2019 Annual Report

Financial and Operating Highlights

($000, except as otherwise indicated)		Three months ended December 31 2019		2018		Year ended December 31 2019		2018
Financial Statement Highlights								
Sales including realized derivatives [3]	**$**	**76,921**	$	73,979	**$**	**275,237**	$	250,604
Net income (loss) and comprehensive income (loss)	**$**	**(1,844)**	$	25,162	**$**	**(24,654)**	$	11,119
per basic share [2]	**$**	**(0.01)**	$	0.14	**$**	**(0.13)**	$	0.06
Cash provided by operating activities [4]	**$**	**39,965**	$	41,627	**$**	**156,063**	$	149,240
Cash provided by financing activities [4]	**$**	**20,037**	$	11,739	**$**	**24,317**	$	63,937
Cash used in investing activities	**$**	**50,365**	$	50,723	**$**	**173,640**	$	213,734
Basic weighted average shares (000)		**186,911**		185,942		**186,659**		186,040
Other Financial Highlights [1]								
Adjusted funds flow	**$**	**44,452**	$	46,301	**$**	**155,180**	$	150,378
per boe	**$**	**10.20**	$	11.02	**$**	**9.59**	$	9.89
per basic share [2]	**$**	**0.23**	$	0.25	**$**	**0.83**	$	0.81
Net capital expenditures	**$**	**59,609**	$	51,187	**$**	**184,922**	$	201,086
Working capital deficit	**$**	**7,996**	$	1,912	**$**	**7,996**	$	1,912
Bank indebtedness	**$**	**295,624**	$	270,918	**$**	**295,624**	$	270,918
Net debt	**$**	**303,620**	$	272,830	**$**	**303,620**	$	272,830
Operating								
Daily Production								
Natural gas (mcf/d)		**266,035**		262,269		**249,802**		240,959
Liquids (bbls/d)		**3,031**		1,974		**2,700**		1,491
Total production (mcfe/d)		**284,221**		274,113		**266,002**		249,905
Total production (boe/d)		**47,370**		45,686		**44,334**		41,651
Average realized prices (including realized derivatives)								
Natural gas ($/mcf) [3]	**$**	**2.58**	$	2.70	**$**	**2.49**	$	2.47
Liquids ($/bbl)	**$**	**49.09**	$	49.23	**$**	**49.14**	$	62.12
Operating Netback ($/boe)								
Sales of natural gas and liquids from production	**$**	**17.69**	$	16.86	**$**	**15.53**	$	14.62
Net sales of natural gas purchased from third parties [1]		**0.00**		0.00		**(0.09)**		0.07
Realized gains (losses) on derivatives		**(0.04)**		0.74		**1.48**		1.86
Royalty expense		**(0.51)**		(0.39)		**(0.29)**		(0.17)
Operating expense		**(1.89)**		(1.73)		**(1.98)**		(1.82)
Transportation expense		**(3.46)**		(3.18)		**(3.50)**		(3.33)
Operating netback [1]	**$**	**11.79**	$	12.30	**$**	**11.15**	$	11.23

(1) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

(2) Based on basic weighted average shares outstanding.

(3) Excludes net sales of natural gas purchased from third parties.

(4) Cash provided by operating activities and cash provided by financing activities for the three months and year ended December 31, 2018 has been adjusted to conform to the presentation adopted for the periods ended December 31, 2019.

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MESSAGE TO SHAREHOLDERS

Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce its 2019 results, including considerable progress on liquids growth, continued operational excellence of our low-cost natural gas foundation, and solid performance on our 2019 objectives. With modern, low emissions-intensity assets and our Glacier Carbon Sequestration project, the Corporation continues to proudly deliver clean and sustainable energy, contributing to a reduction in global emissions by displacing high-carbon fuels.

We are proud of our Team's 2019 achievements and thank Advantage's Board of Directors and our shareholders for their support. We look forward to reporting on our progress as the Team continues to execute on our liquids-focused development plan.

Accomplishments during 2019 included:

- Record annual production of 44,334 boe/d, an increase of 6% (250 mmcf/d natural gas and 2,700 bbls/d liquids).
- Record quarterly natural gas production of 266 mmcf/d in the fourth quarter of 2019 during a period of elevated AECO prices.
- Increased liquids production by 81% to average 2,700 bbls/d in the fourth quarter of 2019. Liquids comprised 18% of total revenue.
- Discovery of a light oil pool at Progress, elevating the asset to a top tier investment priority. Production began in the first quarter of 2020 above management expectations.
- Commissioned a 40 mmcf/d and 2,000 bbls/d liquids hub at our Valhalla asset, which alleviated a facility restriction.
- Initial production from our first well at Pipestone/Wembley in the fourth quarter of 2019.
- Achieved hedging and market diversification gains of $32 million.
- Increased CO_2e sequestration credits by 59% to 90,500 tonnes.
- Achieved operating costs of $1.98/boe.
- Delivered on 2019 plan with capital spending reduced from $225 million to $185 million.
- Proved developed producing ("PDP") reserves increased by 21%.
- PDP finding and development cost ("F&D") of $5.38/boe.
- PDP recycle ratio of 2.2.
- Proved plus probable ("2P") condensate/light oil reserves increased by 45%.
- Total 2P liquids reserves increased by 15%.

a. *Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see Advisory for reconciliations to the nearest measure calculated in accordance with GAAP.*

2019 Operating and Financial Results Summary

- Annual 2019 cash provided by operating activities of $156 million and adjusted funds flow[a] of $155 million or $0.83/share
- Year-end net debt[a] was $304 million on a $400 million bank credit facility, resulting in a net debt to adjusted funds flow[a] ratio of 2.0.

Looking Forward

By the fourth quarter of 2020, Advantage anticipates that several additional critical milestones in oil development will have been accomplished, leading to a step change in liquids production and revenue. Advantage will remain diligent in monitoring commodity and industry trends and respond accordingly to retain a strong balance sheet while advancing our multi-year strategy to increase exposure to high value commodities, while supplementing our low-cost, resilient natural gas foundation.

a. *Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see Advisory for reconciliations to the nearest measure calculated in accordance with GAAP*

RESERVES

Advantage engaged our independent qualified reserves evaluator Sproule Associates Ltd. ("Sproule") to evaluate our year-end reserves as of December 31, 2019 in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation 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. Certain tables may not add due to rounding. In addition to the information disclosed in this annual report, more detailed information on our oil and gas reserves, including our reserves on a net interest basis (after royalty burdens and including royalty interests) is included in Advantage's Annual Information Form dated February 27, 2020 and is available at www.advantageog.com and www.sedar.com.

Highlights – Gross Working Interest Reserves

	December 31 2019	December 31 2018[4]
Proved plus probable reserves (mboe)	465,705	432,186
Net Present Value of future net revenue of 2P reserves discounted at 10%, before tax ($000) [1]	$ 2,205,731	$ 2,169,187
Net Asset Value per Share discounted at 10%, before tax [2]	$ 10.11	$ 10.54
Reserve Life Index (proved plus probable - years) [3]	26.9	25.9
Reserves per share (proved plus probable - boe) [2]	2.49	2.32
Bank indebtedness per boe of reserves (proved plus probable)	$ 0.63	$ 0.63

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

(2) Based on 186.9 million shares outstanding at December 31, 2019 and 185.9 million at December 31, 2018.

(3) Based on fourth quarter average production and Corporation interest reserves.

(4) Reserves based upon an evaluation by Sproule with an effective date of December 31, 2018 contained in a report of Sproule dated January 30, 2019 using Sproule's product price forecast effective December 31, 2018.

Corporation Gross (before royalties) Working Interest Reserves Summary as at December 31, 2019

	Light Crude Oil and Medium Crude Oil (Mbbl)	Conventional Natural Gas (Mmcf)	Natural Gas Liquids (Mbbl)	Total Oil Equivalent (Mboe)
Proved				
Developed Producing	232	595,907	6,414	105,963
Developed Non-producing	2,215	35,912	1,506	9,706
Undeveloped	4,233	1,302,300	15,873	237,156
Total Proved	**6,679**	**1,934,120**	**23,792**	**352,824**
Probable	5,973	591,922	8,254	112,880
Total Proved Plus Probable	**12,652**	**2,526,042**	**32,046**	**465,705**

(1) Tables may not add due to rounding.

Corporation Net Present Value of Future Net Revenue using Sproule price and cost forecasts(1)(2)(3)

	Before Income Taxes Discounted at		
($000)	**0%**	**10%**	**15%**
Proved			
Developed Producing	$ 1,725,541	$ 909,505	$ 741,899
Developed Non-producing	213,394	125,305	105,203
Undeveloped	2,194,028	473,956	201,754
Total Proved	**4,132,963**	**1,508,766**	**1,048,856**
Probable	2,289,288	696,966	477,451
Total Proved Plus Probable	**$ 6,422,251**	**$ 2,205,731**	**$ 1,526,307**

(1) Advantage's light crude oil and medium crude oil, conventional natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2019 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 reserves 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.

(4) Table may not add due to rounding.

Sproule Price Forecasts and Assumptions

The net present value of future net revenue at December 31, 2019 was based upon light crude oil and medium crude oil, conventional natural gas and natural gas liquids pricing assumptions prepared by Sproule effective December 31, 2019. These forecasts are adjusted for reserves quality, transportation charges and the provision of any applicable sales contracts. The price assumptions used over the next seven years are summarized in the table below:

Year	WTI Cushing Oklahoma 40° API ($US/bbl)	Canadian Light Sweet Crude Oil 40° API ($Cdn/bbl)	AECO-C Spot ($Cdn/MMbtu)	Henry Hub ($US/MMbtu)	Dawn ($Cdn/MMbtu)	Alliance Chicago Spot ($Cdn/MMbtu)
2020	61.00	73.84	2.04	2.80	3.58	3.58
2021	65.00	78.51	2.27	3.00	3.80	3.80
2022	67.00	78.73	2.81	3.25	3.96	3.96
2023	68.34	80.30	2.89	3.32	4.04	4.04
2024	69.71	81.91	2.98	3.38	4.13	4.13
2025	71.10	83.54	3.06	3.45	4.21	4.21
2026	72.52	85.21	3.15	3.52	4.30	4.30

Year	Edmonton Pentanes Plus ($Cdn/bbl)	Edmonton Butane ($Cdn/bbl)	Edmonton Propane ($Cdn/bbl)	Operating Cost Inflation Rate %/year	Capital Cost Inflation Rate %/year	Exchange Rate ($US/$Cdn)
2020	76.32	37.72	25.07	-	-	0.76
2021	80.52	43.90	31.84	1.0	1.0	0.77
2022	80.00	47.74	32.43	2.0	2.0	0.80
2023	81.68	48.69	33.26	2.0	2.0	0.80
2024	83.38	49.67	34.12	2.0	2.0	0.80
2025	85.13	50.66	34.99	2.0	2.0	0.80
2026	86.90	51.67	35.88	2.0	2.0	0.80

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 Corporation’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, 2018	$ 31.85	$ 10.54	$ 6.94
Present value proved and probable reserves	$ 6,422,251	$ 2,205,731	$ 1,526,307
Undeveloped land [2]	20,703	20,703	20,703
Working capital and other [3][4]	(40,280)	(40,280)	(40,280)
Bank indebtedness	(295,624)	(295,624)	(295,624)
Net asset value - December 31, 2019	6,107,050	1,890,530	1,211,106
Net asset value per share [1] - December 31, 2019	$ 32.67	$ 10.11	$ 6.48

(1) Based on 186.9 million shares outstanding at December 31, 2019 and 185.9 million at December 31, 2018.

