2015 Annual Report

Financial and Operating Highlights [1]	Three months ended December 31		Year ended December 31	
	2015	**2014**	**2015**	**2014**
Financial ($000, except as otherwise indicated)				
Sales including realized hedging	**$ 42,654**	$ 46,409	**$ 165,054**	$ 203,103
Funds from operations	**$ 31,656**	$ 39,182	**$ 123,630**	$ 164,010
per share [2]	**$ 0.19**	$ 0.23	**$ 0.72**	$ 0.97
Total capital expenditures	**$ 27,604**	$ 87,086	**$ 164,983**	$ 236,701
Working capital deficit [3]	**$ 7,196**	$ 57,264	**$ 7,196**	$ 57,264
Bank indebtedness	**$ 286,519**	$ 109,970	**$ 286,519**	$ 109,970
Convertible debentures (face value)	**$ -**	$ 86,250	**$ -**	$ 86,250
Basic weighted average shares (000)	**170,742**	170,068	**170,608**	169,482
Operating				
Daily Production				
Natural gas (mcf/d)	**154,241**	133,433	**139,927**	130,627
Liquids (bbls/d)	**179**	113	**154**	159
Total mcfe/d [4]	**155,315**	134,111	**140,851**	131,581
Total boe/d [4]	**25,886**	22,352	**23,475**	21,930
Average prices (including hedging)				
Natural gas ($/mcf)	**$ 2.96**	$ 3.72	**$ 3.18**	$ 4.15
Liquids ($/bbl)	**$ 43.24**	$ 71.35	**$ 44.60**	$ 89.84
Cash netbacks ($/mcfe) [4]				
Natural gas and liquids sales	**$ 2.37**	$ 3.82	**$ 2.57**	$ 4.49
Realized gains (losses) on derivatives	**0.61**	(0.06)	**0.64**	(0.26)
Royalties	**(0.10)**	(0.18)	**(0.11)**	(0.21)
Operating expense	**(0.35)**	(0.34)	**(0.36)**	(0.32)
Operating netback	**2.53**	3.24	**2.74**	3.70
General and administrative	**(0.11)**	(0.11)	**(0.14)**	(0.15)
Finance expense	**(0.21)**	(0.20)	**(0.21)**	(0.21)
Other income (expense)	**(0.01)**	0.25	**0.01**	0.09
Cash netbacks	**$ 2.20**	$ 3.18	**$ 2.40**	$ 3.43

(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 liquids.

CONTENTS

Message to Shareholders ... 3
Reserves ... 5
Consolidated Management's Discussion & Analysis ... 10
Consolidated Financial Statements ... 27
Consolidated Statement of Financial Position ... 31
Consolidated Statement of Comprehensive Income ... 32
Consolidated Statement of Changes in Shareholders' Equity ... 33
Consolidated Statement of Cash Flows ... 34
Notes To The Consolidated Financial Statements ... 35

MESSAGE TO SHAREHOLDERS

Industry Leading Operating Efficiencies and Low Cash Costs Highlights Advantage's 2015 Achievements

Advantage Oil & Gas Ltd. achieved industry leading operating efficiencies as the Corporation continued to advance its Glacier Montney development. Advantage reduced 2015 total cash costs by 8% to $0.82/mcfe and to $0.77/mcfe in the fourth quarter of 2015, added proven plus probable ("2P") reserves at a finding and development ("F&D") cost of $0.77/mcfe ($4.65/boe) (1) and expanded its 100% owned Glacier gas plant processing capacity to 250 mmcf/d to accommodate growth through 2017.

These achievements reaffirm our belief in the long term value of the Corporation's Glacier Montney asset and with an estimated pro-forma 2016 year-end total debt to trailing cash flow of approximately 1.0 times based on our annual budget(2), Advantage has announced plans to expand its Glacier gas plant process capacity beginning in the second half of 2017 to 350 mmcf/d to accommodate future growth.

We sincerely thank Advantage's Board of Directors, our shareholders and especially the dedication and extra-efforts of our staff who have contributed to the Corporation's ongoing success and achievements.

Notes:

(1) *Please refer to Advantage's Year-end 2015 Reserves press release dated February 16, 2016 for additional details. F&D costs are calculated by dividing total capital by reserve additions during the applicable period. Total capital includes both capital expenditures incurred and changes in future development capital required to bring proved undeveloped reserves and probable reserves to production during the applicable period. Reserve additions is calculated as the change in reserves from the beginning to the end of the applicable period excluding production.*

.(2) *The pro-forma budgeted 2016 year-end total debt to trailing cash flow is based on AECO Cdn $2.50/mcf and Advantage's current hedge positions and includes estimated net proceeds of approximately $95 million (includes the estimated net proceeds from the over-allotment option) resulting from the Corporation's bought deal equity financing announced on February 18, 2016 (the "Bought Deal").*

2015 Operating and Financial Highlights

Production increased 16% to 155.3 mmcfe/d (25,886 boe/d) for the fourth quarter of 2015 and 7% to 141 mmcfe/d for 2015 as compared to the similar periods in 2014. Production growth was achieved despite a total of 107 days of TransCanada Pipelines Ltd. ("TCPL") firm service sales pipeline restrictions and outages realized from April to December 2015 and additional production interruptions required during the construction and expansion of Advantage's Glacier gas plant.

Funds from operations for full year 2015 was $123.6 million or $0.72 per share and $31.7 million or $0.19 per share for the fourth quarter. Hedging gains of $8.8 million and $32.7 million during the three months and year ended December 31, 2015, respectively, partially offset the decrease in Canadian natural gas prices. Advantage's cash netback for 2015 was $2.40/mcfe ($14.43/boe) which represents 75% of the realized sales price, including hedging.

Total debt as of December 31, 2015 was $294 million including working capital deficit as compared to our $450 borrowing base Credit Facility. Total debt including working capital deficit at December 31, 2015 reduced for the estimated net proceeds of the Bought Deal (including the over-allotment option) would be $199 million. Advantage's Credit Facility borrowing base was reconfirmed at $450 million during its normal semi-annual review process in October 2015. This results in a year-end 2015 undrawn bank line of $163 million that would increase to $258 million after application of the estimated Bought Deal net proceeds, which provides continued financial flexibility to support future development.

Total cash costs decreased 8% to $0.82/mcfe in 2015 with the fourth quarter of 2015 decreased by 7% to $0.77/mcfe as compared to the same periods of 2014. Total cash costs of $0.77/mcfe in the fourth quarter of 2015 include operating expense ($0.35/mcfe), royalties ($0.10/mcfe), general and administrative expense ($0.11/mcfe), and finance expense ($0.21/mcfe).

Strong natural gas hedge positions averaging 52% of forecast net production for 2016 at an average AECO floor price of Cdn $3.62/mcf provides near term downside gas price protection. For 2017 and the first quarter of 2018, Advantage has hedged an average 31% and 37% of its forecast net production at an average AECO floor price of Cdn $3.24/mcf and Cdn $3.12/mcf, respectively.

2015 TCPL Sales Gas Pipeline Restrictions Subsiding in 2016

Advantage experienced a total 107 days of TCPL firm service sales pipeline restrictions and outages from April to December 2015. Additionally, no interruptible ("IT") service was available in the Glacier area after April 2015 resulting in limited flexibility to offset normal maintenance activities or production outages required during our construction work at the Glacier gas plant. TCPL pipeline capacity in northwest Alberta is currently increasing after additional firm service restrictions occurred in January and February 2016 in the Glacier area. Advantage anticipates the availability of IT service will increase during the remainder of the first quarter of 2016 which should allow throughput capacity testing of the Corporation's expanded Glacier gas plant.

Looking Forward

Advantage's achievements in 2015 and its ongoing focus on operational and capital efficiencies continue to strengthen the foundation of our Glacier Montney development program to generate profitable growth in this low commodity price environment.

For 2016, Advantage's current standing well inventory of 37 total standing wells (23 completed and 14 uncompleted) are expected to provide sufficient productive capacity to attain the Corporation's previously announced average annual production guidance for the year ended December 31, 2016 of 190 to 210 mmcfe/d.

The Glacier gas plant expansion completed in 2015 increased processing capacity to 250 mmcf/d and provided 70 mmcf/d of additional capacity to meet future growth in 2016 and 2017. Advantage's future facility growth plans include another significant expansion of the Glacier gas plant beginning in the second half of 2017 to increase processing capacity by 100 mmcf/d to a total of 350 mmcf/d to support future growth. Additionally, Advantage's 100% ownership of the Glacier gas plant provides flexibility to process varying amounts of dry and liquids rich gas to optimize investment returns and cash netbacks.

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, 2015	December 31, 2014
Proved plus probable reserves (mboe)	325,347	300,558
Present Value of 2P reserves discounted at 10%, before tax ($000)[1]	$2,035,424	$2,297,158
Net Asset Value per Share discounted at 10%, before tax [2]	$10.51	$12.35
Reserve Life Index (proved plus probable - years) [3]	34.4	36.8
Reserves per Share (proved plus probable) [2]	1.90	1.77
Bank debt per boe of reserves [4]	$0.88	$0.37
Convertible debentures per boe of reserves [4]	$Nil	$0.29

(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 170.827 million Shares outstanding at December 31, 2015, and 170.068 million at December 31, 2014.

