | - | | (1,419) |
| Liabilities settled | | (482) | | (3,098) |
| Disposition of Longview (note 3b and 24) | | (72,558) | | - |
| | | 48,878 | | 95,907 |
| Transferred from assets held for sale | | - | | 4,709 |
| **Balance, end of year** | **$** | **48,878** | **$** | **100,616** |

## 14. Income taxes

The provision for income taxes is as follows:

| | Year ended December 31, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Current income tax expense | $ - | $ - |
| Deferred income tax expense (recovery) | 30,393 | (1,622) |
| Income tax expense (recovery) | $ 30,393 | $ (1,622) |

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, 2014 | Year ended December 31, 2013 |
|---|---|---|
| Income (loss) before taxes from continuing operations | $ 104,990 | $ (9,919) |
| Combined federal and provincial income tax rates | 25.00% | 25.00% |
| Expected income tax expense (recovery) | 26,248 | (2,480) |
| Increase (decrease) in income taxes resulting from: | | |
| Non-deductible share based compensation | 823 | 1,987 |
| Change in estimated pool balances | - | (2,350) |
| Unrecognized deferred tax asset on sale of Questfire Debenture | 3,458 | - |
| Difference between current and expected tax rates | (136) | 1,221 |
| | $ 30,393 | $ (1,622) |
| Effective tax rate | 28.95% | 16.35% |

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, 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 |
| Charged (credited) to income | 10,586 | 13,430 | 24,016 |
| Balance at December 31, 2014 | $ 229,025 | $ 11,639 | $ 240,664 |

| Deferred income tax asset | Decommissioning liability | Non-capital losses | Other | Total |
|---|---|---|---|---|
| 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) |
| Charged (credited) to income | 13,320 | 31,956 | 170 | 45,446 |
| Balance at December 31, 2014 | $ (12,303) | $ (183,613) | $ (11,349) | $ (207,265) |

| Net deferred income tax liability (asset) | Longview | Advantage | Total |
|---|---|---|---|
| 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) |
| Charged (credited) to income | 39,069 | 30,393 | 69,462 |
| Balance at December 31, 2014 | $ - | $ 33,399 | $ 33,399 |

The estimated tax pools available at December 31, 2014 are as follows:

| | | |
|---|---|---|
| Canadian development expenses | $ | 219,133 |
| Canadian exploration expenses | | 65,944 |
| Canadian oil and gas property expenses | | 2,907 |
| Non-capital losses | | 734,455 |
| Capital losses | | 157,869 |
| Undepreciated capital cost | | 168,869 |
| Other | | 10,122 |
| | $ | 1,359,299 |

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

A deferred tax asset has not been recognized for capital losses realized in the amount of $158 million (December 31, 2013 – $11 million). Recognition is dependent on the realization of future taxable capital gains.

## 15. 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, 2012 and December 31, 2013 | 168,382,838 | $ | 2,229,598 |
| Share based compensation (note 17) | 1,684,812 | | 5,361 |
| Balance at December 31, 2014 | 170,067,650 | $ | 2,234,959 |

## 16. Net income (loss) per share attributable to Advantage shareholders

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

| | | Year ended December 31, 2014 | | Year ended December 31, 2013 |
|---|---|---|---|---|
| Net income (loss) attributable to Advantage shareholders | | | | |
| Basic and diluted - continuing operations | $ | 74,597 | $ | (8,297) |
| Basic and diluted - discontinued operations | | (58,894) | | 4,915 |
| Basic and diluted | $ | 15,703 | $ | (3,382) |
| Weighted average shares outstanding | | | | |
| Basic | | 169,482,394 | | 168,382,838 |
| Stock Option Plan | | 1,317,671 | | 1,445,884 |
| Diluted | | 170,800,065 | | 169,828,722 |

The calculation of diluted net income (loss) per share for the years ended December 31, 2014 and 2013 excludes the convertible debenture, as its impact would be anti-dilutive. Total weighted average shares issuable in exchange for the convertible debenture excluded from the diluted net income (loss) per share calculation for the years ended December 31, 2014 and 2013 was 10,029,070 shares. As at December 31, 2014 and 2013, the total convertible debenture outstanding was convertible to 10,029,070 shares.