(2) The value of undeveloped land is based on book value.

(3) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

(4) Other is calculated as current and non-current derivative asset less current and non-current derivative liability.

Corporation Gross (before royalties) Working Interest Reserves Reconciliation

Proved	Light Crude Oil and Medium Crude Oil [5] (Mbbl)	Conventional Natural Gas (Mmcf)	Natural Gas Liquids [6] (Mbbl)	Total Oil Equivalent (Mboe)
Opening balance December 31, 2018	3,011	1,777,022	25,884	325,065
Extensions and improved recovery [1]	3,473	28,996	3,181	11,487
Technical revisions [2]	215	219,310	(4,293)	32,474
Discoveries	-	-	-	-
Acquisitions [3]	-	12	40	42
Dispositions	-	-	-	-
Economic factors [4]	(5)	(42)	(49)	(61)
Production	(15)	(91,178)	(970)	(16,182)
Closing balance at December 31, 2019	6,679	1,934,120	23,792	352,824

Proved Plus Probable	Light Crude Oil and Medium Crude Oil [5] (Mbbl)	Conventional Natural Gas (Mmcf)	Natural Gas Liquids [6] (Mbbl)	Total Oil Equivalent (Mboe)
Opening balance December 31, 2018	4,404	2,360,157	34,423	432,186
Extensions and improved recovery [1]	9,390	73,771	6,019	27,704
Technical revisions [2]	(1,122)	183,318	(7,454)	21,977
Discoveries	-	-	-	-
Acquisitions [3]	-	18	59	62
Dispositions	-	-	-	-
Economic factors [4]	(5)	(44)	(31)	(43)
Production	(15)	(91,178)	(970)	(16,182)
Closing balance at December 31, 2019	12,652	2,526,042	32,046	465,705

(1) Extensions and improved recovery accounted for 26% of the total proved additions and 56% of the total proved plus probable additions. Extensions and improved recovery changes were the result of wells drilled in 2019.

(2) Technical revisions accounted for 74% of the total proved additions and 44% of the total proved plus probable additions. The technical revisions were a result of stronger well performance than forecasted in the prior year and reduced NGL yields.

(3) Acquisitions were a result of land swaps completed in 2019.

(4) Economic factor changes were primarily related to lower forecasted prices for conventional natural gas and associated NGLs.

(5) Light crude oil and medium crude oil includes condensate.

(6) The Corporation's closing proved plus probable NGLs contains 49% of pentanes plus.

Corporation Finding and Development Cost ("F&D")

Corporation 2019 F&D Cost – Gross (before royalties) Working Interest Reserves Including Future Development Capital(1)(2)(3)

	Proved	Proved Plus Probable
Net capital expenditures ($000)(4)	$ 184,922	$ 184,922
Net change in Future Development Capital ($000)	2,402	110,096
Total capital ($000)	187,324	295,018
Total mboe, end of year	352,824	465,705
Total mboe, beginning of year	325,065	432,186
Production, mboe	16,182	16,182
Reserve additions, mboe	43,941	49,701
2019 F&D cost ($/boe)	$ 4.26	$ 5.94
2018 F&D cost ($/boe)	$ 8.33	$ 8.04
Three-year average F&D cost ($/boe)	$ 5.97	$ 6.03

(1) F&D cost is 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) The change in FDC is primarily from incremental undeveloped locations.

(4) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months and years ended December 31, 2019 and 2018

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of February 27, 2020, 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, 2019 and should be read in conjunction with the December 31, 2019 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.

This MD&A contains non-GAAP measures and forward-looking information. Readers are advised to read this MD&A in conjunction with both the "Non-GAAP Measures" and "Forward-Looking Information and Other Advisories" found at the end of this MD&A.

Financial Highlights

($000, except as otherwise indicated)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Financial Statement Highlights				
Sales including realized derivatives [3]	**$ 76,921**	$ 73,979	**$ 275,237**	$ 250,604
Net income (loss) and comprehensive income (loss)	**$ (1,844)**	$ 25,162	**$ (24,654)**	$ 11,119
per basic share [2]	**$ (0.01)**	$ 0.14	**$ (0.13)**	$ 0.06
Cash provided by operating activities [4]	**$ 39,965**	$ 41,627	**$ 156,063**	$ 149,240
Cash provided by financing activities [4]	**$ 20,037**	$ 11,739	**$ 24,317**	$ 63,937
Cash used in investing activities	**$ 50,365**	$ 50,723	**$ 173,640**	$ 213,734
Basic weighted average shares (000)	**186,911**	185,942	**186,659**	186,040
Other Financial Highlights				
Adjusted funds flow [1]	**$ 44,452**	$ 46,301	**$ 155,180**	$ 150,378
per boe [1]	**$ 10.20**	$ 11.02	**$ 9.59**	$ 9.89
per basic share [1] [2]	**$ 0.23**	$ 0.25	**$ 0.83**	$ 0.81
Net capital expenditures [1]	**$ 59,609**	$ 51,187	**$ 184,922**	$ 201,086
Working capital deficit [1]	**$ 7,996**	$ 1,912	**$ 7,996**	$ 1,912
Bank indebtedness	**$ 295,624**	$ 270,918	**$ 295,624**	$ 270,918
Net debt [1]	**$ 303,620**	$ 272,830	**$ 303,620**	$ 272,830

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Based on basic weighted average shares outstanding.
(3) Excludes net sales of natural gas purchased from third parties.
(4) Cash provided by operating activities and cash provided by financing activities for the three months and year ended December 31, 2018 has been adjusted to conform to the presentation adopted for the periods ended December 31, 2019.

Operating Highlights

		Three months ended December 31			Year ended December 31		
		2019		**2018**		**2019**		**2018**
Operating								
Daily Production								
Natural gas (mcf/d)		**266,035**		262,269		**249,802**		240,959
Liquids (bbls/d)		**3,031**		1,974		**2,700**		1,491
Total production (mcfe/d)		**284,221**		274,113		**266,002**		249,905
Total production (boe/d)		**47,370**		45,686		**44,334**		41,651
Average realized prices (including realized derivatives)								
Natural gas ($/mcf) [2]	**$**	**2.58**	$	2.70	**$**	**2.49**	$	2.47
Liquids ($/bbl)	**$**	**49.09**	$	49.23	**$**	**49.14**	$	62.12
Operating Netback ($/boe)								
Sales of natural gas and liquids from production	**$**	**17.69**	$	16.86	**$**	**15.53**	$	14.62
Net sales of natural gas purchased from third parties [1]		**0.00**		0.00		**(0.09)**		0.07
Realized gains (losses) on derivatives		**(0.04)**		0.74		**1.48**		1.86
Royalty expense		**(0.51)**		(0.39)		**(0.29)**		(0.17)
Operating expense		**(1.89)**		(1.73)		**(1.98)**		(1.82)
Transportation expense		**(3.46)**		(3.18)		**(3.50)**		(3.33)
Operating netback [1]	**$**	**11.79**	$	12.30	**$**	**11.15**	$	11.23

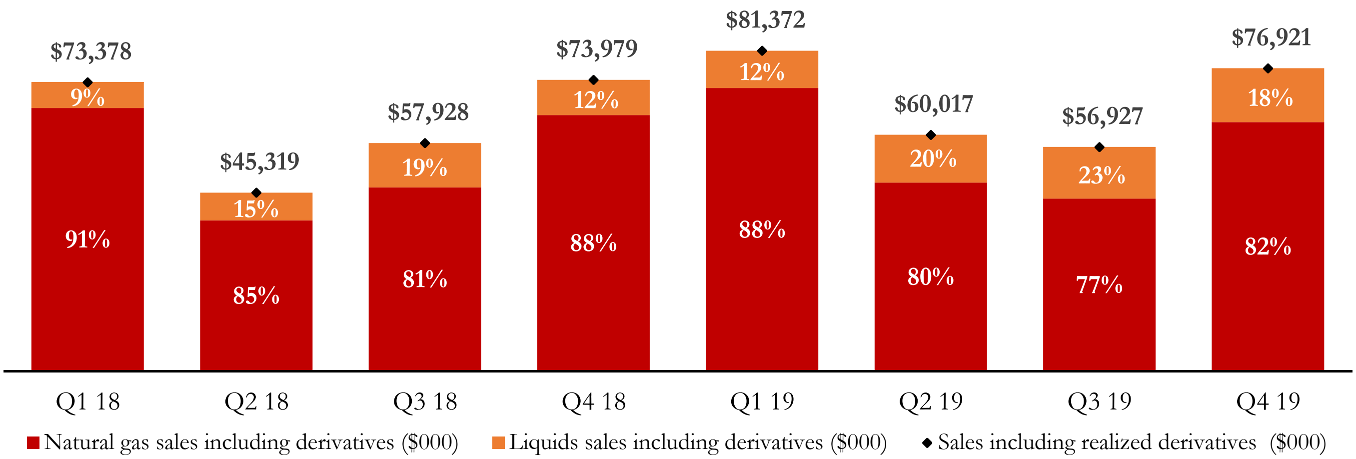
(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Excludes net sales of natural gas purchased from third parties.

Natural Gas and Liquids Sales

($000)	Three months ended December 31 2019		Three months ended December 31 2018	% change		Year ended December 31 2019		Year ended December 31 2018	% change
Natural gas sales [1]	$	63,784	$ 61,917	3 %	$	203,223	$	188,528	8 %
Realized gains (losses) on derivatives		(552)	3,121	(118) %		23,587		28,269	(17) %
Natural gas sales including derivatives	$	63,232	$ 65,038	(3) %	$	226,810	$	216,797	5 %
Liquids sales		13,318	8,941	49 %		48,056		33,807	42 %
Realized gains on derivatives		371	-	nm		371		-	nm
Liquids sales including derivatives	$	13,689	$ 8,941	53 %	$	48,427	$	33,807	43 %
Sales including realized derivatives	**$**	**76,921**	**$ 73,979**	**4 %**	**$**	**275,237**	**$**	**250,604**	**10 %**

[1] Excludes net sales of natural gas purchased from third parties and unrealized derivative gains and losses.

Sales Including Realized Derivatives



Advantage's natural gas and liquids sales including realized gains (losses) on derivatives was $76.9 million for the three months ended December 31, 2019, a 4% increase to the same period of 2018, primarily attributed to the Corporation's increased liquids production. Natural gas and liquids sales including realized gains (losses) on derivatives, for the year ended December 31, 2019, was $275.2 million, a 10% increase as compared to 2018, as a result of the Corporation's continued progression on both gas and liquids production (see "Production").