(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, 2015

	Oil (mbbl)	Natural Gas Liquids (mbbl)	Natural Gas (mmcf)	Equivalent (mboe)
Proved				
Developed Producing	9	2,496	287,183	50,369
Developed Non-producing	-	913	43,164	8,107
Undeveloped	-	8,688	876,137	154,711
Total Proved	**9**	**12,097**	**1,206,484**	**213,187**
Probable	3	8,024	624,800	112,160
Total Proved + Probable	**12**	**20,121**	**1,831,284**	**325,347**

Present Value of Future Net Revenue using Sproule price and cost forecasts [1][2][3] ($000)

	Before Income Taxes Discounted at		
	0%	10%	15%
Proved			
Developed Producing	$742,984	$508,466	$433,824
Developed Non-producing	154,300	93,084	77,262
Undeveloped	2,275,829	613,326	336,331
Total Proved	**3,173,113**	**1,214,876**	**847,417**
Probable	2,476,139	820,548	558,203
Total Proved + Probable	**$5,649,252**	**$2,035,424**	**$1,405,620**

(1) Advantage's crude oil, natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2015 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.

(3) Future Net Revenue incorporates Managements' estimates of required abandonment and reclamation costs, including expected timing such costs will be incurred, associated with all wells, facilities and infrastructure. No abandonment and reclamation costs have been excluded.

Sproule Price Forecasts

The present value of future net revenue at December 31, 2015 was based upon natural gas and natural gas liquids pricing assumptions prepared by Sproule effective December 31, 2015. 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)
2016	2.25	2.25	9.09	39.09	59.10	0.75
2017	2.95	3.00	13.64	51.43	73.88	0.80
2018	3.42	3.50	25.84	58.46	83.98	0.83
2019	3.91	4.00	35.35	66.64	95.73	0.85
2020	4.20	4.25	42.30	68.35	98.19	0.85
2021	4.28	4.31	42.94	69.38	99.66	0.85
2022	4.35	4.38	43.58	70.42	101.16	0.85

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, 2014	$37.53	$12.35	$8.16
Present value proved and probable reserves	$5,649,252	$2,035,424	$1,405,620
Undeveloped land [2]	10,071	10,071	10,071
Working capital (deficit) and other	37,039	37,039	37,039
Bank debt	(286,519)	(286,519)	(286,519)
Net asset value - December 31, 2015	$5,409,843	$1,796,015	$1,166,211
Net asset value per Share [1] - December 31, 2015	$31.67	$10.51	$6.83

[1] Based on 170.827 million Shares outstanding at December 31, 2015 and 170.068 million Shares outstanding at December 31, 2014.

[2] Internal estimate.

Gross Working Interest Reserves Reconciliation[1]

Proved	Light & Medium Oil (mbbl)	Natural Gas Liquids (mbbl)	Conventional Natural Gas (mmcf)	Total Oil Equivalent (mboe)
Opening balance December 31, 2014	4.9	8,442	1,101,700	192,063
Extensions	-	160	3,234	699
Infill drilling	-	1,901	83,102	15,751
Improved recovery	-	-	-	-
Technical revisions	5.2	1,753	83,996	15,758
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Dispositions	-	-	-	-
Economic factors	(0.1)	(101)	(14,482)	(2,515)
Production	(0.6)	(58)	(51,066)	(8,569)
Closing balance at December 31, 2015	9.4	12,097	1,206,484	213,187

Gross Working Interest Reserves Reconciliation[1] (continued)

Proved + Probable	Light & Medium Oil (mbbl)	Natural Gas Liquids (mbbl)	Conventional Natural Gas (mmcf)	Total Oil Equivalent (mboe)
Opening balance Dec. 31, 2014	6.8	15,682	1,709,216	300,558
Extensions	-	478	13,795	2,778
Infill Drilling	-	2,835	133,044	25,009
Improved recovery	-	-	-	-
Technical revisions	6.1	1,314	45,963	8,980
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Dispositions	-	-	-	-
Economic factors	(0.1)	(130)	(19,668)	(3,408)
Production	(0.6)	(57)	(51,066)	(8,569)
Closing balance at Dec. 31, 2015	12.2	20,121	1,831,284	325,347

[1] Technical revisions accounted for 53% of the total proved additions and 27% of the total proved + probable additions. Percentage of each category calculated by dividing the technical revisions in the category by the total reserve additions in the same category before production.

Finding & Development Costs ("F&D") [1][2][3][4]

2015 F&D Costs – Gross Working Interest Reserves Excluding Future Development Capital – NI 51-101

	Proved	Proved + Probable
Capital expenditures ($000)	164,983	164,983
Total mboe, end of year	213,287	325,347
Total mboe, beginning of year	192,603	300,558
Production, mboe	8,569	8,569
Reserve additions, mboe	29,693	33,358
2015 F&D costs ($/boe)	$5.56	$4.95
2014 F&D costs ($/boe)	$8.58	$9.20
Three-year average F&D costs ($/boe)	$6.37	$4.98

2015 F&D Costs – Gross Working Interest Reserves Including Future Development Capital – NI 51-101

	Proved	Proved + Probable
Capital expenditures ($000)	164,983	164,983
Net change in Future Development Capital ($000)	(9,895)	(9,948)
Total capital ($000)	155,088	155,035
Total mboe, end of year	213,187	325,347
Total mboe, beginning of year	192,063	300,558
Production, mboe	8,569	8,569
Reserve additions, mboe	29,693	33,358
2015 F&D costs ($/boe)	$5.22	$4.65
2014 F&D costs ($/boe)	$9.76	$6.17
Three-year average F&D costs ($/boe)	$8.37	$6.63

(1) F&D costs are calculated by dividing total capital by reserve additions during the applicable period. Total capital includes both capital expenditures incurred and changes in FDC required to bring the proved undeveloped and probable reserves to production during the applicable period. Reserve additions is calculated as the change in reserves from the beginning to the ending of the applicable period excluding production.

(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated FDC 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) Barrels of oil equivalent (boe) and thousand cubic feet of natural gas equivalent (mcfe) may be misleading, particularly if used in isolation. Boe and mcfe conversion ratios have been calculated using a conversion rate of six thousand cubic feet of natural gas equivalent to one barrel of oil. A boe and mcfe conversion ratio of 6 mcf: 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

(4) The change in FDC results primarily from on average $433,000 lower capital costs per booked location offset by higher capital inflation costs for three years (4%/year), additional booked locations and additional facility capital in 2018.

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of March 3, 2016, 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, 2015 and should be read in conjunction with the December 31, 2015 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, 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; 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; terms of the Corporation's equity compensation plans; estimated tax pools at December 31, 2015, including the components thereof; future commitments and contractual obligations; terms of the Corporation's credit facilities, including timing of the next review of the credit facilities, effect of revisions or changes in reserve estimates and commodity prices on the borrowing base, and limitations on the utilization of hedging contracts; the Corporation's expectations regarding extension of Advantage's credit facilities at each annual review; the Corporation's strategy for managing its capital structure, including the use of equity and/or debt financing arrangements, share repurchases, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, adjusting capital spending and 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 of Directors; effect of the Corporation's continual financial assessment processes on the Corporation's ability to mitigate risks; the Corporation's budgeted capital expenditures and anticipated funds from operations and total debt to funds from operations for 2016; the Corporation's belief that its existing financial strength will improve in 2016 as a result of it's credit facility together with planned expenditures on property, plant and equipment below expected funds from operations; the Corporation's ability to satisfy all liabilities and commitments, including a working capital deficit, and meet future obligations as they become due; the Corporation's expectation that its expenditures on property, plant and equipment will be fully funded from funds from operations; the Corporation's intentions to monitor debt levels to ensure an optimal mix of financing and cost of capital to provide a maximum return to the Corporation's shareholders; the anticipated processing capability of the Glacier gas plant and its ability to maintain and increase production to the levels disclosed herein; the focus of the Corporation's capital expenditures and operations, including the Corporation's drilling and facility expansion plans; 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, risks related to changes in general economic, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; 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; failure to achieve production targets on timelines anticipated or at all; 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; delays in timing of completion of the Corporation's plant expansion at Glacier; the failure to extend our 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: current and future prices of oil and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required regulatory approvals; 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 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:

	Three months ended December 31			Year ended December 31		
($000)	**2015**	**2014**	**% change**	**2015**	**2014**	**% change**
Cash provided by operating activities - continuing operations	$ 29,772	$ 48,218	(38) %	$ 113,364	$ 169,907	(33) %
Expenditures on decommissioning liability	552	367	50 %	1,262	446	183 %
Changes in non-cash working capital	4,297	(6,901)	(162) %	19,376	3,924	394 %
Finance expense [1]	(2,965)	(2,502)	19 %	(10,372)	(10,267)	1 %
Funds from operations - continuing operations	**$ 31,656**	**$ 39,182**	**(19) %**	**$ 123,630**	**164,010**	**(25) %**
Funds from operations - discontinued operations	-	-	- %	-	10,019	(100) %
Funds from operations	**$ 31,656**	**$ 39,182**	**(19) %**	**$ 123,630**	**$ 174,029**	**(29) %**