## 17. Share based compensation

### (a) Stock option plan

Under the Stock Option Plan, service providers are granted options 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 valuation model, using weighted average assumptions as follows:

| | |
|---|---|
| Volatility | 41% |
| Expected forfeiture rate | 0.85% |
| Dividend rate | 0% |
| Risk-free rate | 1.07% |

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, 2014:

| | Stock Options | Weighted-Average Exercise Price |
|---|---|---|
| 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 |
| Exercised | (7,435,115) | 3.67 |
| Granted | 3,777,255 | 5.00 |
| Forfeited/cancelled | (4,258,307) | 3.70 |
| Balance at December 31, 2014 | 5,144,676 | $ 4.63 |

| | Stock Options Outstanding | | | Stock Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price | Number of Stock Options Outstanding | Weighted Average Remaining Contractual Life - Years | Weighted Average Exercise Price | Number of Stock Options Exercisable | Weighted Average Exercise Price |
| $3.69 - $4.43 | 3,674,727 | 1.35 | $ 4.14 | 726,949 | $ 3.69 |
| $4.44 - $6.34 | 1,469,949 | 4.29 | 5.87 | - | - |
| $3.69 - $6.34 | 5,144,676 | 2.19 | $ 4.63 | 726,949 | $ 3.69 |

## 17. Share based compensation (continued)

### (b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of Incentive Awards: Restricted Awards and Performance Awards. A Restricted Award is a grant denominated in a fixed number of common shares which generally vests 1/3 on the first anniversary of the grant date, 1/3 on the second anniversary, and 1/3 on the third anniversary. A Performance Award is a grant denominated in a fixed number of common shares which vests on the third anniversary of the grant date. Performance Award grants are multiplied by a Payout Multiplier. The Payout Multiplier is a number between zero (0) and two (2), and is determined based on an equal weighting of three Corporate Performance Measures: Relative Total Shareholder Return, Annual Cash Flow Per Share and Relative Cost Structure.

As at December 31, 2014, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

| | |
|---|---|
| Balance at December 31, 2012 and 2013 | - |
| Granted | 409,702 |
| Forfeited | (3,560) |
| Balance at December 31, 2014 | 406,142 |

Share based compensation recognized by plan for the years ended December 31, 2014 and 2013 are as follows:

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| RSPIP [1] | $ 1,058 | $ 420 |
| Stock Option Plan | 3,265 | 7,874 |
| Performance Incentive Plan | 512 | - |
| Total share based compensation | 4,835 | 8,294 |
| Capitalized | (2,016) | (2,838) |
| Net share based compensation expense | **$ 2,819** | **$ 5,456** |
| | | |
| From continuing operations | $ 2,153 | $ 5,180 |
| From discontinued operations | 666 | 276 |
| | **$ 2,819** | **$ 5,456** |

[1] Relates solely to discontinued operations

## 18. Natural gas and liquids sales

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Natural gas sales | $ 212,579 | $ 134,878 |
| Crude oil and natural gas liquids sales | 27,789 | 154,864 |
| Total natural gas and liquids sales | **$ 240,368** | **$ 289,742** |
| | | |
| From continuing operations | $ 215,653 | $ 140,090 |
| From discontinued operations | 24,715 | 149,652 |
| | **$ 240,368** | **$ 289,742** |

## 19. General and administrative expense ("G&A")

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Salaries and benefits | $ 8,786 | $ 22,877 |
| Share based compensation (note 17) | 4,835 | 8,294 |
| Office rent | 1,173 | 2,109 |
| Other | 4,126 | 5,863 |
| Total G&A | **18,920** | **39,143** |
| Capitalized (note 8) | (7,450) | (11,735) |
| Net G&A | **$ 11,470** | **$ 27,408** |
| | | |
| From continuing operations | $ 9,579 | $ 24,426 |
| From discontinued operations | 1,891 | 2,982 |
| | **$ 11,470** | **$ 27,408** |

## 20. Finance expense

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Interest on bank indebtedness (note 11) | $ 6,817 | $ 13,305 |
| Interest on convertible debenture (note 12) | 4,313 | 4,313 |
| Accretion on convertible debenture (note 12) | 3,487 | 3,346 |
| Accretion of decomissioning liability (note 13) | 1,364 | 5,169 |
| Total finance expense | **$ 15,981** | **$ 26,133** |
| | | |
| From continuing operations | $ 14,792 | $ 18,225 |
| From discontinued operations | 1,189 | 7,908 |
| | **$ 15,981** | **$ 26,133** |