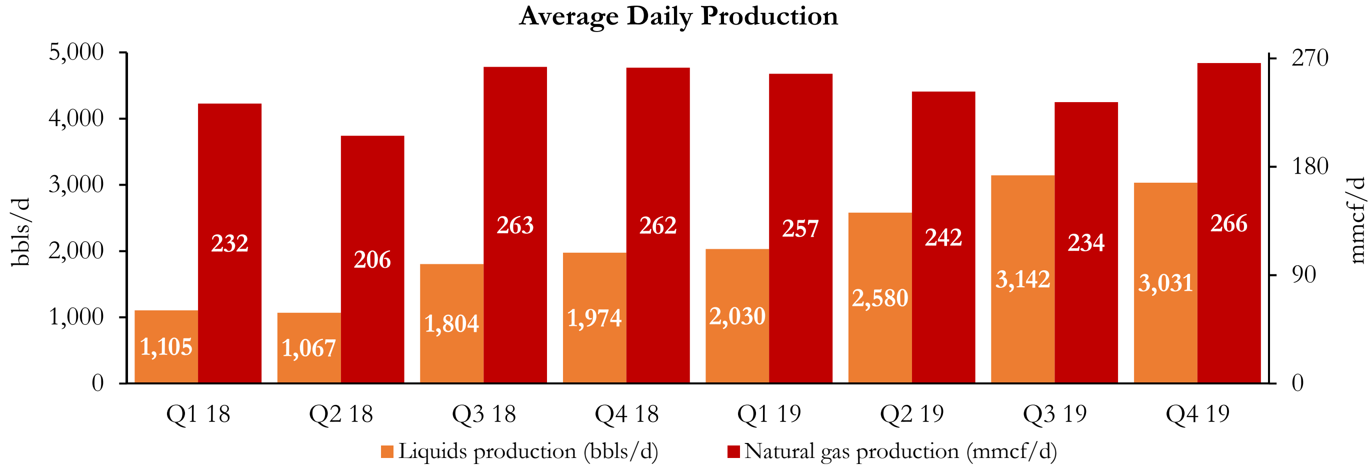
Advantage increased natural gas production during the fourth quarter of 2019 in response to increased AECO pricing (see "Production"), resulting in a 92% increase in natural gas sales, when compared to the third quarter of 2019. For the year ended December 31, 2019, natural gas sales increased $14.7 million or 8% as a result of higher natural gas production. Advantage continues to focus on market diversification and hedging which has strengthened and enhanced our natural gas sales.

Liquids sales for the three months and year ended December 31, 2019 increased by $4.4 million or 49% and $14.2 million or 42%, respectively, as a result of significantly increased liquids production, partially offset by weaker realized liquids prices. Liquids contributed 18% of total revenue for the year ended December 31, 2019, including realized gains (losses) on derivatives.

Realized gains (losses) on derivatives during the three months and year ended December 31, 2019 were $(0.2) million and $24.0 million, respectively. Realized gains (losses) on derivatives and changes from prior periods are the result of differences in natural gas and liquids prices, and contracts outstanding during the three months and year ended December 31, 2019 and 2018 (see "Commodity Price Risk Management and Market Diversification").

Production

	Three months ended December 31		%	Year ended December 31		%
	2019	**2018**	**change**	**2019**	**2018**	**change**
Natural gas (mcf/d)	266,035	262,269	1 %	249,802	240,959	4 %
Liquids (bbls/d)	3,031	1,974	54 %	2,700	1,491	81 %
Total production - mcfe/d	**284,221**	**274,113**	**4 %**	**266,002**	**249,905**	**6 %**
- boe/d	**47,370**	**45,686**	**4 %**	**44,334**	**41,651**	**6 %**
Natural gas (%)	94 %	96 %		94 %	96 %	
Liquids (%)	6 %	4 %		6 %	4 %	



Advantage achieved record total production for the three months and year ended December 31, 2019, increasing 4% and 6% respectively over the comparative periods of 2018. The increase in total production was primarily attributed to liquids production from successful well results at east Glacier and Valhalla, including commencement of our new compressor and liquids handling facility at Valhalla in the first half of 2019, along with initial production from Advantage's first Pipestone/Wembley 12-25 well beginning in the fourth quarter of 2019. Liquids production for the three months and year ended December 31, 2019 increased 54% and 81%, respectively, as compared to the same periods of 2018. Advantage's development plan continues our greater focus on liquids-rich development in our Progress and Pipestone/Wembley light oil assets that is planned to enhance and diversify our production, revenues and cash provided by operating activities.

During the fourth quarter of 2019, the Corporation increased natural gas production and throughput at our 100% owned Glacier Gas Plant following the implementation of operational changes on the NGTL system (Temporary Service Protocol). By shutting-in approximately 10 mmcf/d of production in the second and third quarters of 2019 when AECO prices were low, the Corporation was able to bring these volumes online in the fourth quarter at a higher AECO price.

Commodity Prices and Marketing

Average Realized Prices	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
Natural gas						
Excluding derivatives ($/mcf)(1)	$ 2.61	$ 2.57	1 %	$ 2.23	$ 2.14	4 %
Including derivatives ($/mcf)(1)	$ 2.58	$ 2.70	(4) %	$ 2.49	$ 2.47	1 %
Liquids						
Excluding derivatives ($/bbl)	$ 47.76	$ 49.23	(3) %	$ 48.76	$ 62.12	(22) %
Including derivatives ($/bbl)	$ 49.09	$ 49.23	- %	$ 49.14	$ 62.12	(21) %
Average Benchmark Prices						
Natural Gas						
AECO daily ($/mcf)	$ 2.47	$ 1.56	58 %	$ 1.75	$ 1.50	17 %
AECO monthly ($/mcf)	$ 2.33	$ 1.90	23 %	$ 1.62	$ 1.53	6 %
Dawn daily ($US/mmbtu)	$ 2.23	$ 3.78	(41) %	$ 2.40	$ 3.13	(23) %
Chicago Citygate ($US/mmbtu)	$ 2.51	$ 3.62	(31) %	$ 2.53	$ 3.05	(17) %
Henry Hub ($US/mmbtu)	$ 2.34	$ 3.65	(36) %	$ 2.51	$ 3.08	(19) %
Oil						
WTI ($US/bbl)	$ 56.96	$ 59.10	(4) %	$ 56.99	$ 64.96	(12) %
MSW Edmonton ($/bbl)	$ 66.89	$ 48.27	39 %	$ 69.22	$ 69.15	- %
Average Exchange rate (US$/CDN$)	0.7576	0.7569	- %	0.7537	0.7717	(2) %

(1) Excludes net sales of natural gas purchased from third parties.

Advantage's realized natural gas price excluding derivatives for the three months and year ended December 31, 2019 increased 1% to $2.61/mcf and 4% to $2.23/mcf, respectively, as compared to the same periods of 2018. This increase was primarily attributed to increased AECO prices and increased Chicago Citygate sales arrangements, offset by decreased prices in the Dawn market. Additionally, the Corporation's strategy of ramping up natural gas production as AECO prices increased in the fourth quarter of 2019 further strengthen our realized natural gas price for the year ended December 31, 2019 (see "Production").

Advantage sells natural gas into the AECO, Dawn and Chicago markets. Both of the Dawn and Chicago markets have generated higher realized prices as compared to AECO for the year ended December 31, 2019. Advantage's firm transportation service to Dawn of 52,700 mcf/d is a ten-year commitment and represents approximately 21% of our current natural gas production. The Dawn market has provided the Corporation with physical market diversification and exposure to higher prices, net of associated transportation expense (see "Transportation Expense"). Starting November 1, 2018, Advantage entered into sales arrangements for 20,000 mcf/d at Chicago Citygate prices, net of a fixed differential, that increased to 40,000 mcf/d in April 2019, which represents approximately 14% of our current natural gas production.

Realized liquids prices excluding derivatives decreased by 3% and 22% for the three months and year ended December 31, 2019, respectively, compared to the same periods of the prior year. The decrease has been primarily a result of lower WTI prices and the underlying price differential on which many of our contracts are based. Advantage's current liquids mix is comprised of 71% pentanes, condensate and light oil, which generally attract higher market prices than our other natural gas liquids.

Commodity Price Risk Management and Market Diversification

The Corporation's financial results and condition are impacted primarily by the prices received for natural gas and liquids production. Natural gas and liquids prices can fluctuate widely and are determined by supply and demand factors, including available access to transportation, weather, general economic conditions in consuming and producing regions throughout North America and political factors. Management has been proactive in entering into derivative contracts for the purposes of reducing the volatility of cash provided by operating activities in support of our Montney development plans. Advantage's Credit Facilities (as defined herein) allow us to enter into fixed price derivative contracts on up to 75% of total estimated natural gas and liquids production over the first three years and up to 50% over the fourth and fifth years. In addition, the Credit Facilities allow us to enter into basis swap arrangements to any natural gas price point in North America for up to 100,000 mmbtu/d with a maximum term of seven years. Basis swap arrangements are excluded from hedged production limits.

Our natural gas production and corresponding derivative contracts resulted in the realization of the following fixed market prices and variable market exposures for 2019:

	January 1 to December 31, 2019		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	93.7	$2.11/mcf	38 %
Dawn fixed price swaps	24.6	US$2.96/mcf [2]	10 %
	118.3		48 %
Variable Price			
AECO physical	63.4	AECO	25 %
Dawn physical	28.1	Dawn [2]	11 %
Chicago physical	35.0	Chicago less US$1.19/mcf	14 %
AECO / Henry Hub basis swaps	5.0	Henry Hub less US$0.95/mcf	2 %
	131.5		52 %
Total Natural Gas	249.8		100 %

(1) All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu.
(2) Transportation under our firm commitment from AECO to Dawn is approximately $1.10/mcf.

Commodity Price Risk Management and Market Diversification (continued)

Our natural gas production and corresponding derivative contracts are expected to result in the realization of the following fixed market prices and variable market exposures for 2020:

	January 1 to December 31, 2020		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	42.7	$1.62/mcf	18 %
Dawn fixed price swaps	2.5	US$3.15/mcf [2]	1 %
Midwest fixed price swaps	50.0	Henry Hub less US$1.07/mcf	21 %
	95.2		40 %
Variable Price			
AECO physical	45.4	AECO	18 %
Dawn physical	50.2	Dawn [2]	21 %
Empress physical	4.2	Empress [3]	2 %
Emerson physical	4.5	Emerson [4]	2 %
Midwest physical	40.0	Chicago, Ventura & Henry Hub less differentials [5]	17 %
	144.3		60 %
Total Natural Gas [6]	239.5		100 %

(1) All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu.
(2) Transportation under our firm commitment from AECO to Dawn is approximately $1.10/mcf.
(3) Transportation under our firm commitment from AECO to Empress is approximately $0.18/mcf.
(4) Transportation under our firm commitment from Empress to Emerson is approximately $0.63/mcf.
(5) Refer to the Corporation's website for details on differentials: http://www.advantageog.com/investors/hedging.
(6) Represents the midpoint of our guidance for 2020 natural gas volumes (see News Release dated January 8, 2020).