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

FINANCIAL AND OPERATING REVIEW – CONTINUING OPERATIONS

Overview

	Three months ended December 31				Year ended December 31			
	2015		2014		2015		2014	
	$000	per mcfe	$000	per mcfe	$000	per mcfe	$000	per mcfe
Natural gas and liquids sales	$ 33,867	$ 2.37	$ 47,186	$ 3.82	$ 132,311	$ 2.57	$ 215,653	$ 4.49
Realized gains (losses) on derivatives	8,787	0.61	(777)	(0.06)	32,743	0.64	(12,550)	(0.26)
Royalties	(1,379)	(0.10)	(2,209)	(0.18)	(5,837)	(0.11)	(10,076)	(0.21)
Operating expense	(4,998)	(0.35)	(4,184)	(0.34)	(18,357)	(0.36)	(15,412)	(0.32)
Operating income and operating netbacks	**36,277**	**2.53**	**40,016**	**3.24**	**140,860**	**2.74**	**177,615**	**3.70**
General and administrative expense (1)	(1,581)	(0.11)	(1,371)	(0.11)	(7,222)	(0.14)	(7,426)	(0.15)
Finance expense (2)	(2,965)	(0.21)	(2,502)	(0.20)	(10,372)	(0.21)	(10,267)	(0.21)
Other income (expense) (3)	(75)	(0.01)	3,039	0.25	364	0.01	4,088	0.09
Funds from operations and cash netbacks	**$ 31,656**	**$ 2.20**	**$ 39,182**	**$ 3.18**	**$ 123,630**	**$ 2.40**	**$ 164,010**	**$ 3.43**
Per basic weighted average share	**$ 0.19**		**$ 0.23**		**$ 0.72**		**$ 0.97**	

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

For the three months and year ended December 31, 2015, Advantage realized funds from operations of $31.7 million and $123.6 million with cash netbacks of $2.20/mcfe and $2.40/mcfe, respectively. On a per share basis, funds from operations was $0.19/share and $0.72/share for the three months and year ended December 31, 2015, respectively. The decrease in funds from operations and cash netbacks for 2015 as compared to 2014 was the result of a significant decrease in natural gas prices (see "Commodity Prices and Marketing"). The effect of lower natural gas prices was partially mitigated by our significant hedging position that resulted in realized gains of $8.8 million and $32.7 million for the three months and year ended December 31, 2015, respectively. Additionally, total cash costs for the three months and year ended December 31, 2015, including royalties, operating expense, general and administrative expense, and finance expense have been reduced by 7% and 8% to $0.77/mcfe and $0.82/mcfe, respectively, as compared to the same periods of 2014. 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. Production for the fourth quarter of 2015 increased 16% compared to the fourth quarter of 2014 and 4% above the third quarter of 2015 resulting from the successful expansion of Advantage's 100% owned Glacier gas plant in July 2015 (see "Production").

Natural Gas and Liquids Sales and Hedging

($000)	Three months ended December 31 2015	Three months ended December 31 2014	% change	Year ended December 31 2015	Year ended December 31 2014	% change
Natural gas sales	$ 33,155	$ 46,446	(29) %	$ 129,802	$ 210,444	(38) %
Realized gains (losses) on derivatives	8,787	(777)	(1,231) %	32,743	(12,550)	(361) %
Natural gas sales including hedging	41,942	45,669	(8) %	162,545	197,894	(18) %
Liquids sales	712	740	(4) %	2,509	5,209	(52) %
Total [(1)]	**$ 42,654**	**$ 46,409**	**(8) %**	**$ 165,054**	**$ 203,103**	**(19) %**

(1) Total excludes unrealized derivative gains and losses.

Total sales including hedging for the three months ended December 31, 2015 was $42.7 million, a decrease of $2.3 million or 5% as compared to the third quarter of 2015 and a decrease of $3.8 million or 8% as compared to the fourth quarter of 2014. For the year ended December 31, 2015 total sales including hedging was $165.1 million, a decrease of $38.0 million or 19% when compared to 2014 The decrease in total sales was the result of the significant decline in natural gas prices partially offset by increased production and realized hedging gains of $8.8 million and $32.7 million for the three months and year ended December 31, 2015, respectively.

Production

	Three months ended December 31 2015	Three months ended December 31 2014	% change	Year ended December 31 2015	Year ended December 31 2014	% change
Natural gas (mcf/d)	154,241	133,433	16 %	139,927	130,627	7 %
Liquids (bbls/d)	179	113	58 %	154	159	(3) %
Total - mcfe/d	**155,315**	**134,111**	**16 %**	**140,851**	**131,581**	**7 %**
- boe/d	**25,886**	**22,352**	**16 %**	**23,475**	**21,930**	**7 %**
Natural gas (%)	99%	99%		99%	99%	
Liquids (%)	1%	1%		1%	1%	

Production for the fourth quarter of 2015 was 16% higher as compared to the fourth quarter of 2014 and 4% higher compared to the third quarter of 2015. In 2015, we successfully completed the Glacier gas plant expansion and production ramp-up consistent with our multi-year development plan. However, production for the second half of 2015 was negatively affected by Trans-Canada Pipelines Ltd. ("TCPL") unplanned maintenance outages resulting in firm and interruptible transportation service restrictions on their northwest Alberta main gas pipeline. TCPL restrictions impacted our production for 40 days during the fourth quarter 2015 with no interruptible service available in the Glacier area. The amount of TCPL restrictions in the fourth quarter of 2015 were slightly more than anticipated. Production growth was achieved in 2015 despite a total of 107 days of TCPL firm service sales pipeline restrictions and outages realized from April to December 2015 and additional production interruptions required during the construction and expansion of Advantage's Glacier gas plant. These restrictions have continued into January and February 2016 although pipeline capacity in TCPL's northwest Alberta segment has recently experienced increasing capacity.

Commodity Prices and Marketing

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
Average Realized Pricing						
Natural gas, excluding hedging ($/mcf)	$ 2.34	$ 3.78	(38) %	$ 2.54	$ 4.41	(42) %
Natural gas, including hedging ($/mcf)	$ 2.96	$ 3.72	(20) %	$ 3.18	$ 4.15	(23) %
Liquids, including hedging ($/bbl)	$ 43.24	$ 71.35	(39) %	$ 44.60	$ 89.84	(50) %
Benchmark Prices						
AECO daily ($/mcf)	$ 2.46	$ 3.61	(32) %	$ 2.70	$ 4.47	(40) %
AECO monthly ($/mcf)	$ 2.65	$ 4.01	(34) %	$ 2.77	$ 4.42	(37) %
NYMEX ($US/mmbtu)	$ 2.28	$ 3.95	(42) %	$ 2.67	$ 4.38	(39) %
Edmonton Light ($/bbl)	$ 51.99	$ 75.54	(31) %	$ 56.74	$ 94.50	(40) %

Advantage's natural gas production at Glacier is delivered and sold directly into TCPL. The prices we receive are based on a combination of AECO daily and monthly. Specifically, Advantage sells production at the AECO monthly price equal to our hedged production volumes for any given month as all of our hedges are based on the AECO monthly index (see "Commodity Price Risk"). The remainder of our production is sold at the AECO daily index. Realized natural gas prices, excluding hedging, were lower than those of the prior year corresponding to the significant decline in AECO prices. Natural gas prices in early 2014 were much higher 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. Commencing in the second half of 2014, natural gas prices began decreasing due to the continued strong growth of U.S. domestic natural gas production without a similar corresponding growth in demand. This supply and demand imbalance has continued throughout 2015 and into 2016 with a particularly weak North American natural gas pricing environment.

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 derivative contracts to March 31, 2018 for the purpose of fixing the minimum prices that we receive for our natural gas production 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 Minimum Price AECO
Q1 2016 to Q4 2016	94.8 mmcf/d	52%	$3.62/mcf
Q1 2017 to Q4 2017	64.8 mmcf/d	31%	$3.24/mcf
Q1 2018	80.6 mmcf/d	37%	$3.12/mcf

A summary of realized and unrealized hedging gains and losses for the three months and years ended December 31, 2015 and 2014 are as follows:

	Three months ended December 31			Year ended December 31		
($000)	2015	2014	% change	2015	2014	% change
Realized gains (losses) on derivatives	$ 8,787	$ (777)	(1,231) %	$ 32,743	$ (12,550)	(361) %
Unrealized gains (losses) on derivatives	6,374	55,243	(88) %	(2,321)	47,786	(105) %
Total gains on derivatives	**$ 15,161**	**$ 54,466**	**(72) %**	**$ 30,422**	**$ 35,236**	**(14) %**

For the three months and year ended December 31, 2015, we realized derivative gains as a result of the significant decline in natural gas prices as compared to our average hedge prices. For the year ended December 31, 2015, an unrealized derivative loss of $2.3 million was recognized, being the decrease in fair value to a net derivative asset of $44.3 million at December 31, 2015 as compared to a net

derivative asset of $46.6 million at December 31, 2014. The fair value of the net derivative asset is the estimated value to settle the outstanding 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 between January 1, 2016 to March 31, 2018 corresponding to when the Corporation will recognize sales from production.

Royalties

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
Royalties ($000)	$ 1,379	$ 2,209	(38) %	$ 5,837	$ 10,076	(42) %
per mcfe	$ 0.10	$ 0.18	(44) %	$ 0.11	$ 0.21	(48) %
Royalty Rate (percentage of natural gas and liquids sales)	4.1%	4.7%	(0.6) %	4.4%	4.7%	(0.3) %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation has mineral leases with provincial governments, individuals and other companies. Our current average royalty rates are impacted by well depths, well production rates, and commodity prices. Royalties also include the impact of gas cost allowance which is a reduction of royalties payable to the Alberta Provincial Government to recognize capital and operating expenditures incurred by Advantage in the gathering and processing of the province's share of our natural gas production. Total royalties paid during the three months and year ended December 31, 2015 are lower than the same periods of 2014 due to the significant decline in natural gas prices.