## 21. Other income (expenses)

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| Interest income - Questfire Debenture (note 6) | $ 455 | $ 1,312 |
| Accretion income - Questfire Debenture (note 6) | 557 | 1,516 |
| Loss on disposition of Questfire Debenture (note 6) | (13,833) | - |
| Unrealized gain (loss) - Questfire Class B Shares | 150 | (900) |
| Loss on sale of assets | (1,489) | (8,154) |
| Miscellaneous income | 3,633 | 1,102 |
| Total other income (expenses) | **$ (10,527)** | **$ (5,124)** |
| | | |
| From continuing operations | $ (10,527) | $ (3,979) |
| From discontinued operations | - | (1,145) |
| | **$ (10,527)** | **$ (5,124)** |

## 22. Supplementary cash flow information – continuing operations

Changes in non-cash working capital is comprised of:

| | Year ended December 31 | | | |
|---|---|---|---|---|
| | | 2014 | | 2013 |
| Source (use) of cash: | | | | |
| Trade and other receivables | $ | (4,876) | $ | 1,207 |
| Prepaid expenses and deposits | | 159 | | 1,835 |
| Trade and other accrued liabilities | | 11,525 | | 10,526 |
| | $ | 6,808 | $ | 13,568 |
| Related to operating activities | $ | (3,924) | $ | 6,623 |
| Related to financing activities | | 1,311 | | 206 |
| Related to investing activities | | 9,421 | | 6,739 |
| | $ | 6,808 | $ | 13,568 |

## 23. Commitments

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

| | December 31 | | | |
|---|---|---|---|---|
| | | 2014 | | 2013 |
| 2014 | | - | | 13,260 |
| 2015 | | 18,220 | | 4,305 |
| 2016 | | 20,485 | | - |
| 2017 | | 19,511 | | - |
| 2018 | | 17,414 | | - |
| 2019 | | 15,677 | | - |
| 2020 and thereafter | | 33,386 | | - |
| Total commitments | **$** | **124,693** | **$** | **17,565** |

## 24. Discontinued operations

The Corporation was previously comprised of two operating segments: Advantage Oil & Gas Ltd. ("Advantage") and Longview Oil Corp. ("Longview"). Advantage develops and operates a natural gas focused property in Alberta. Longview developed and operated primarily conventional oil and natural gas liquids focused properties in Alberta and Saskatchewan. On February 28, 2014, the Corporation discontinued the Longview segment by selling its investment in Longview pursuant to the Offering (note 3(b)).

Results of the discontinued Longview segment are as follows:

| | Year ended December 31 | |
|---|---|---|
| | 2014 [(1)] | 2013 |
| (thousands of Canadian dollars) | | |
| Petroleum and natural gas sales | $ 24,715 | $ 149,652 |
| Less: royalties | (4,108) | (26,297) |
| Petroleum and natural gas revenue | 20,607 | 123,355 |
| Operating expense | (7,022) | (45,799) |
| General and administrative expense | (1,891) | (2,982) |
| Depreciation expense | (6,138) | (39,048) |
| Finance expense | (1,189) | (7,908) |
| Losses on derivatives | (4,323) | (11,558) |
| Exploration and evaluation expense | - | (195) |
| Other income (expenses) | - | (1,145) |
| Non-controlling interest | 85 | (5,981) |
| **Income before taxes from discontinued operations** | **129** | **8,739** |
| Income tax expense | (198) | (3,824) |
| **Income (loss) from discontinued operations** | **(69)** | **4,915** |
| Loss on disposition of Longview | (58,825) | - |
| **Net income (loss) from discontinued operations** | **$ (58,894)** | **$ 4,915** |

(1) Results from January 1, 2014 to February 28, 2014

Cash flows of the discontinued Longview segment are as follows:

| | Year ended December 31 | |
|---|---|---|
| | 2014 | 2013 |
| (thousands of Canadian dollars) | | |
| Cash flow from operating activities | $ 12,434 | $ 65,651 |
| Cash flow from (used in) financing activities | 435 | (15,217) |
| Cash flow from (used in) investing activities | 78,976 | (37,743) |

## Directors

Stephen E. Balog [1][2][3]
Paul G. Haggis [1][2][3]
Andy J. Mah
Ronald A. McIntosh [2][3]
Grant Fagerheim [1][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 |

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## Toronto Stock Exchange Trading Symbols

Shares: AAV

## New York Stock Exchange Trading Symbol

Shares: AAV