A summary of realized and unrealized derivative gains and losses for the three months and year ended December 31, 2019 and 2018 are as follows:

($000)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Realized gains (losses) on derivatives	$ (181)	$ 3,121	$ 23,958	$ 28,269
Unrealized gains (losses) on derivatives	(16,867)	22,722	(73,904)	(9,139)
Gains (losses) on derivatives	**$ (17,048)**	**$ 25,843**	**$ (49,946)**	**$ 19,130**

For the year ended December 31, 2019, Advantage recognized realized gains on derivatives due to the settlement of contracts with average derivative contract prices that were above average market prices. For the three months and year ended December 31, 2019, Advantage recognized unrealized losses on derivatives of $16.9 million and $73.9 million, respectively, resulting from a decrease in the fair value of our future derivative contracts to a net liability of $32.3 million, compared to a net asset of $41.6 million at December 31, 2018. The decrease in the fair value of our outstanding derivative contracts during 2019 was attributable to the change in valuation of the derivative contracts due to strengthening AECO natural gas prices and weakening of Henry Hub, tightening of the AECO/ Henry Hub basis, and $24.0 million of actual cash received from derivative settlements. The fair value of the net derivative asset or liability is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses do not impact adjusted funds flow 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. Remaining derivative contracts will settle between January 1, 2020 and December 31, 2024.

Sales of Natural Gas Purchased from Third Parties

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Sales of natural gas purchased from third parties ($000)	$ -	$ -	- %	$ 857	$ 5,078	(83) %
Natural gas purchased from third parties ($000)	-	-	- %	(2,362)	(3,967)	(40) %
Net sales of natural gas purchased from third parties ($000)	$ -	$ -	- %	$ (1,505)	$ 1,111	(235) %
per boe	$ -	$ -	- %	$ (0.09)	$ 0.07	(229) %

Advantage infrequently purchases natural gas volumes from third parties to satisfy physical delivery commitments during brief plant outages. During the year ended December 31, 2019, Advantage realized $0.9 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of $2.4 million. During year ended December 31, 2018, Advantage had a scheduled plant expansion shutdown and purchased $4.0 million of natural gas volumes from third parties while realizing $5.1 million of revenue from the sale of this purchased natural gas.

Royalty Expense

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Royalty expense ($000)	$ 2,231	$ 1,654	35 %	$ 4,690	$ 2,583	82 %
per boe	$ 0.51	$ 0.39	31 %	$ 0.29	$ 0.17	71 %
Royalty rate (percentage of natural gas and liquids sales)	2.9 %	2.3 %	0.6 %	1.9 %	1.2 %	0.7 %

Advantage pays royalties to the owners of mineral rights from which we have mineral leases. The Corporation has mineral leases with provincial governments, individuals and other companies. Our current average royalty rates are determined by various royalty regimes that incorporate factors including well depths, completion data, well production rates, and commodity prices. Royalties also include the impact of Gas Cost Allowance ("GCA") which is a reduction of royalties payable to the Alberta Provincial Government (the "Crown") to recognize capital and operating expenditures incurred by Advantage in the gathering and processing of the Crown's share of our natural gas production.

Royalty expense for the three months and year ended December 31, 2019 increased due to higher sales attributable to the increase in both natural gas and liquids production when compared to the same periods in 2018. Royalty expense for the year ended December 31, 2019 additionally had a more significant increase as a result of a larger refund received for GCA adjustments in 2018. The slight increase in royalty rates was primarily due to increased liquids production. Advantage's corporate royalty rate has continued to remain low due to GCA received from the Crown.

Operating Expense

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Operating expense ($000)	$ 8,225	$ 7,262	13 %	$ 31,967	$ 27,593	16 %
per boe	$ 1.89	$ 1.73	9 %	$ 1.98	$ 1.82	9 %

Operating expense for the three months and year ended December 31, 2019 increased to $8.2 million and $32.0 million compared to the respective periods of 2018. The increase in total operating expense was attributable to a higher number of producing wells, commissioning of our new Valhalla liquids handling hub, and initial production at Pipestone/Wembley. With our continuing liquid-rich development in our new asset areas, we anticipate operating expense will increase with higher liquids production, additional Advantage owned infrastructure at Pipestone/Wembley and Progress, and processing of Pipestone/Wembley production at third-party facilities.

Operating expense per boe for the three months and year ended December 31, 2019 was $1.89 and $1.98, respectively. The higher operating costs per boe were in-line with Advantage's guidance expectations of cost associated with increased liquids production. Advantage expects to maintain low operating expense per boe while continuing to progress development of our high-return liquids projects which is anticipated to enhance netbacks.

Transportation Expense

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Natural gas ($000)	$ 13,148	$ 11,805	11 %	$ 49,990	$ 45,930	9 %
Liquids ($000)	1,924	1,545	25 %	6,617	4,764	39 %
Total transportation expense ($000)	$ 15,072	$ 13,350	13 %	$ 56,607	$ 50,694	12 %
per boe	$ 3.46	$ 3.18	9 %	$ 3.50	$ 3.33	5 %

Transportation expense represents the cost of transporting our natural gas and liquids to the sales points, including associated fuel costs. Transportation expense for the three months and year ended December 31, 2019 increased by 13% and 12% respectively, compared to the same periods of 2018. The increase in total transportation expense was attributable to increased natural gas and liquids production and associated firm commitments (see "Production" and "Commodity Price Risk Management and Market Diversification").

Operating Netback

	Three months ended December 31							
	2019				2018			
		$000		**per boe**		**$000**		**per boe**
Sales of natural gas and liquids from production	$	77,102	$	17.69	$	70,858	$	16.86
Net sales of natural gas purchased from third parties (1)		-		-		-		-
Realized gains (losses) on derivatives		(181)		(0.04)		3,121		0.74
Royalty expense		(2,231)		(0.51)		(1,654)		(0.39)
Operating expense		(8,225)		(1.89)		(7,262)		(1.73)
Transportation expense		(15,072)		(3.46)		(13,350)		(3.18)
Operating netback (1)	**$**	**51,393**	**$**	**11.79**	**$**	**51,713**	**$**	**12.30**

	Year ended December 31							
	2019				2018			
		$000		**per boe**		**$000**		**per boe**
Sales of natural gas and liquids from production	$	251,279	$	15.53	$	222,335	$	14.62
Net sales of natural gas purchased from third parties (1)		(1,505)		(0.09)		1,111		0.07
Realized gains on derivatives		23,958		1.48		28,269		1.86
Royalty expense		(4,690)		(0.29)		(2,583)		(0.17)
Operating expense		(31,967)		(1.98)		(27,593)		(1.82)
Transportation expense		(56,607)		(3.50)		(50,694)		(3.33)
Operating netback (1)	**$**	**180,468**	**$**	**11.15**	**$**	**170,845**	**$**	**11.23**

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

Advantage's operating netback for the three months ended December 31, 2019 was $51.4 million or $11.79/boe, which was comparable to the same period in 2018.

For the year ended December 31, 2019, Advantage's operating netback was $180.5 million or $11.15/boe, an increase of $9.6 million compared to the same period in 2018. Advantage recognized a significant increase in sales of natural gas and liquids as a result of increased production, particularly the focus on liquids-rich development, and revenue enhancements through market diversification (see "Commodity Price Risk Management and Market Diversification"). The increased operating netback was offset by decreased realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification") and slightly higher cost primarily associated with increased liquids production.

General and Administrative Expense

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
General and administrative expense ($000)	$ 3,456	$ 2,083	66 %	$ 11,802	$ 8,873	33 %
per boe	$ 0.79	$ 0.50	58 %	$ 0.73	$ 0.58	26 %
Employees at December 31				38	32	19 %

General and administrative ("G&A") expense for the three months and year ended December 31, 2019 increased primarily due to an increase in number of head office and field employees during the year and the implementation of a new cash-based Performance Award Incentive plan. For the year ended December 31, 2019, the Corporation made lease payments in the amount of $0.5 million, which are no longer recorded under G&A as a result of adopting IFRS 16 – Leases on January 1, 2019.

Share-based Compensation

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
Share-based compensation ($000)	$ 2,434	$ 2,190	11 %	$ 8,556	$ 8,208	4 %
Capitalized ($000)	(898)	(813)	10 %	(3,157)	(3,046)	4 %
Share-based compensation expense ($000)	$ 1,536	$ 1,377	12 %	$ 5,399	$ 5,162	5 %
per boe	$ 0.35	$ 0.33	6 %	$ 0.33	$ 0.34	(3) %

The Corporation's current long-term compensation plan to employees consists of a balanced approach between a cash-based Performance Award Incentive Plan (see "General and Administrative Expense") and a share-based Restricted and Performance Award Incentive Plan. Under the Restricted and Performance Award Incentive Plan, Performance Share Units are granted to service providers of Advantage to align the interests of these individuals with those of shareholders. Capitalized share-based compensation is attributable to personnel involved with the development of the Corporation's capital projects. The Corporation recognized $5.4 million of share-based compensation expense during the year ended December 31, 2019 and capitalized $3.2 million. The slight increase as compared to 2018 was primarily attributed to an increase in staff during the year, partially offset by a reduction due to allocating a portion of annual long-term compensation grants to the new cash-based Performance Award Incentive Plan.

Finance Expense

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
Cash expense ($000)	$ 3,426	$ 3,068	12 %	$ 13,513	$ 10,827	25 %
per boe	$ 0.79	$ 0.73	8 %	$ 0.84	$ 0.71	18 %
Accretion expense ($000)	243	236	3 %	936	1,030	(9) %
Total finance expense ($000)	$ 3,669	$ 3,304	11 %	$ 14,449	$ 11,857	22 %
per boe	$ 0.84	$ 0.79	6 %	$ 0.89	$ 0.78	14 %

Advantage realized higher cash finance expense during the three months and year ended December 31, 2019 due to higher average outstanding bank indebtedness. As anticipated in our development plan, Advantage's average bank debt was higher as compared to 2018 but the Corporation continues to maintain a strong balance sheet. Advantage's interest rates are primarily based on short-term bankers' acceptance rates plus a stamping fee and determined by net debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities.

Depreciation Expense

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
Depreciation expense ($000)	$ 25,865	$ 33,065	(22) %	$ 119,474	$ 119,042	- %
per boe	$ 5.93	$ 7.87	(25) %	$ 7.38	$ 7.83	(6) %

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 boe has decreased during 2019 due to the continued efficiency of our reserve additions.

Taxes

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
Income tax expense (recovery) ($000)	$ 1,863	$ 9,632	(81) %	$ (19,879)	$ 5,841	(440) %

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2019, the Corporation recognized a deferred income tax recovery of $19.9 million as a result of a loss before tax, and the *Job Creation Tax Cut Act* ("Bill 3"). Bill 3 was enacted during the second quarter of 2019 by the Alberta Government and decreased the Corporation's provincial corporate tax rate to 11% (from 12%) on July 1, 2019, with a further 1% rate reductions every year on January 1 until the provincial corporate tax rate is 8% on January 1, 2022. As at December 31, 2019, the Corporation had a deferred income tax liability of $58.5 million.