On January 29, 2016, the Alberta government released its new Modernized Royalty Framework which is based on a revenue minus cost model and is effective for wells drilled after January 1, 2017. We are not yet able to assess the impact of the new Royalty Framework as the full details and royalty formulae have not been determined and released.

Operating Expense

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
Operating expense ($000)	$ 4,998	$ 4,184	19 %	$ 18,357	$ 15,412	19 %
per mcfe	$ 0.35	$ 0.34	3 %	$ 0.36	$ 0.32	13 %

Operating expense per mcfe for 2015 was comparable to the same periods of 2014. Operating expenses for the three months and year ended December 31, 2015 increased by 19% as compared to the same periods of 2014 due to additional third party water disposal and trucking costs resulting from the flowback of high volumes of water used during slick water completion operations in the second and third quarters of 2015 and higher daily production in the third and fourth quarters of 2015.

General and Administrative Expense

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
General and administrative expense						
Cash expense ($000)	$ 1,581	$ 1,371	15 %	$ 7,222	$ 7,426	(3) %
per mcfe	$ 0.11	$ 0.11	- %	$ 0.14	$ 0.15	(7) %
Share based compensation ($000)	$ 1,078	$ 577	87 %	$ 3,347	$ 2,153	55 %
per mcfe	$ 0.08	$ 0.05	60 %	$ 0.07	$ 0.04	75 %
Total general and administrative expense ($000)	$ 2,659	$ 1,948	36 %	$ 10,569	$ 9,579	10 %
per mcfe	$ 0.19	$ 0.16	19 %	$ 0.21	$ 0.19	11 %
Employees at December 31				26	27	(4) %

Cash general and administrative ("G&A") expense in total and on a per mcfe basis for 2015 was reasonably comparable to 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 and to align the interests of service providers with that of shareholders. During the 2015 year, Advantage granted 1.0 million stock options and 0.3 million performance awards. As at December 31, 2015, a total of 4.0 million stock options and 0.7 million performance awards are unexercised which represents 2.7% of Advantage's total outstanding common shares.

Depreciation Expense

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
Depreciation expense ($000)	$ 23,247	$ 21,329	9 %	$ 87,391	$ 85,460	2 %
per mcfe	$ 1.63	$ 1.73	(6) %	$ 1.70	$ 1.78	(4) %

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. The rate of depreciation expense per mcfe was lower as total costs, including future development costs, as a proportion of total proved and probable reserves declined due to the continued efficiency of reserve additions. Depreciation expense was higher in 2015 due to the continued production increase at Glacier.

Finance Expense

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
Finance expense						
Cash expense ($000)	$ 2,965	$ 2,502	19 %	$ 10,372	$ 10,267	1 %
per mcfe	$ 0.21	$ 0.20	5 %	$ 0.21	$ 0.21	- %
Accretion expense ($000)	$ 286	$ 1,124	(75) %	$ 1,440	$ 4,525	(68) %
per mcfe	$ 0.02	$ 0.09	(78) %	$ 0.03	$ 0.09	(67) %
Total finance expense ($000)	$ 3,251	$ 3,626	(10) %	$ 11,812	$ 14,792	(20) %
per mcfe	$ 0.23	$ 0.29	(21) %	$ 0.24	$ 0.30	(20) %

Cash finance expense was higher for the three months ended December 31, 2015, as compared to the same period of 2014, due to higher average bank debt as per our development plan. The Corporation's interest rates on bank indebtedness, that are primarily based on short term bankers' acceptance rates plus a stamping fee, also slightly increased in the current quarter due to the higher total debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities.

Accretion expense represents non-cash charges that increase the carrying value of convertible debentures and decommissioning liability as a result of the passage of time. Since our remaining convertible debentures matured on January 30, 2015, accretion expense for 2015 was lower than 2014.

Other Income (Expense)

	Three months ended December 31			Year ended December 31		
($000)	2015	2014	% change	2015	2014	% change
Interest income - Questfire Debenture	$ -	$ -	- %	$ -	$ 455	(100) %
Accretion income - Questfire Debenture	-	-	- %	-	557	(100) %
Loss on disposition - Questfire Debenture	-	-	- %	-	(13,833)	(100) %
Gain on disposition - Questfire Class B Shares	-	-	- %	-	150	(100) %
Gain (loss) on sale of asssets	-	-	- %	-	(1,489)	(100) %
Miscellaneous income (expense)	(75)	3,039	(102) %	364	3,633	(90) %
	$ (75)	$ 3,039	(102) %	$ 364	$ (10,527)	(103) %

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. During the same period, Advantage also accepted a Questfire offer to purchase by way of issuer bid, all of the Class B Shares, and recognized a net gain of $0.2 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, 2015, the Corporation recognized a deferred income tax expense of $7.8 million as a result of the $29.1 million income before taxes from continuing operations and a $1.6 million deferred income tax expense for the Alberta corporate tax rate increase from 10% to 12% enacted by the provincial government in June 2015. As at December 31, 2015, the Corporation had a deferred income tax liability balance of $41.1 million.

Estimated tax pools at December 31, 2015, are as follows:

	($ millions)
Canadian Development Expenses	$ 194
Canadian Exploration Expenses	66
Canadian Oil and Gas Property Expenses	4
Non-capital losses	736
Undepreciated Capital Cost	206
Capital losses	158
Scientific Research and Experimental Development Expenditures	33
Other	8
	$ 1,405

Net Income and Comprehensive Income from Continuing Operations

	Three months ended December 31			Year ended December 31		
	2015	2014	% change	2015	2014	% change
Net income and comprehensive income from continuing operations ($000)	$ 12,408	$ 53,682	(77) %	$ 21,378	$ 74,597	(71) %
per share - basic	$ 0.08	$ 0.32	(75) %	$ 0.13	$ 0.44	(70) %
per share - diluted	$ 0.07	$ 0.32	(78) %	$ 0.12	$ 0.44	(73) %

Advantage's net income from continuing operations has decreased from 2014 due to the significant decline in natural gas prices partially offset by increased production and gains on derivatives.

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 and bank indebtedness. 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**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**After 2021**
Building leases		$ 4.1	$ 1.1	$ 1.2	$ 1.1	$ 0.7	$ -	$ -	$ -
Pipeline/transportation		168.1	20.3	20.0	23.4	23.9	17.3	14.9	48.3
Bank indebtedness [(1)]	- principal	286.5	-	286.5	-	-	-	-	-
	- interest	16.4	11.1	5.3	-	-	-	-	-
Total contractual obligations		**$ 475.1**	**$ 32.5**	**$ 313.0**	**$ 24.5**	**$ 24.6**	**$ 17.3**	**$ 14.9**	**$ 48.3**

(1) As at December 31, 2015, 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 2016. 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.

Liquidity and Capital Resources

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

($000, except as otherwise indicated)		December 31, 2015
Bank indebtedness (non-current)	$	286,519
Working capital deficit [(1)]		7,196
Total debt [(3)]	**$**	**293,715**
Shares outstanding		170,827,158
Shares closing market price ($/share)	$	7.03
Market capitalization [(2)]	**$**	**1,200,915**
Total capitalization	**$**	**1,494,630**
Total debt to funds from operations [(4)]		**2.4**

(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 and working capital deficit.

(4) Total debt to funds from operations is calculated by dividing total debt by funds from operations for the previous four quarters.

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, and share capital. Advantage may manage its capital structure by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, or adjusting capital spending. 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. At December 31, 2015, the Corporation had $163.5 million available on its $450 million borrowing base Credit Facility. The only financial covenant is a requirement for the Corporation to maintain a minimum cash flow to interest expense ratio of 3.5:1, calculated as funds from operations divided by cash finance expense for the prior four quarters. The cash flow to interest expense ratio was 11.9:1 at December 31, 2015 and 16.0:1 at December 31, 2014. On December 16, 2015, the Corporation announced its 2016 budget and guidance as approved by the Board of Directors. The Corporation's 2016 capital program of $120 million is expected to generate surplus cash flow, enhance financial flexibility and continue growth in 2017. Based on an average 2016 natural gas price of AECO $2.50/mcf including Advantage's hedging positions, annual cash flow is estimated to be approximately $160 million with year-end total debt to funds from operations of approximately 1.6 times. Based on an average 2016 natural gas price of AECO $2.00/mcf and Advantage's current hedge positions, annual cash flow is estimated to be approximately $143 million with year-end total debt to funds from operations of approximately 1.9 times. Advantage will continue to closely monitor the commodity price environment through 2016 and adjust future growth plans as necessary to maintain balance sheet strength and preserve the long term value of its Glacier Montney asset.

Shareholders' Equity and Convertible Debentures

As at December 31, 2015, Advantage had 170.8 million common shares outstanding. During the year ended December 31, 2015, Advantage issued 0.8 million common shares to service providers in exchange for the exercise of 2.1 million stock options. As at December 31, 2015, a total of 4.0 million stock options and 0.7 million performance awards are unexercised which represents 2.7% of Advantage's total outstanding common shares. As at March 3, 2016, Advantage had 170.8 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. The convertible debentures matured on January 30, 2015 and were settled with cash from the Credit Facilities.