The estimated tax pools available at December 31, 2019 are as follows:

($ millions)	
Canadian development expenses	$ 212.4
Canadian exploration expenses	67.4
Canadian oil and gas property expenses	14.3
Non-capital losses	746.7
Undepreciated capital cost	283.4
Capital losses	157.9
Scientific research and experimental development expenditures	32.5
Other	7.4
	$ 1,522.0

Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
Net income (loss) and comprehensive income (loss) ($000)	$ (1,844)	$ 25,162	(107) %	$ (24,654)	$ 11,119	(322) %
per share - basic	$ (0.01)	$ 0.14	(107) %	$ (0.13)	$ 0.06	(317) %
per share - diluted	$ (0.01)	$ 0.13	(108) %	$ (0.13)	$ 0.06	(317) %

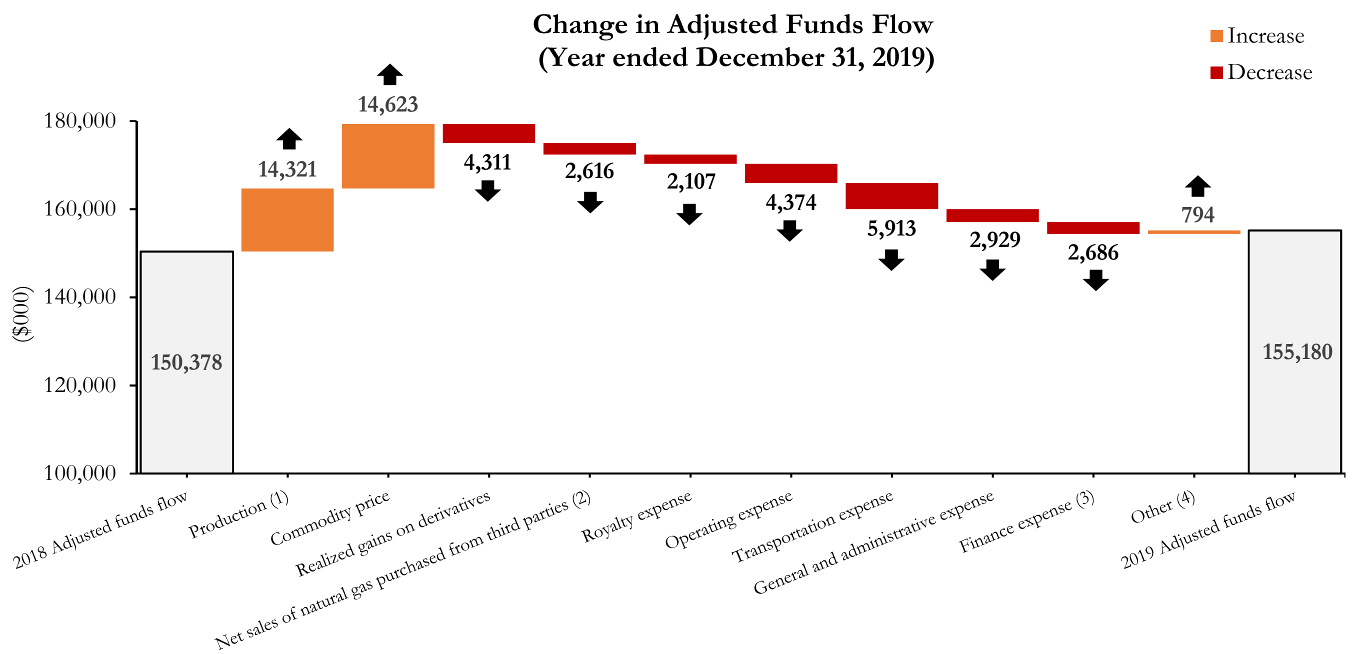
Advantage recognized a net loss of $1.8 million and $24.7 million for the three months and year ended December 31, 2019, respectively. The decreases in net income (loss) and comprehensive income (loss) were primarily due to unrealized losses on derivatives. Advantage recognized unrealized losses on derivatives for the year ended December 31, 2019 of $73.9 million. Unrealized derivative gains and losses do not impact adjusted funds flow 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 (see "Commodity Price Risk Management and Market Diversification"). Excluding unrealized losses on derivatives and deferred income taxes that can create income volatility, Advantage's earnings for the year ended December 31, 2019 would have been $29.4 million, 13% higher than 2018 of $26.1 million. Advantage has continued to deliver strong operating and financial results during periods of significant commodity price volatility as a result of market diversification, commodity price risk management and maintaining low costs.

Cash Provided by Operating Activities and Adjusted Funds Flow

($000, except as otherwise indicated)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Cash provided by operating activities	$ 39,965	$ 41,627	$ 156,063	$ 149,240
Expenditures on decommissioning liability	85	1,045	1,911	1,782
Changes in non-cash working capital	4,402	3,629	(2,794)	(644)
Adjusted funds flow (1)	**$ 44,452**	**$ 46,301**	**$ 155,180**	**$ 150,378**
Adjusted funds flow per share (1)	**$ 0.23**	**$ 0.25**	**$ 0.83**	**$ 0.81**

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

For the three months and year ended December 31, 2019, Advantage realized adjusted funds flow of $44.4 million or $0.23/share and $155.2 million or $0.83/share, respectively. Advantage realized higher adjusted funds flow for the year ended December 31, 2019 as a result of higher production including increased liquids, and stronger realized natural gas prices including revenue enhancements through market diversification. These increases were offset by lower realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification") and higher cost associated with increased liquids production (see "Operating Netback").



(1) The change in sales of natural gas and liquids from production related to the change in production is determined by multiplying the prior year realized price by current year production.
(2) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(3) Finance expense excludes accretion of decommissioning liability.
(4) Other includes other income, settlement of performance share units and unrealized gains on foreign exchange.

Contractual Obligations and Commitments

The Corporation has contractual obligations in the normal course of operations including purchases of assets and services, operating agreements, transportation and processing commitments, sales contracts and bank indebtedness. These obligations are of a recurring and consistent nature and impact the Consolidated Statement of Cash Flows 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**	**2020**	**2021**	**2022**	**2023**	**2024**	**Beyond**
Building operating cost [(1)]	$ 3.1	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.1
Processing	64.6	1.1	3.9	8.5	8.5	8.5	34.1
Transportation	521.7	47.0	53.9	62.0	57.0	53.2	248.6
Bank indebtedness [(2)]							
- principal	295.6	-	295.6	-	-	-	-
- interest	17.2	11.6	5.6	-	-	-	-
Total contractual obligations	**$ 902.2**	**$ 60.1**	**$ 359.4**	**$ 70.9**	**$ 65.9**	**$ 62.1**	**$ 283.8**

(1) Excludes fixed lease payments which are included in the Corporation's lease liability.

(2) As at December 31, 2019 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 semi-annually, with the next review scheduled in April 2020. 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 2019**	**December 31 2018**
Bank indebtedness (non-current)	$ 295,624	$ 270,918
Working capital deficit [(1)]	7,996	1,912
Net debt [(1)]	**$ 303,620**	**$ 272,830**
Shares outstanding	186,910,848	185,942,141
Shares closing market price ($/share)	$ 2.75	$ 1.98
Market capitalization	**$ 514,005**	**$ 368,165**
Total capitalization	**$ 817,625**	**$ 640,995**
Net debt to adjusted funds flow [(1)]	**2.0**	**1.8**

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

Advantage has a $400 million Credit Facility of which $94.1 million or 23% was available at December 31, 2019 after deducting letters of credit of US$6 million outstanding (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's adjusted funds flow and bank indebtedness was utilized to fund our capital expenditure program of $184.9 million for the year ended December 31, 2019. This resulted in a net debt to adjusted funds flow ratio of 2.0 times as at December 31, 2019, as expected. Advantage continues to be focused on maintaining a strong balance sheet, a disciplined commodity risk management program, a low-cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing its multi-year development plan.

Liquidity and Capital Resources (continued)

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, 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.

Bank Indebtedness, Credit Facilities and Other Obligations

As at December 31, 2019, Advantage had bank indebtedness outstanding of $295.6 million, an increase of $24.7 million since December 31, 2018. Advantage's Credit Facilities have a borrowing base of $400 million that is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating as determined by the Alberta Energy Regulator is not less than 2.0. The borrowing base for the Credit Facilities is determined by the banking syndicate through an evaluation of our reserve estimates based upon their own commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In October 2019, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base of $400 million, comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $380 million extendible revolving loan facility from a syndicate of financial institutions. The next semi-annual review is scheduled to occur in April 2020. 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 $8.0 million as at December 31, 2019, an increase of $6.1 million compared to December 31, 2018 due to differences in the timing of capital expenditures and related payments. Our working capital includes cash and cash equivalents, trade receivables, prepaid expenses and deposits, trade payables and other accrued liabilities. 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. We do not anticipate any problems in meeting future obligations as they become due as they can be satisfied with cash provided by operating activities and our available Credit Facilities.

Shareholders' Equity

As at December 31, 2019, a total of 0.8 million Stock Options and 3.9 million Performance Share Units were outstanding, which represents 2.5% of Advantage's total outstanding common shares. No Stock Options were exercised during the year ended December 31, 2019. During April 2019, 598,069 Performance Share Units vested and were settled with the issuance of 968,707 common shares. As at February 27, 2020, Advantage had 186.9 million common shares outstanding.

Cash Used in Investing Activities and Net Capital Expenditures

($000)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Drilling, completion and workovers	$ 27,734	$ 29,330	$ 104,382	$ 95,883
Well equipping and facilities	31,482	20,138	76,506	102,947
Other	167	159	517	159
Expenditures on property, plant and equipment	59,383	49,627	181,405	198,989
Expenditures on exploration and evaluation assets	226	1,560	3,517	2,097
Net capital expenditures [(1)]	**$ 59,609**	**$ 51,187**	**$ 184,922**	**$ 201,086**
Changes in non-cash working capital	(9,244)	(464)	(11,282)	12,648
Cash used in investing activities	**$ 50,365**	**$ 50,723**	**$ 173,640**	**$ 213,734**

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

Advantage invested $59.6 million and $184.9 million on property, plant, equipment and exploration and evaluation assets during the three months and year ended December 31, 2019, respectively. During 2019, Advantage drilled 14.7 net wells focusing on liquid-rich Montney opportunities across our acreage position.

Progress

During the year, Advantage announced a Montney light oil pool discovery and appraisal at Progress, Alberta, on our 100% owned 50 net section land block (see News Release dated September 3, 2019). Advantage has drilled and completed four successful Montney wells at Progress over the last two years, with the most recent located at 16-36-76-10W6 being completed in the third quarter of 2019. This discovery including the three previous wells, elevates the Progress asset to be a significant element of the Corporation's liquids development program along with Pipestone/Wembley, Valhalla and east Glacier. The Progress lands were acquired over the last five years and appraisal began in 2017.

The oil wells will be initially tied-in to Advantage's 100% owned Glacier and Valhalla infrastructure for gas processing and liquids extraction, making use of existing facility capacity and an existing section of unused Advantage pipeline. Final tie-in is expected to be completed in the first quarter of 2020. Design and procurement of equipment has begun on a new 5,000 bbl/d oil battery which will be located on the Progress land block. Commissioning is targeted for the fourth quarter of 2020 where the liquids will be extracted at the new battery and the gas will be sent to the Glacier Gas Plant for processing.

The initial Progress wells represent another milestone in demonstrating that each of Advantage's land blocks (Glacier, Pipestone/Wembley, Valhalla and Progress) feature high-quality resource with attractive economics. With these results at Progress, the asset will complement the Corporation's liquids development plan and is viewed by Management as competitive with Pipestone/Wembley.