Bank Indebtedness, Credit Facilities and Other Obligations

At December 31, 2015, Advantage had bank indebtedness outstanding of $286.5 million, an increase of $176.5 million since December 31, 2014. The increase in bank indebtedness was consistent with our 2015 budget including $165 million of capital expenditure activity and the $86.2 million settlement of the convertible debentures that matured on January 30, 2015. Advantage's credit facilities borrowing base is $450 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. Advantage's Credit Facilities were reconfirmed in October 2015 as part of the banking syndicates' normal semi-annual re-determination. The next annual review is scheduled to occur in June 2016. 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 deficit of $7.2 million as at December 31, 2015, a significant decrease from December 31, 2014 due to the relatively high level of capital expenditure activity that was underway at that time. Our working capital includes items expected for normal operations such as trade receivables, prepaid expenses, 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 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)	**2015**	**2014**	**2015**	**2014**
Drilling, completions and workovers	$ 16,915	$ 66,144	$ 74,519	$ 195,802
Well equipping and facilities	10,289	20,292	88,580	37,662
Other	400	-	692	-
Expenditures on property, plant and equipment	27,604	86,436	163,791	233,464
Expenditures on exploration and evaluation assets	-	650	1,192	3,237
Net capital expenditures (1)	**$ 27,604**	**$ 87,086**	**$ 164,983**	**$ 236,701**

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

Advantage invested $163.8 million on property, plant and equipment at Glacier for the year ended December 31, 2015 with $27.6 million invested in the current quarter.

During the year a significant portion of our capital expenditures were directed to our 100% owned Glacier gas plant expansion project and expansion of our sales pipeline infrastructure. In total $75 million (45% of net capital expenditures) was spent on infrastructure projects with $65 million directed towards our plant expansion to increase processing capacity to 250mmcf/d and $10 million directed towards our sales pipeline. Both the Glacier gas plant and the sales pipeline were built to have spare capacity to meet future production growth in 2016 and 2017. In addition, the plant is capable of processing varying amounts of dry and liquids rich gas production to accommodate future development of our significant Montney land holdings at Glacier.

In 2015 Advantage drilled 16 Montney gas wells and 1 service well. Due to strong well performance and a substantial inventory of available production, only 5 Montney horizontal wells were drilled and rig released during the fourth quarter. Advantage's Upper, Middle and Lower Montney wells are continuing to demonstrate strong production performance and less wells have been required to maintain production than expected. Advantage's current standing well inventory consisted of 37 total wells of which 23 are completed and 14 remain uncompleted, which Management believes will provide sufficient productive capacity to attain our 2016 annual production target without drilling any additional wells.

In 2015, Advantage acquired 6 additional sections of Lower Doig/Montney land rights in the greater Glacier area. Advantage now holds a total of 138 net sections (88,840 net acres) of either Lower Doig or Montney rights.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the years ended December 31, 2015 and 2014 and the sources of funding to meet those requirements:

($000)	Year ended December 31 2015	Year ended December 31 2014
Sources of funds		
Increase in bank indebtedness	$ 177,197	$ -
Funds from operations	123,630	164,010
Disposition of Longview investment	-	90,153
Disposition of Questfire investments	-	17,500
Change in non-cash working capital and other	-	7,830
Dividends received from Longview	-	1,692
	$ 300,827	**$ 281,185**
Uses of funds		
Expenditures on property, plant and equipment	$ 163,791	$ 233,464
Maturity of convertible debenture	86,240	-
Change in non-cash working capital and other	48,342	-
Expenditures on exploration and evaluation assets	1,192	3,237
Expenditures on decommissioning liability	1,262	446
Decrease in bank indebtedness	-	44,038
	$ 300,827	**$ 281,185**

Bank indebtedness increased as planned during the year ended December 31, 2015 to fund capital expenditures and the maturity of our convertible debentures on January 30, 2015. In 2016, we anticipate our expenditures on property, plant and equipment to be primarily funded with funds from operations (see "Liquidity and Capital Resources"). 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 2015	Year ended December 31 2014 (1)
Production (boe/d)	-	5,622
Funds from operations ($000)	$ -	$ 10,019
Net capital expenditures ($000)	$ -	$ 19,092
Net loss and comprehensive loss from discontinued operations ($000)	$ -	$ (58,894)
per share - basic and diluted	$ -	$ (0.35)

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

Annual Financial Information

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

	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014	Year ended Dec. 31, 2013
Continuing Operations - Advantage			
Total sales (before royalties) ($000)	$ 132,311	$ 215,653	$ 140,090
Net income (loss) ($000)	$ 21,378	$ 74,597	$ (8,297)
per share - basic	$ 0.13	$ 0.44	$ (0.05)
per share - diluted	$ 0.12	$ 0.44	$ (0.05)
Total assets ($000)	$ 1,517,443	$ 1,454,767	$ 1,309,543
Long term financial liabilities ($000) [1]	$ 286,519	$ 110,482	$ 236,151
Discontinued Operations - Longview			
Total sales (before royalties) ($000)	$ -	$ 24,715	$ 149,652
Net income (loss) ($000)	$ -	$ (58,894)	$ 4,915
per share - basic and diluted	$ -	$ (0.35)	$ 0.03
Total assets ($000)	$ -	$ -	$ 455,701
Long term financial liabilities ($000) [1]	$ -	$ -	$ 117,642

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

Quarterly Performance

($000, except as otherwise indicated)	2015 Q4	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1
Continuing Operations - Advantage								
Daily production								
Natural gas (mcf/d)	154,241	147,574	124,299	133,281	133,433	131,553	134,912	122,481
Liquids (bbls/d)	179	212	112	112	113	161	200	164
Total (mcfe/d)	155,315	148,846	124,971	133,953	134,111	132,519	136,112	123,465
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 2.34	$ 2.66	$ 2.50	$ 2.68	$ 3.78	$ 4.03	$ 4.71	$ 5.21
Including hedging	$ 2.96	$ 3.25	$ 3.27	$ 3.30	$ 3.72	$ 3.80	$ 4.27	$ 4.89
AECO daily	$ 2.46	$ 2.90	$ 2.66	$ 2.76	$ 3.61	$ 4.02	$ 4.69	$ 5.59
AECO monthly	$ 2.65	$ 2.80	$ 2.67	$ 2.96	$ 4.01	$ 4.22	$ 4.68	$ 4.77
Liquids ($/bbl)								
Including hedging	$ 43.24	$ 45.43	$ 47.91	$ 41.86	$ 71.35	$ 83.14	$ 102.41	$ 94.10
Edmonton Light ($/bbl)	$ 51.99	$ 55.58	$ 67.68	$ 51.73	$ 75.54	$ 97.07	$ 105.65	$ 99.99
Total sales including realized hedging	$ 42,654	$ 44,980	$ 37,429	$ 39,991	$ 46,409	$ 47,190	$ 54,265	$ 55,239
Net income (loss)	$ 12,408	$ 6,959	$ (2,060)	$ 4,071	$ 53,682	$ 14,201	$ 24,330	$ (17,616)
per share - basic	$ 0.08	$ 0.04	$ (0.01)	$ 0.02	$ 0.32	$ 0.08	$ 0.14	$ (0.10)
per share - diluted	$ 0.07	$ 0.04	$ (0.01)	$ 0.02	$ 0.32	$ 0.08	$ 0.14	$ (0.10)
Funds from operations	$ 31,656	$ 34,474	$ 27,571	$ 29,929	$ 39,182	$ 36,818	$ 42,561	$ 45,449
Discontinued Operations - Longview								
Total sales including realized hedging	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 23,237
Net income (loss)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (58,894)
per share - basic and diluted [(1)]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (0.35)
Funds from operations	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,019

[(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 2015 and also for the preceding seven quarters for both continuing and discontinued operations. Successful execution of our 2013 capital development program at Glacier resulted in additional production growth in early 2014 as we reached our target of 135 mmcfe/d in March 2014. The 135 mmcfe/d production level was maintained as we drilled the required well inventory and completed the first phase of commissioning operations at our expanded Glacier plant in July 2015 at which time production capability reached 183 mmcfe/d. The Corporation's production for the second half of 2015 was negatively impacted by TCPL unplanned firm and interruptible service restrictions in addition to Advantage's planned outages required to install new equipment for the Glacier gas plant expansion.

Sales and funds from operations that increased dramatically in 2014 attributable to improved natural gas prices and production growth has decreased in 2015 with the decline in natural gas prices. Although Advantage has generally reported net income, we have reported a net loss during quarters of particularly 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 and industry leading low cost structure has generally resulted in strong sales including realized hedging, net income and funds from operations despite the challenging low natural gas prices.

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 and the provision for decommissioning liability costs and related accretion expense 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, 2015.

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 3, 2016, we are evaluating standards issued but not effective and we do not anticipate there to be material 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, 2015. 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, 2015, 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, 2015. 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, 2015 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) Advantage must 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) Advantage must annually 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 on 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 3, 2016

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 Professional Accountants, appointed by the shareholders as the external auditor of the Corporation, has audited the consolidated statement of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended December 31, 2015 and 2014. 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 3, 2016

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, 2015, 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 Professional 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, 2015, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinion.

Andy J. Mah
President and Chief Executive Officer
March 3, 2016

Craig Blackwood
Vice President Finance and Chief Financial Officer

March 3, 2016

Independent Auditor's Report

To the Shareholders of Advantage Oil & Gas Ltd.