Pipestone/Wembley

Our Pipestone/Wembley land block is in a condensate fairway where significant industry drilling successes in multiple layers has occurred. Industry drilling adjacent to our lands have targeted multiple Montney layers with results demonstrating liquids-rich gas accumulations in all layers to date.

In 2019 Advantage drilled 7 gross (7.0 net) Montney wells and one water disposal well at Pipestone/Wembley. The wells are in various stages of completion/flowback/production. The property has transitioned from our first well completed in the first quarter of 2018 to construction of a 5,000 bbl/d oil battery starting in the fourth quarter of 2019. The facility is targeted for commissioning in April 2020. This battery will allow the property to move to continuous production following commissioning.

Cash Used in Investing Activities and Net Capital Expenditures (continued)

Valhalla

During the year 5 gross (4.7 net) wells were drilled, completed and placed on production at Valhalla. The wells produce through our Valhalla compressor station which is connected to our Glacier Gas Plant. These wells, along with our previous Valhalla wells, have filled our 40 mmcf/d compressor station that was commissioned in late 2018 and early 2019.

Glacier

Glacier activity during the year was focused on completing a 10 well Middle Montney pad in the first quarter of 2019 and bringing those wells on production through the second and third quarters of 2019. These wells, along with the Valhalla wells helped increase our corporate liquids production during 2019.

Corporate

Advantage's current standing well inventory consists of nine total wells. Seven are completed and being tied in; and two are in various stages of completion.

Advantage holds a total of 210 net sections (134,400 net acres) of Doig/Montney rights with 122 of those net sections outside of Glacier in the Valhalla, Progress and Pipestone/Wembley areas that have potential for liquids-rich and multi-layer development.

Annual Financial Information

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

		Year ended December 31, 2019		Year ended December 31, 2018		Year ended December 31, 2017
Total sales ($000) [1]	$	251,279	$	222,335	$	231,764
Net income (loss) ($000)	$	(24,654)	$	11,119	$	95,039
Per share - basic	$	(0.13)	$	0.06	$	0.51
Per share - diluted	$	(0.13)	$	0.06	$	0.50
Total assets ($000)	$	1,818,454	$	1,771,197	$	1,691,182
Long-term financial liabilities ($000) [2]	$	295,624	$	270,918	$	208,978

(1) Before royalties and excludes sales of natural gas purchased from third parties.
(2) Long-term financial liabilities is comprised of bank indebtedness.

Quarterly Performance

($000, except as otherwise indicated)	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Financial Statement Highlights								
Sales including realized derivatives [3]	$ 76,921	$ 56,927	$ 60,017	$ 81,372	$ 73,979	$ 57,928	$ 45,319	$ 73,378
Net income (loss) and comprehensive income (loss)	$ (1,844)	$ (26,863)	$ 3,372	$ 681	$ 25,162	$ (8,852)	$ (15,294)	$ 10,103
per basic share [2]	$ (0.01)	$ (0.14)	$ 0.02	$ 0.00	$ 0.14	$ (0.05)	$ (0.08)	$ 0.05
Cash provided by operating activities [4]	$ 39,965	$ 27,323	$ 44,292	$ 44,483	$ 41,627	$ 27,950	$ 21,009	$ 58,654
Cash provided by (used in) financing activities [4]	$ 20,115	$ 5,010	$ (20,309)	$ 19,501	$ 11,739	$ 11,005	$ 12,852	$ 28,341
Cash used in investing activities	$ 50,365	$ 36,258	$ 27,303	$ 59,714	$ 50,723	$ 39,085	$ 38,701	$ 85,225
Basic weighted average shares (000)	186,911	186,911	186,858	185,942	185,942	186,065	186,190	185,963
Other Financial Highlights								
Adjusted funds flow [1]	$ 44,452	$ 27,928	$ 32,777	$ 50,023	$ 46,301	$ 32,035	$ 23,160	$ 48,882
per boe [1]	$ 10.20	$ 7.21	$ 8.38	$ 12.38	$ 11.02	$ 7.63	$ 7.20	$ 13.63
per basic share [1][2]	$ 0.23	$ 0.15	$ 0.18	$ 0.27	$ 0.25	$ 0.17	$ 0.12	$ 0.26
Net capital expenditures [1]	$ 59,609	$ 48,313	$ 19,578	$ 57,422	$ 51,187	$ 47,502	$ 25,324	$ 77,073
Working capital (surplus) deficit [1]	$ 7,996	$ 13,322	$ (1,891)	$ (9,325)	$ 1,912	$ 8,169	$ 3,206	$ 13,779
Bank indebtedness	$ 295,624	$ 275,594	$ 270,495	$ 290,612	$ 270,918	$ 259,179	$ 250,189	$ 237,319
Net debt [1]	$ 303,620	$ 288,916	$ 268,604	$ 281,287	$ 272,830	$ 267,348	$ 253,395	$ 251,098
Operating Highlights								
Daily Production								
Natural gas (mcf/d)	266,035	233,625	242,409	257,219	262,269	262,841	205,712	232,456
Liquids (bbls/d)	3,031	3,142	2,580	2,030	1,974	1,804	1,067	1,105
Total production (mcfe/d)	284,221	252,477	257,889	269,401	274,113	273,665	212,114	239,086
Total production (boe/d)	47,370	42,080	42,982	44,900	45,686	45,611	35,352	39,848
Average prices (including realized derivatives)								
Natural gas ($/mcf) [3]	$ 2.58	$ 2.04	$ 2.17	$ 3.11	$ 2.70	$ 1.93	$ 2.05	$ 3.19
Liquids($/bbl)	$ 49.09	$ 45.32	$ 51.76	$ 51.93	$ 49.23	$ 67.90	$ 72.32	$ 66.11
Operating Netback ($/boe)								
Sales of natural gas and liquids from production	$ 17.69	$ 11.98	$ 13.14	$ 18.90	$ 16.86	$ 13.33	$ 11.65	$ 16.19
Net sales of natural gas purchased from third parties [1]	$ -	$ (0.03)	$ -	$ (0.35)	$ -	$ -	$ 0.35	$ -
Realized gains (losses) on derivatives	$ (0.04)	$ 2.72	$ 2.20	$ 1.23	$ 0.74	$ 0.47	$ 2.43	$ 4.27
Royalty (expense) recovery	$ (0.51)	$ (0.06)	$ 0.02	$ (0.57)	$ (0.39)	$ (0.19)	$ 0.33	$ (0.34)
Operating expense	$ (1.89)	$ (2.12)	$ (1.89)	$ (2.02)	$ (1.73)	$ (1.61)	$ (2.06)	$ (1.94)
Transportation expense	$ (3.46)	$ (3.58)	$ (3.56)	$ (3.40)	$ (3.18)	$ (3.09)	$ (3.75)	$ (3.44)
Operating netback [1]	$ 11.79	$ 8.91	$ 9.91	$ 13.79	$ 12.30	$ 8.91	$ 8.95	$ 14.74

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Based on basic weighted average shares outstanding.
(3) Excludes net sales of natural gas purchased from third parties.
(4) Cash provided by operating activities and cash provided by (used in) financing activities for each quarter in 2018 has been adjusted to conform to the presentation adopted for each quarter in 2019.

The table above highlights the Corporation's performance for the fourth quarter of 2019 and for the preceding seven quarters. Advantage's production volumes were reduced during the first and second quarters of 2018 as a result of Glacier Gas Plant expansion activities, with production increasing significantly afterwards following the completion of the 400 mmcf/d expansion. Production decreased in the second and third quarters of 2019 due to Advantage proactively shutting-in dry natural gas exposed to periods of extremely low AECO pricing. Advantage ramped up natural gas production in the fourth quarter of 2019 in response to an increase in AECO pricing.

Quarterly Performance (continued)

Sales and adjusted funds flow that began to strengthen into the first quarter of 2018 due to improving commodity prices, subsequently deteriorated as natural gas prices weakened in the second and third quarters of 2018 associated with NGTL system maintenance. Both sales and adjusted funds flow improved from the third quarter of 2018 to the first quarter of 2019 largely as a result of higher production, especially increased liquids production, and stronger realized prices. Sales and adjusted funds flow that were weaker in the second and third quarters of 2019 due to decreased production and lower realized natural gas prices, benefited significantly from a continued increase in liquids production and our market diversification portfolio, including derivatives. Sales and adjusted funds flow increased in the fourth quarter of 2019 as a result of increased production and stronger natural gas prices. From early 2018 to 2019, cash provided by operating activities experienced greater fluctuations than adjusted funds flow due to changes in non-cash working capital, which primarily resulted from the amount and timing of trade payable settlements and accounts receivable collections.

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 (loss) and comprehensive income (loss) through depreciation and impairment of natural gas and liquids properties. After tax discounted cashflows are used to ensure the carrying amount of the Corporation’s natural gas and liquids properties are recoverable. The discount rate used is subject to judgement and may impact the carrying value of the Corporation’s natural gas and liquids properties. The reserve estimates are also used to assess the borrowing base for the Credit Facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on asset values, net income (loss), comprehensive income (loss) and the borrowing base of the Corporation.

The Corporation’s assets are required to be aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. Factors considered in the classification include the integration between assets, shared infrastructures, the existence of common sales points, geography, geologic structure, and the manner in which Management monitors and makes decisions about its operations. The classification of assets and allocation of corporate assets into CGUs requires significant judgment and may impact the carrying value of the Corporation’s assets in future periods.

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. Estimates used in the determination of deferred income taxes provisions are significant and can include expected future tax rates, expectations regarding the realization or settlement of the carrying amount of assets and liabilities and other relevant assumptions. Estimates used in the determination of decommissioning liability cost provisions and accretion expense are significant and can include proved and probable reserves, future production rates, future commodity prices, future costs, future interest 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 (loss) and comprehensive income (loss).

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 (loss) 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.

Critical Accounting Estimates (continued)

In determining the lease term for leases, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Changes in Accounting Policies

On January 1, 2019, the Corporation adopted IFRS 16 - Leases. Additional information regarding the adoption of the standard and the impact can be found in the Consolidated Financial Statements for the year ended December 31, 2019.

Accounting Pronouncements not yet Adopted

A description of additional accounting standards and interpretations that will be adopted in future periods can be found in the notes to the Consolidated Financial Statements for the year ended December 31, 2019.

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, 2019. 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 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, 2019. 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, 2019 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.

Non-GAAP Measures

The Corporation discloses several financial and performance measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial and performance measures include "net capital expenditures", " working capital", "net debt", "adjusted funds flow", "net debt to adjusted funds flow", "operating netback" and "net sales of natural gas purchased from third parties", which should not be considered as alternatives to, or more meaningful than "net income (loss)", "comprehensive income (loss)", "cash provided by operating activities", "cash used in investing activities", or individual expenses presented within the consolidated statement of comprehensive income (loss) as determined in accordance with GAAP. Management believes that these measures provide an indication of the results generated by the Corporation's principal business activities and provide useful supplemental information for analysis of the Corporation's operating performance and liquidity. 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.

Net Capital Expenditures

Net capital expenditures include total capital expenditures related to property, plant and equipment and exploration and evaluation assets. Management considers this measure reflective of actual capital activity for the period as it excludes changes in working capital related to other periods. Please see "Cash Used in Investing Activities and Net Capital Expenditures" for a reconciliation to the nearest measure calculated in accordance with GAAP, cash used in investing activities.

Working Capital

Working capital includes cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued liabilities. Working capital provides Management and users with a measure of the Corporation's operating liquidity. Please see "Liquidity and Capital Resources".

Net Debt

Net debt is comprised of bank indebtedness and working capital. Net debt provides Management and users with a measure of the Corporation's indebtedness and expected settlement of net liabilities in the next year. Please see "Liquidity and Capital Resources".

Adjusted Funds Flow

The Corporation considers adjusted funds flow to be a useful measure of Advantage's ability to generate cash from the production of natural gas and liquids, which may be used to settle outstanding debt and obligations, and to support future capital expenditures plans. Changes in non-cash working capital are excluded from adjusted funds flow as they may vary significantly between periods and are not considered to be indicative of the Corporation's operating performance as they are a function of the timeliness of collecting receivables and paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production and are partially discretionary due to the natural of our low liability. Please see "Cash Provided by Operating Activities and Adjusted Funds Flow" for a reconciliation to the nearest measure calculated in accordance with GAAP, cash provided by operating activities. Adjusted funds flow has also been presented per boe, by dividing adjusted funds flow by total production in boe for the reporting period, and per basic share, by dividing by the basic weighted average shares outstanding of the Corporation.

Net Debt to Adjusted Funds Flow

Net debt to adjusted funds flow is calculated by dividing net debt by adjusted fund flow for the previous four quarters. Net debt to adjusted funds flow is a coverage ratio that provides Management and users the ability to determine how long it would take the Corporation to repay its debt if it devoted all its adjusted funds flow to debt repayment. Please see "Liquidity and Capital Resources".

Non-GAAP Measures (continued)

Operating Netback

Advantage calculates operating netback on a total and per boe basis. Operating netback is comprised of sales revenue, realized gains (losses) on derivatives and net sales of natural gas purchased from third parties, net of expenses resulting from field operations, including royalty expense, operating expense and transportation expense. Operating netback provides Management and users with a measure to compare the profitability of field operations between companies, development areas and specific wells. Please see "Operating Netback".

Net Sales of Natural Gas Purchased from Third Parties

Net sales of natural gas purchased from third parties represents the revenue or loss generated from the sale of natural gas volumes purchased from third parties, after deducting the cost to purchase the volumes. The purchase and sale transactions are non-routine and are considered by Management to be related for performance purposes.

Conversion Ratio

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.

Abbreviations

Terms and abbreviations that are used in this MD&A that are not otherwise defined herein are provided below:

bbl(s)	- barrel(s)
bbls/d	- barrels per day
boe	- barrels of oil equivalent (6 mcf = 1 bbl)
boe/d	- barrels of oil equivalent per day
GJ	- gigajoules
mcf	- thousand cubic feet
mcf/d	- thousand cubic feet per day
mcfe	- thousand cubic feet equivalent (1 bbl = 6 mcf)
mcfe/d	- thousand cubic feet equivalent per day
mmbtu	- million British thermal units
mmbtu/d	- million British thermal units per day
mmcf	- million cubic feet
mmcf/d	- million cubic feet per day
"Liquids" or "NGLs"	- Natural Gas Liquids as defined in National Instrument 51-101
Natural gas	- Conventional Natural Gas as defined in National Instrument 51-101
AECO	- a notional market point on TransCanada Pipeline Limited's NGTL system where the purchase and sale of natural gas is transacted
MSW	- price for mixed sweet crude oil at Edmonton, Alberta
NGTL	- NOVA Gas Transmission Ltd.
WTI	- West Texas Intermediate, price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade
nm	- not meaningful information

Forward-Looking Information and Other Advisories

This MD&A contains certain forward-looking statements and forward-looking information (collectively, "forward-looking statements"), which are based on our current internal expectations, estimates, projections, assumptions and beliefs. These forward-looking 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 in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; the Corporation's focus on market diversification; the Corporation's hedging activities; expectation that greater focus on liquids-rich development in the Corporation's Progress and Pipestone/Wembley assets will enhance and diversify production, revenues and cash provided by operating activities; terms of the Corporation's derivative contracts, including their purposes, the timing of settlement of such contracts and the expected realization of fixed market prices and variable market exposures for 2020; anticipation that the Corporation's operating expense will increase and the reasons therefor; expectation that the Corporation will maintain low operating expense per boe and the reasons therefor; estimated tax pools and liability; future commitments and contractual obligations; terms of the Corporation's Credit Facilities, including timing of the next review of the Credit Facilities, 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 financing arrangements, share repurchases, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; timing for final tie-in and equipping of wells at Progress; anticipated timing of infrastructure commissioning at Pipestone/Wembley and the benefits to be derived therefrom; the statements under "critical accounting estimates" in this MD&A; and other matters.

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, regulatory approvals, 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; lack of available capacity on pipelines; delays in timing of facility installation; delays in obtaining stakeholder and regulatory approvals; the failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; and the risks and uncertainties described in the Corporation's Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: 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 stakeholder and regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of

Forward-Looking Information and Other Advisories (continued)

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; availability of pipeline capacity; 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.

This MD&A contains metrics commonly used in the oil and natural gas industry which have been prepared by management such as "operating netback". These terms do not have standard meaning and may not be comparable to similar measures presented by other companies and, therefore, should not be used to make such comparisons. Management uses these oil and natural gas metrics for its own performance measurements, and to provide shareholders with measures to compare Advantage's operations overtime. Readers are cautioned that the information provided by these metrics, or that can be derived from metrics presented in the MD&A, should not be relied upon for investment or other purposes. Refer above to "Non-GAAP Measures" section of this MD&A for additional disclosure on "operating netback".

References to natural gas or liquids production in the MD&A refer to conventional natural gas and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

Certain information contained herein may be considered "analogous information" as defined in National Instrument 51-101. In particular, this document discloses that the Montney formation are liquids-rich gas accumulations in all layers in adjacent lands to those of the Corporation. Such analogous information has not been prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook and the Corporation is unable to confirm whether such information has been prepared by a qualified reserves evaluator. Such information is not intended to be a projection of future results. Such information is based on independent public data and public information received from other producers and the Corporation has no way of verifying the accuracy of such information. Such information has been presented to help demonstrate the basis for the Corporation's business plans and strategies. There is no certainty that such results will be achieved by the Corporation and such information should not be construed as an estimate of future reserves or future production levels.

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.

February 27, 2020

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Independent auditor's report

To the Shareholders of Advantage Oil & Gas Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Advantage Oil & Gas Ltd. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
111-5th Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Ryan Lundeen.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 27, 2020

Advantage Oil & Gas Ltd.
Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Notes		December 31 2019		December 31 2018
ASSETS					
Current assets					
Cash and cash equivalents	5	$	13,099	$	6,359
Trade and other receivables	6		29,318		28,350
Prepaid expenses and deposits			1,487		2,178
Derivative asset	10		2,025		29,593
Total current assets			**45,929**		**66,480**
Non-current assets					
Derivative asset	10		-		12,943
Exploration and evaluation assets	7		20,703		22,613
Right-of-use assets	8		2,354		-
Property, plant and equipment	9		1,749,468		1,669,161
Total non-current assets			**1,772,525**		**1,704,717**
Total assets		**$**	**1,818,454**	**$**	**1,771,197**
LIABILITIES					
Current liabilities					
Trade and other accrued liabilities		$	51,900	$	38,799
Derivative liability	10		11,173		94
Current portion of non-current liabilities	11,13		1,550		-
Total current liabilities			**64,623**		**38,893**
Non-current liabilities					
Derivative liability	10		23,136		822
Lease liability	11		2,271		-
Bank indebtedness	12		295,624		270,918
Decommissioning liability	13		56,989		50,028
Other long-term liabilities	16		1,252		-
Deferred income tax liability	14		58,462		78,341
Total non-current liabilities			**437,734**		**400,109**
Total liabilities			**502,357**		**439,002**
SHAREHOLDERS' EQUITY					
Share capital	15		2,349,703		2,342,689
Contributed surplus			117,116		115,574
Deficit			(1,150,722)		(1,126,068)
Total shareholders' equity			**1,316,097**		**1,332,195**
Total liabilities and shareholders' equity		**$**	**1,818,454**	**$**	**1,771,197**

Commitments (note 23)

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board of Directors of Advantage Oil & Gas Ltd.:

Paul G. Haggis, Director: ________________ Andy J. Mah, Director: ________________

Advantage Oil & Gas Ltd.
Consolidated Statements of Comprehensive Income (Loss)
(Expressed in thousands of Canadian dollars, except per share amounts)

	Notes	Year ended December 31 2019	2018
Revenues			
Sales of natural gas and liquids from production	18	$ 251,279	$ 222,335
Sales of natural gas purchased from third parties	18	857	5,078
Royalty expense		(4,690)	(2,583)
Natural gas and liquids revenue		247,446	224,830
Gains (losses) on derivatives	10	(49,946)	19,130
Other income		27	188
Total revenues and other income		**197,527**	**244,148**
Expenses			
Operating expense		31,967	27,593
Transportation expense		56,607	50,694
Natural gas purchased from third parties	18	2,362	3,967
General and administrative expense	19	11,802	8,873
Share-based compensation expense	16	5,399	5,162
Depreciation expense	8,9	119,474	119,042
Finance expense	20	14,449	11,857
Total expenses		**242,060**	**227,188**
Income (loss) before taxes		**(44,533)**	**16,960**
Income tax recovery (expense)	14	19,879	(5,841)
Net income (loss) and comprehensive income (loss)		**$ (24,654)**	**$ 11,119**
Net income (loss) per share	17		
Basic		**$ (0.13)**	**$ 0.06**
Diluted		**$ (0.13)**	**$ 0.06**

See accompanying Notes to the Consolidated Financial Statements

Advantage Oil & Gas Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in thousands of Canadian dollars)

	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2018		$ 2,342,689	$ 115,574	$ (1,126,068)	**$ 1,332,195**
Net loss and comprehensive loss		-	-	(24,654)	**(24,654)**
Share-based compensation	16(c)	-	8,556	-	**8,556**
Settlement of Performance Share Units	15, 16(b)	7,014	(7,014)	-	**-**
Balance, December 31, 2019		**$ 2,349,703**	**$ 117,116**	**$ (1,150,722)**	**$ 1,316,097**

	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2017		$ 2,340,801	$ 110,077	$ (1,139,202)	**$ 1,311,676**
Net income and comprehensive income		-	-	11,119	**11,119**
Share-based compensation	16(c)	-	8,208	-	**8,208**
Settlement of Performance Share Units	15, 16(b)	1,906	(2,711)	-	**(805)**
Proceeds on share cancellations	15	-	-	2,015	**2,015**
Share repurchases	15	(18)	-	-	**(18)**
Balance, December 31, 2018		**$ 2,342,689**	**$ 115,574**	**$ (1,126,068)**	**$ 1,332,195**

See accompanying Notes to the Consolidated Financial Statements

Advantage Oil & Gas Ltd.
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

	Notes		Year ended December 31 2019		2018
Operating Activities					
Income (loss) before taxes		$	(44,533)	$	16,960
Add (deduct) items not requiring cash:					
Unrealized losses on derivatives	10		73,904		9,139
Unrealized gains on foreign exchange			-		(449)
Share-based compensation expense	16		5,399		5,162
Depreciation expense	8,9		119,474		119,042
Accretion of decommissioning liability	13		936		1,030
Settlement of Performance Share Units	16		-		(506)
Expenditures on decommissioning liability	13		(1,911)		(1,782)
Changes in non-cash working capital	22		2,794		644
Cash provided by operating activities			**156,063**		**149,240**
Financing Activities					
Increase in bank indebtedness	12		24,706		61,940
Principal repayment of leases	11		(389)		-
Proceeds on share cancellations	15		-		2,015
Share repurchases	15		-		(18)
Cash provided by financing activities			**24,317**		**63,937**
Investing Activities					
Payments on property, plant and equipment	9,22		(170,123)		(211,637)
Payments on exploration and evaluation assets	7		(3,517)		(2,097)
Cash used in investing activities			**(173,640)**		**(213,734)**
Increase (decrease) in cash and cash equivalents			6,740		(557)
Cash and cash equivalents, beginning of year			6,359		6,916
Cash and cash equivalents, end of year		**$**	**13,099**	**$**	**6,359**

See accompanying Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018
All tabular amounts expressed 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 2200, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "AAV".