We have completed integrated audits of Advantage Oil & Gas Ltd.'s 2015 and 2014 consolidated financial statements and its internal control over financial reporting as at December 31, 2015. 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, 2015 and December 31, 2014 and the consolidated statements of comprehensive income, 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, 2015 and December 31, 2014 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, 2015, 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, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

Consolidated Statement of Financial Position

(thousands of Canadian dollars)	Notes	December 31, 2015	December 31, 2014
ASSETS			
Current assets			
Trade and other receivables	5	$ 13,888	$ 21,974
Prepaid expenses and deposits		1,966	2,503
Derivative asset	9	37,009	31,595
Total current assets		**52,863**	**56,072**
Non-current assets			
Derivative asset	9	7,426	14,961
Exploration and evaluation assets	6	10,071	9,803
Property, plant and equipment	7	1,447,083	1,373,931
Total non-current assets		**1,464,580**	**1,398,695**
Total assets		**$ 1,517,443**	**$ 1,454,767**
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		$ 23,050	$ 81,741
Convertible debenture	11	-	85,941
Total current liabilities		**23,050**	**167,682**
Non-current liabilities			
Derivative liability	9	200	-
Performance incentive plan	16 (b)	-	512
Bank indebtedness	10	286,519	109,970
Decommissioning liability	12	44,575	48,878
Deferred income tax liability	13	41,152	33,399
Total non-current liabilities		**372,446**	**192,759**
Total liabilities		**395,496**	**360,441**
SHAREHOLDERS' EQUITY			
Share capital	14	2,236,728	2,234,959
Convertible debenture equity component	11	-	8,348
Contributed surplus		103,726	90,904
Deficit		(1,218,507)	(1,239,885)
Total shareholders' equity		**1,121,947**	**1,094,326**
Total liabilities and shareholders' equity		**$ 1,517,443**	**$ 1,454,767**

Commitments (note 22)
Subsequent event (note 24)

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

(thousands of Canadian dollars, except for per share amounts)	Notes	Year ended December 31 2015		2014	
Continuing operations					
Natural gas and liquids sales	17	$	132,311	$	215,653
Less: royalties			(5,837)		(10,076)
Natural gas and liquids revenue			126,474		205,577
Operating expense			(18,357)		(15,412)
General and administrative expense	18		(10,569)		(9,579)
Depreciation expense	7		(87,391)		(85,460)
Exploration and evaluation expense	6		-		(53)
Finance expense	19		(11,812)		(14,792)
Gains on derivatives	9		30,422		35,236
Other income (expenses)	20		364		(10,527)
Income before taxes from continuing operations			**29,131**		**104,990**
Income tax expense	13		(7,753)		(30,393)
Net income and comprehensive income from continuing operations			**21,378**		**74,597**
Discontinued operations					
Net loss from discontinued operations	23		**-**		**(58,894)**
Net income and comprehensive income		**$**	**21,378**	**$**	**15,703**
Net income (loss) per share	15				
Basic - from continuing operations		**$**	**0.13**	**$**	**0.44**
Basic - from discontinued operations			**-**		**(0.35)**
Basic		**$**	**0.13**	**$**	**0.09**
Diluted - from continuing operations		**$**	**0.12**	**$**	**0.44**
Diluted - from discontinued operations			**-**		**(0.35)**
Diluted		**$**	**0.12**	**$**	**0.09**

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
Balance, December 31, 2014		$ 2,234,959	$ 8,348	$ 90,904	$ (1,239,885)	**$ 1,094,326**
Net income and comprehensive income			-	-	21,378	**21,378**
Share based compensation	14, 16	1,759	-	4,474	-	**6,233**
Conversion of Convertible Debenture		10	-	-	-	**10**
Maturity of Convertible Debenture		-	(8,348)	8,348	-	**-**
Balance, December 31, 2015		**$ 2,236,728**	**$ -**	**$ 103,726**	**$ (1,218,507)**	**$ 1,121,947**

(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	14, 16	5,361	-	(1,372)	-	**3,989**	-	**3,989**
Change in ownership interest, share based compensation		-	-	-	-	**-**	334	**334**
Dividends declared by Longview ($0.04 per Longview share)		-	-	-	-	**-**	(1,032)	**(1,032)**
Disposition of Longview	3b, 23	-	-	-	-	**-**	(128,996)	**(128,996)**
Balance, December 31, 2014		**$ 2,234,959**	**$ 8,348**	**$ 90,904**	**$ (1,239,885)**	**$ 1,094,326**	**$ -**	**$ 1,094,326**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Notes	Year ended December 31 2015	2014
Operating Activities			
Income before taxes from continuing operations		$ 29,131	$ 104,990
Add (deduct) items not requiring cash:			
Share based compensation	14, 16	3,347	2,153
Depreciation expense	7	87,391	85,460
Exploration and evaluation expense	6	-	53
Unrealized loss (gain) on derivatives	9	2,321	(47,786)
Loss on sale of assets	20	-	1,489
Accretion income - Questfire Debenture	20	-	(557)
Loss on disposition of Questfire Debenture	20	-	13,833
Unrealized gain - Questfire Class B Shares	20	-	(150)
Finance expense	19	11,812	14,792
Expenditures on decommissioning liability	12	(1,262)	(446)
Changes in non-cash working capital	21	(19,376)	(3,924)
Cash provided by operating activities - continuing operations		**113,364**	**169,907**
Cash provided by operating activities - discontinued operations	23	**-**	**12,434**
Cash provided by operating activities		**113,364**	**182,341**
Financing Activities			
Increase (decrease) in bank indebtedness	10	177,197	(44,038)
Maturity of convertible debenture	11	(86,240)	-
Interest paid		(12,828)	(9,956)
Cash provided by (used in) financing activities - continuing operations		**78,129**	**(53,994)**
Cash provided by financing activities - discontinued operations	23	**-**	**435**
Cash provided by (used in) financing activities		**78,129**	**(53,559)**
Investing Activities			
Payments on property, plant and equipment	7, 21	(190,301)	(221,810)
Payments on exploration and evaluation assets	6	(1,192)	(3,237)
Disposition of investments		-	17,500
Property dispositions		-	(211)
Cash used in investing activities - continuing operations		**(191,493)**	**(207,758)**
Cash provided by investing activities - discontinued operations	23	**-**	**78,976**
Cash used in investing activities		**(191,493)**	**(128,782)**
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, 2015 and 2014

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 3, 2016, 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 9.

(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.

(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 as required by IFRS 5, *non-current assets held for sale and discontinued operations* (see note 23). 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 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.

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.

Property, plant and equipment

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 were originally expected to be settled in cash, as the Corporation had 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 was recorded as compensation expense was recognized. The liability was revalued at each reporting date and at the date of settlement. These changes in fair value were recognized in profit or loss for the period.

On May 27, 2015, shareholders of the Corporation voted in favor of a resolution to approve the Restricted and Performance Award Incentive Plan as described in the management information circular dated April 24, 2015. The effect of this vote was to give shareholder approval to the existing plan approved by the Board of Directors on April 14, 2014 described above, and in so doing, enable the Corporation to settle awards under the plan with shares, which is the intention of the Corporation. As such, the plan is no longer "cash-settled," but "equity-settled" as defined in IFRS 2, *Share Based Payments*. In accordance with the requirements of IFRS 2, the liability on the statement of financial position at May 27, 2015 relating to awards granted under this plan was transferred to equity (contributed surplus), and revaluation will no longer occur at each reporting date. The types and timing of awards under this plan are described in further detail in note 16(b).

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.

3. Significant accounting policies (continued)

(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 performance awards and stock options granted to service providers and convertible debentures, using the treasury stock method.

(k) Investment tax credits

Investment tax credits relating to Scientific Research and Experimental Development claims are considered an income tax credit and are offset against our income tax expense when they become probable of realization.

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 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 the 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 CGU ("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. For purposes of assessment of impairment, management has allocated all exploration and evaluation assets to the Glacier CGU, on the basis of their geographic proximity to Glacier.

(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.

The downturn in the energy sector that commenced in late 2014 continued and worsened through 2015. In the judgment of management, this trend constituted an indicator of impairment of our Glacier CGU. Therefore, in accordance with IAS 36, *impairment of assets*, management performed an impairment test, as per the Corporation's accounting policy described in note 3(d)(v). The test demonstrated that there was no impairment, as the recoverable amount was well in excess of the total carrying amount of the CGU. Assumptions used in the calculation of recoverable amount are disclosed in Note 7.

(d) Decommissioning liability

Decommissioning costs will be incurred by the Corporation at the end of the operating life 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.

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

(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, 2015		December 31, 2014	
Trade receivables	$	12,544	$	19,607
Receivables from joint venture partners		716		1,386
Other		628		981
	$	**13,888**	**$**	**21,974**

6. Exploration and evaluation assets

Balance at December 31, 2013	**$**	**10,270**
Additions		3,237
Disposition of Longview (notes 3b and 23)		(2,335)
Exploration and evaluation expense		(53)
Transferred to property, plant and equipment (note 7)		(1,316)
Balance at December 31, 2014	**$**	**9,803**
Additions		1,192
Transferred to property, plant and equipment (note 7)		(924)
Balance at December 31, 2015	**$**	**10,071**

7. Property, plant and equipment

Cost	Natural gas and liquids properties	Furniture and equipment	Total
Balance at December 31, 2013	**$ 2,104,397**	**$ 5,240**	**$ 2,109,637**
Additions	252,556	-	252,556
Change in decommissioning liability (note 12)	19,938	-	19,938
Disposition of Longview (notes 3b and 23)	(664,090)	-	(664,090)
Transferred from exploration and evaluation assets (note 6)	1,316	-	1,316
Balance at December 31, 2014	**$ 1,714,117**	**$ 5,240**	**$ 1,719,357**
Additions	163,549	242	163,791
Change in decommissioning liability (note 12)	(4,172)	-	(4,172)
Transferred from exploration and evaluation assets (note 6)	924	-	924
Balance at December 31, 2015	**$ 1,874,418**	**$ 5,482**	**$ 1,879,900**

Accumulated depreciation	Natural gas and liquids properties	Furniture and equipment	Total
Balance at December 31, 2013	**$ 459,113**	**$ 3,090**	**$ 462,203**
Depreciation	91,168	430	91,598
Disposition of Longview (notes 3b and 23)	(208,375)	-	(208,375)
Balance at December 31, 2014	**$ 341,906**	**$ 3,520**	**$ 345,426**
Depreciation	**86,999**	**392**	**87,391**
Balance at December 31, 2015	**$ 428,905**	**$ 3,912**	**$ 432,817**

Net book value	Natural gas and liquids properties	Furniture and equipment	Total
At December 31, 2014	$ 1,372,211	$ 1,720	$ 1,373,931
At December 31, 2015	$ 1,445,513	$ 1,570	$ 1,447,083

During the year ended December 31, 2015, Advantage capitalized general and administrative expenditures directly related to development activities of $6.2 million (December 31, 2014 - $7.5 million).

Advantage included future development costs of $1.7 billion (December 31, 2014 – $1.7 billion) in property, plant and equipment costs subject to depreciation.

7. Property, plant and equipment (continued)

For the year ended December 31, 2015, Advantage did not recognize an impairment of property, plant and equipment as the recoverable amount of our single Glacier CGU was well in excess of its carrying amount and that of exploration and evaluation assets allocated thereto. Recoverable amount was based on a fair value less cost to sell determination, being the after-tax future net cash flows of proved and probable reserves using forecast prices and costs, discounted at 10%.

Forecast natural gas prices used in the calculation of recoverable amount at December 31, 2015 are as follows:

Year	AECO ($Cdn/MMBtu)
2016	2.25
2017	2.95
2018	3.42
2019	3.91
2020	4.20
2021	4.28
2022	4.35
2023	4.43
2024	4.51
2025	4.59
2026 [1]	4.67

[1] Escalation of 1.5% thereafter

8. Related party transactions

Key management compensation

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

	December 31, 2015	December 31, 2014
Salaries, director fees and short-term benefits	$ 2,684	$ 2,297
Share based compensation [1]	2,903	2,669
	$ 5,587	$ 4,966

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

As at December 31, 2015, there is a $2.3 million commitment (December 31, 2014 - $2.3 million) related to change of control or termination of employment of officers.

9. Financial risk management

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

Trade and other receivables and deposits are classified as loans and receivables and measured at amortized cost. Trade and other accrued liabilities and bank indebtedness are all classified as financial liabilities at amortized cost. As at December 31, 2015, 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.

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 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. The actual gains and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions.

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

9. 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 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 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, 2015	December 31, 2014
Trade and other receivables	$ 13,888	$ 21,974
Deposits	1,371	1,210
Derivative asset	44,435	46,556
	$ 59,694	**$ 69,740**

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 counterparties 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 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, 2015, $0.3 million or 2.2% of trade and other receivables are outstanding for 90 days or more (December 31, 2014 - $0.6 million or 2.6% 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, 2015 or 2014.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for $11.9 million of the trade and other receivables at December 31, 2015 (December 31, 2014 - $14.7 million).

9. Financial risk management (continued)

(b) Liquidity risk

The Corporation is subject to liquidity risk attributed from trade and other accrued liabilities and bank indebtedness. Trade and other accrued 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 $450 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.

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, 2015 and 2014 are as follows:

December 31, 2015		Less than one year	One to three years	Three to five years	Thereafter	Total
Trade and other accrued liabilities		$ 23,050	$ -	$ -	$ -	$ 23,050
Bank indebtedness	- principal	-	287,529	-	-	287,529
	- interest [1]	11,106	5,280	-	-	16,386
		$ 34,156	**$ 292,809**	**$ -**	**$ -**	**$ 326,965**

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

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.

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 10). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in June 2016. 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.

9. Financial risk management (continued)

(c) Price risk

Advantage's derivative assets and liabilities are subject to price risk as their fair values are based on assumptions regarding forward commodity prices. 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, 2015 would result in a $10.6 million change in net income for the year ended December 31, 2015.

As at December 31, 2015, the Corporation's natural gas hedging positions are summarized as follows:

Period	Average Production Hedged	Average Price AECO ($Cdn.)
Q1 2016 to Q4 2016	94.8 mmcf/d	$3.62/mcf
Q1 2017 to Q4 2017	39.9 mmcf/d	$3.44/mcf
Q1 2018	42.7 mmcf/d	$3.22/mcf

As at December 31, 2015, the fair value of the derivatives outstanding resulted in an asset of $44.5 million (December 31, 2014 – $46.6 million) and a liability of $0.2 million (December 31, 2014 – $Nil). 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, 2015, $30.4 million was recognized in net income as a derivative gain (December 31, 2014 - $30.9 million). The table below summarizes the realized and unrealized gains (losses) on derivatives recognized in net income.

	Year ended December 31, 2015	Year ended December 31, 2014
Realized gain (loss) on derivatives	$ 32,743	$ (14,028)
Unrealized gain (loss) on derivatives	(2,321)	44,941
	$ 30,422	**$ 30,913**
From continuing operations	$ 30,422	$ 35,236
From discontinued operations	-	(4,323)
	$ 30,422	**$ 30,913**

(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, 2015, net income and comprehensive income would have changed by $1.9 million (December 31, 2014 - $0.7 million) based on the average debt balance outstanding during the year.

9. 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, 2015 and December 31, 2014 is as follows:

	December 31, 2015		December 31, 2014	
Bank indebtedness (non-current) (note 10)	$	286,519	$	109,970
Working capital deficit [1]		7,196		57,264
Net debt		293,715		167,234
Convertible debenture maturity value (current)		-		86,250
Total debt	**$**	**293,715**	**$**	**253,484**
Shares outstanding (note 14)		170,827,158		170,067,650
Share closing market price ($/share)	$	7.03	$	5.56
Market capitalization [2]		1,200,915		945,576
Total capitalization	**$**	**1,494,630**	**$**	**1,199,060**

(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.

10. Bank indebtedness

		December 31, 2015		December 31, 2014
Revolving credit facility	$	287,529	$	110,332
Discount on Bankers Acceptances and other fees		(1,010)		(362)
Balance, end of year	**$**	**286,519**	**$**	**109,970**

As at December 31, 2015, the Corporation had reserve-based credit facilities (the "Credit Facilities") with a borrowing base of $450 million. The Credit Facilities are comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $430 million extendible revolving credit facility from a syndicate of financial institutions. The revolving period of the Credit Facilities will end on June 10, 2016 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 credit facility due 365 days after the last day of the revolving period. The Credit Facilities are subject to re-determination of the borrowing base semi-annually in October and June of each year, with the next annual review scheduled to occur in June 2016. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time. The borrowing base is determined based on, among other things, a thorough evaluation of Advantage's reserve estimates based upon the lenders 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. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Corporation has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base. Amounts borrowed under the Credit Facilities bear interest at rates ranging from LIBOR plus 2% to 3.25% per annum, and Canadian prime or US base rate plus 1% to 2.25% per annum, in each case, depending on the type of borrowing and the Corporation's debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Undrawn amounts under the Credit Facilities bear a standby fee ranging from 0.5% to 0.8125% per annum, dependent on the Corporation's debt to EBITDA ratio. Repayments of principal are not required prior to maturity provided that the borrowings under the Credit Facilities do not exceed the authorized borrowing amount and the Corporation is in compliance with all covenants, representations and warranties. 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, 2015 and 2014. 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. The Credit Facilities are collateralized by a $1 billion floating charge demand debenture covering all assets. For the year ended December 31, 2015, the average effective interest rate on the outstanding amounts under the facilities was approximately 3.2% (December 31, 2014 – 3.8%). Advantage has no letters of credit issued and outstanding at December 31, 2015 (December 31, 2014 - $2.5 million).

11. Convertible debenture

The balance of the convertible debenture outstanding at December 31, 2015 and changes in the liability and equity components during the years ended December 31, 2015 and 2014 are as follows:

		5.00%
Trading symbol		AAV.DBH
Debenture outstanding	$	86,250
Liability component:		
Balance at December 31, 2013	**$**	**82,454**
Accretion of discount		3,487
Balance at December 31, 2014	**$**	**85,941**
Accretion of discount		309
Matured		(86,240)
Conversion		(10)
Balance at December 31, 2015	**$**	**-**
Equity component:		
Balance at December 31, 2014	**$**	**8,348**
Balance at December 31, 2015	**$**	**-**

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

12. 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 2016 and 2075. A risk-free rate of 2.16% (December 31, 2014 – 2.33%) and an inflation factor of 1.5% (December 31, 2014 – 2%) were used to calculate the fair value of the decommissioning liability at December 31, 2015. A reconciliation of the decommissioning liability is provided below:

		Year ended December 31, 2015		**Year ended December 31, 2014**
Balance, beginning of year	$	48,878	$	100,616
Accretion expense		1,131		1,364
Liabilities incurred		1,767		4,218
Change in estimates		(2,011)		683
Effect of change in risk-free rate and inflation rate factor		(3,928)		15,037
Liabilities settled		(1,262)		(482)
Disposition of Longview (notes 3b and 23)		-		(72,558)
Balance, end of year	**$**	**44,575**	**$**	**48,878**

13. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2015	Year ended December 31, 2014
Current income tax expense	$ -	$ -
Deferred income tax expense (recovery)	7,753	30,393
Income tax expense (recovery)	$ 7,753	$ 30,393

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, 2015	Year ended December 31, 2014
Income before taxes from continuing operations	$ 29,131	$ 104,990
Combined federal and provincial income tax rates	26.00%	25.00%
Expected income tax expense	7,574	26,248
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	1,487	823
Alberta tax rate increase	1,778	-
Scientific Research and Experimental Development claim	(3,688)	-
Unrecognized deferred tax asset on sale of Questfire Debenture	-	3,458
Difference between current and expected tax rates	602	(136)
	$ 7,753	$ 30,393
Effective tax rate	26.61%	28.95%

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, 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
Charged (credited) to income	33,972	304	34,276
Balance at December 31, 2015	$ 262,997	$ 11,943	$ 274,940

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
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)
Charged (credited) to income	239	(15,036)	(11,726)	(26,523)
Balance at December 31, 2015	$ (12,064)	$ (198,649)	$ (23,075)	$ (233,788)

Net deferred income tax liability (asset)	Longview	Advantage	Total
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
Charged (credited) to income		7,753	7,753
Balance at December 31, 2015	$ -	$ 41,152	$ 41,152

13. Income taxes (continued)

The estimated tax pools available at December 31, 2015 are as follows:

Canadian development expenses	$	194,195
Canadian exploration expenses		65,994
Canadian oil and gas property expenses		4,049
Non-capital losses		735,738
Undepreciated capital cost		206,057
Capital losses		157,869
Scientific research and experimental development expenditures		32,506
Other		8,196
	$	1,404,604

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

No deferred tax asset has been recognized for capital losses of $158 million (December 31, 2014 – $158 million). Recognition is dependent on the realization of future taxable capital gains.

14. 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, 2013	168,382,838	$	2,229,598
Share based compensation (note 16)	1,684,812		5,361
Balance at December 31, 2014	170,067,650	$	2,234,959
Share based compensation (note 16)	758,346		1,759
Conversion of convertible debenture	1,162		10
Balance at December 31, 2015	170,827,158	$	2,236,728

15. 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	
	2015	2014
Net income (loss) attributable to Advantage shareholders		
Basic and diluted - continuing operations	$ 21,378	$ 74,597
Basic and diluted - discontinued operations	-	(58,894)
Basic and diluted	$ 21,378	$ 15,703
Weighted average shares outstanding		
Basic	170,607,873	169,482,394
Stock Option Plan	891,621	1,317,671
Performance Incentive Plan	211,926	-
Diluted	171,711,420	170,800,065

The calculation of diluted net income (loss) per share for the years ended December 31, 2015 and 2014 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 per share calculation for the year ended December 31, 2015 was 796,830 shares (December 31, 2014 – 10,029,070 shares). As at December 31, 2014, the total convertible debenture outstanding was convertible to 10,029,070 shares. As the convertible debenture matured on January 30, 2015 (note 11), it had no dilutive effect on periods beginning on dates thereafter.

The calculation of diluted net income (loss) per share for the year ended December 31, 2014 excluded the effects of the Performance Incentive Plan, as this plan was cash-settled until May 27, 2015 (note 3(f)).

16. 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	0.98%
Dividend rate	0%
Risk-free rate	1.05%

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, 2015:

	Stock Options	Weighted-Average Exercise Price
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
Exercised	(2,081,538)	4.00
Granted	987,928	6.82
Forfeited/cancelled	(19,764)	5.37
Balance at December 31, 2015	4,031,302	$ 5.49

	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
$4.43 - $5.87	3,032,300	2.09	$ 5.06	2,550,292	$ 4.91
$5.88 - $6.82	999,002	4.25	6.81	335,843	6.81
$4.43 - $6.82	4,031,302	2.62	$ 5.49	2,886,135	$ 5.13

16. 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, that is determined based on Corporate Performance Measures, as approved by the Board of Directors.

As at December 31, 2015, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

	Performance Awards
Balance at December 31, 2013	-
Granted	409,702
Forfeited	(3,560)
Balance at December 31, 2014	406,142
Granted	263,510
Forfeited	(3,560)
Balance at December 31, 2015	666,092

Share based compensation recognized by plan for the years ended December 31, 2015 and 2014 are as follows:

	Year ended December 31			
		2015		**2014**
Stock Option Plan	$	3,101	$	3,265
Performance Incentive Plan		2,620		512
RSPIP [(1)]		-		1,058
Total share based compensation		5,721		4,835
Capitalized		(2,374)		(2,016)
Net share based compensation expense	**$**	**3,347**	**$**	**2,819**
From continuing operations	$	3,347	$	2,153
From discontinued operations		-		666
	$	**3,347**	**$**	**2,819**

[(1)] Relates solely to discontinued operations

17. Natural gas and liquids sales

	Year ended December 31	
	2015	2014
Natural gas sales	$ 129,802	$ 212,579
Crude oil and natural gas liquids sales	2,509	27,789
Total natural gas and liquids sales	**$ 132,311**	**$ 240,368**
From continuing operations	$ 132,311	$ 215,653
From discontinued operations	-	24,715
	$ 132,311	**$ 240,368**

18. General and administrative expense ("G&A")

	Year ended December 31	
	2015	2014
Salaries and benefits	$ 7,026	$ 8,786
Share based compensation (note 16)	5,721	4,835
Office rent	1,146	1,173
Other	2,869	4,126
Total G&A	**16,762**	**18,920**
Capitalized (note 7)	(6,193)	(7,450)
Net G&A	**$ 10,569**	**$ 11,470**
From continuing operations	$ 10,569	$ 9,579
From discontinued operations	-	1,891
	$ 10,569	**$ 11,470**

19. Finance expense

	Year ended December 31	
	2015	2014
Interest on bank indebtedness (note 10)	$ 10,035	$ 6,817
Interest on convertible debenture (note 11)	337	4,313
Accretion on convertible debenture (note 11)	309	3,487
Accretion of decomissioning liability (note 12)	1,131	1,364
Total finance expense	**$ 11,812**	**$ 15,981**
From continuing operations	$ 11,812	$ 14,792
From discontinued operations	-	1,189
	$ 11,812	**$ 15,981**

20. Other income (expenses)

	Year ended December 31			
		2015		2014
Interest income - Questfire Debenture	$	-	$	455
Accretion income - Questfire Debenture		-		557
Loss on disposition of Questfire Debenture		-		(13,833)
Unrealized gain - Questfire Class B Shares		-		150
Loss on sale of assets		-		(1,489)
Miscellaneous income		364		3,633
Total other income (expenses) from continuing and discontinued operations	**$**	**364**	**$**	**(10,527)**

21. Supplementary cash flow information – continuing operations

Changes in non-cash working capital is comprised of:

	Year ended December 31			
		2015		2014
Source (use) of cash:				
Trade and other receivables	$	8,086	$	(4,876)
Prepaid expenses and deposits		537		159
Trade and other accrued liabilities		(58,691)		11,525
	$	(50,068)	$	6,808
Related to operating activities	$	(19,376)	$	(3,924)
Related to financing activities		(1,808)		1,311
Related to investing activities		(28,884)		9,421
	$	(50,068)	$	6,808

22. 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			
		2015		2014
2015		-		18,220
2016		21,397		20,485
2017		21,174		19,511
2018		24,544		17,414
2019		24,602		15,677
2020 and thereafter		80,500		33,386
Total commitments	**$**	**172,217**	**$**	**124,693**

23. 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 an Offering (note 3(b)).

Results of the discontinued Longview segment are as follows:

(thousands of Canadian dollars)	Year ended December 31 2015	Year ended December 31 2014 [1]
Petroleum and natural gas sales	$ -	$ 24,715
Less: royalties	-	(4,108)
Petroleum and natural gas revenue	-	20,607
Operating expense	-	(7,022)
General and administrative expense	-	(1,891)
Depreciation expense	-	(6,138)
Finance expense	-	(1,189)
Losses on derivatives	-	(4,323)
Non-controlling interest	-	85
Income before taxes from discontinued operations	**-**	**129**
Income tax expense	-	(198)
Loss from discontinued operations	**-**	**(69)**
Loss on disposition of Longview	-	(58,825)
Net loss from discontinued operations	**$ -**	**$ (58,894)**

[1] Results from January 1, 2014 to February 28, 2014

Cash flows of the discontinued Longview segment are as follows:

(thousands of Canadian dollars)	Year ended December 31 2015	Year ended December 31 2014
Cash flow from operating activities	$ -	$ 12,434
Cash flow from financing activities	-	435
Cash flow from investing activities	-	78,976

24. Subsequent event

On February 18, 2016, the Corporation announced that it had entered into an agreement with a syndicate of underwriters pursuant to which the underwriters have agreed to purchase, on a bought deal basis, 11,750,000 common shares of Advantage ("Common Shares") at a price of $7.45 per Common Share, for gross proceeds of $87.5 million (the "Offering"). The Corporation has also granted the underwriters an option to purchase an additional 15% of the Common Shares issued under the Offering at a price of $7.45 per Common Share to cover over-allotments, if any. The Offering is expected to close on March 8, 2016.

Directors

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

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

Officers

Andy J. Mah, President and CEO
Craig Blackwood, Vice President, Finance and CFO
Neil Bokenfohr, Senior Vice President

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

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

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Abbreviations

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

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Toronto Stock Exchange Trading Symbols

Shares: AAV

New York Stock Exchange Trading Symbol

Shares: AAV