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). Certain information provided for the prior year has been reclassified to conform to the presentation adopted for the year ended December 31, 2019.

The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of February 27, 2020, the date the Board of Directors approved the statements.

(b) Basis of measurement

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

The methods used to measure fair values of derivative instruments are discussed in note 10.

(c) Functional and presentation currency

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) Basis of consolidation

(i) Subsidiaries

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

3. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

(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 costs.

(c) Financial instruments

Financial instruments are classified as amortized cost, fair value through other comprehensive income (loss) or fair value through profit and loss. The Corporation's classification of each identified financial instrument is provided below:

Financial Instrument	Measurement Category
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Prepaid expenses and deposits	Amortized cost
Derivative assets and liabilities	Fair value through profit and loss
Trade and other accrued liabilities	Amortized cost
Lease liability	Amortized cost
Bank indebtedness	Amortized cost
Other long-term liabilities	Amortized cost

Derivative assets and liabilities

Derivative instruments executed by the Corporation to manage market risk are classified as fair value through profit and loss and are recorded on the Consolidated Statement of Financial Position as derivatives assets and liabilities measured at fair value. 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.

Impairment of Financial Assets

The Corporation applies an expected credit loss ("ECL") to financial assets measured at amortized cost and debt investments measured at fair value through other comprehensive income (loss). For the Corporation's financial assets measured at amortized cost, loss allowances are determined based on the ECL over the asset's lifetime. ECLs are a probability-weighted estimate of credit losses, considering possible default events over the expected life of a financial asset. ECLs are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive) over the life of the financial asset, discounted at the effective interest rate specific to the financial asset.

3. Significant accounting policies (continued)

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

(i) Recognition and measurement

<u>Exploration and evaluation costs</u>

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 property, plant and equipment, 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.

<u>Property, plant and equipment</u>

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 and share-based compensation 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 (loss) as incurred. Such capitalized natural gas and liquids costs generally represent costs incurred in developing proved and probable reserves and producing 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.

3. Significant accounting policies (continued)

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

(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.

(iv) Dispositions

Gains and losses on disposal of an item of property, plant and equipment 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 CGUs or groups of CGUs 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 CGUs at an after-tax discount rate that reflects the risk of the properties in the CGUs. 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 CGU would be entitled. The carrying value of the CGUs 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).

3. Significant accounting policies (continued)

(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.

(f) Leases

Accounting policy prior the adoption of IFRS 16 – Leases

Operating lease payments are recognized as an expense in net income (loss) and comprehensive income (loss) on a straight-line basis over the lease term. Finance leases are capitalized and recorded at lower of the fair value of the leased item or the present value of the minimum lease payments with the obligation recorded as a liability. Each lease payment is allocated between the lease liability and finance expense. The finance expense is charged to the Statement of Comprehensive Income (Loss) over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period. Leased assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Accounting policy after the adoption of IFRS 16 – Leases

Leases are recognized as a right-of-use ("ROU") asset with a corresponding liability at the date of which the leased asset is available for use by the Corporation. Each lease payment is allocated between the lease liability and finance expense. The finance expense is charged to the Statement of Comprehensive Income (Loss) over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. ROU assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date and any initial direct costs and restoration costs. Lease liabilities include the net present value of fixed payments, less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Corporation's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the Statement of Comprehensive Income (Loss). Short-term leases are leases with a lease term of 12 months or less. The Corporation applies a single discount rate to portfolios of leases with similar characteristics.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Corporation will remeasure the lease liability using the Corporation's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the ROU asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the ROU asset, and recognizing a gain or loss in the Statement of Comprehensive Income (Loss) that reflects the proportionate decrease in scope.

3. Significant accounting policies (continued)

(g) Share-based compensation

The Corporation 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 costs related to the Stock Options are recognized as share-based compensation expense over the vesting period at fair value.

Advantage's Restricted and Performance Award Incentive Plan provides share-based compensation to service providers. Awards granted under this plan, Performance Share Units, may be settled in cash or in shares. As the Corporation generally intends to settle the Awards in shares, the plan is considered and accounted for as "equity-settled". Compensation costs related to Performance Share Units are recognized as share-based compensation expense over the vesting period at fair value.

As compensation expense is recognized, contributed surplus is recorded until the Performance Share Units 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.

(h) Long-term compensation

The Corporation's Performance Award Incentive Plan allows the Corporation to grant cash Performance Awards to service providers. The present value of payments to be made under the Performance Award Incentive Plan are recognized as general and administrative expense as the corresponding service is provided by the service provider. A liability is recognized for the amount expected to be paid if the Corporation has a present legal or constructive obligation to pay this amount, as a result of past service provided by the service provider, and the obligation can be estimated reliably.

(i) Revenue

The Corporation's revenue is comprised of natural gas and liquids sales to customers under fixed and variable volume contracts. Revenue is recognized when the Corporation has satisfied its performance obligations which occurs upon the delivery of volumes to the customer. The transaction price used to determine revenue from natural gas and liquids sales is the market price, net of any marketing and fractionation fees for sales as specified in the contract. Payments are normally received from customers within 30 days following the end of the production month. The Corporation's revenue transactions do not include any financing components. The Corporation does not have any long-term contracts with unfulfilled performance obligations and does not disclose information about remaining performance obligations with an original expected duration of 12 months or less.

3. Significant accounting policies (continued)

(j) 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.

(k) 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 Share Units and Stock Options using the treasury stock method.

(l) 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.

(m) Newly adopted accounting policies

IFRS 16 – Leases ("IFRS 16")

<u>Adoption</u>

The Corporation adopted IFRS 16 effective January 1, 2019, and the standard was applied using the modified retrospective method. The modified retrospective method does not require restatement of prior period financial information as it recognizes the cumulative effect, if any, as an adjustment to opening retained earnings and applies the standard prospectively. Accordingly, comparative information in the Corporation's consolidated financial statements are not restated and continues to be reported under IAS 17 - Leases.

3. Significant accounting policies (continued)

(n) Newly adopted accounting policies (continued)

Transition

On adoption of IFRS 16, the Corporation has recognized ROU assets and a corresponding lease liability in relation to all lease arrangements, excluding commitments in relation to arrangements not containing leases (service agreements), measured at the present value of the remaining lease payments as at January 1, 2019. ROU assets and a lease liability of $2.6 million were recorded as of January 1, 2019, with no impact on the Corporation's deficit. When measuring the lease liability, the Corporation discounts lease payments using the interest rate implicit in the lease, or the Corporation's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The weighted-average incremental borrowing rate applied on adoption was 4.3%.

The following table reconciles the Corporation's commitments at December 31, 2018, as previously disclosed in the Corporation's consolidated financial statements, to the lease liability recognized on initial adoption of IFRS 16 at January 1, 2019:

Commitments, disclosed as at December 31, 2018	$	377,271
Non-lease components		(3,580)
Contracts assessed as service agreements		(370,490)
Net lease liability commitments		**3,201**
Discounted effect		(557)
Lease liability as at January 1, 2019	**$**	**2,644**

(n) Accounting pronouncements not yet adopted

(i) IFRS 3

Business Combinations ("IFRS 3"), has been amended to revise the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. The amendment to IFRS 3 is effective for the years beginning on or after January 1, 2020. The Corporation has determined that the amendments to IFRS 3 will have no impact on the Consolidated Financial Statements.

(ii) IAS 1 and IAS 8

Presentation of financial statements ("IAS 1") and IAS 8 – Accounting policies, changes in accounting estimates and errors ("IAS 8"), have been amended to (i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; (ii) clarify the explanation of the definition of material; and (iii) incorporate guidance in IAS 1 regarding immaterial information. The amendments to IAS 1 and IAS 8 are effective for the years beginning on or after January 1, 2020. The Corporation has determined that the amendments to IAS 1 and IAS 8 will have no impact on the Consolidated Financial Statements.

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 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

The Corporation's assets are required to be aggregated into CGUs for the purpose of calculating impairment based on their ability to generate largely independent cash inflows. Factors considered in the classification include the integration between assets, shared infrastructure, the existence of common sales points, geography and geologic structure. The classification of assets and allocation of corporate assets into CGUs requires significant judgment and may impact the carrying value of the Corporation's assets in future periods.

(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, but are not limited to, incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, a reduction in estimates of proved and probable reserves, or significant increases to expected costs to produce and transport 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 CGUs 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.

(d) Derivative assets and liabilities

Derivative assets and liabilities are recorded at their fair values at the reporting date, with gains and losses recognized directly into comprehensive income (loss) 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 market prices as compared to the valuation assumptions.

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

(e) Share-based compensation

The Corporation's share-based compensation expense is subject to measurement uncertainty as a result of estimates and assumptions related to the expected performance multiplier, forfeiture rates, expected life, market based vesting conditions and underlying volatility of the price of the Corporation's common shares.

(f) 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.

(g) Leases

Management assesses new contracts at inception to determine whether it contains a lease. This assessment involves the exercise of judgement about whether the asset is specified for the Corporation, whether the Corporation obtains substantially all the economic benefits from use of that asset, and whether the Corporation has the right to direct the use of the asset.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Lease liabilities that are recognized have been estimated using a discount rate equal to the Corporation's incremental borrowing rate. This rate represents the rate the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

(h) 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. Cash and cash equivalents

		December 31 2019		December 31 2018
Cash at financial institutions	**$**	**13,099**	**$**	**6,359**

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at December 31, 2019, cash at financial institutions included US$0.9 million (December 31, 2018 – US$1.9 million). The Corporation only deposits cash with major financial institutions of high-quality credit ratings.

6. Trade and other receivables

		December 31 2019		December 31 2018
Trade receivables	$	28,021	$	25,955
Receivables from joint venture partners		414		524
Other		883		1,871
	$	**29,318**	**$**	**28,350**

7. Exploration and evaluation assets

Balance at December 31, 2017	$	**22,143**
Additions		2,097
Transferred to property, plant and equipment (note 9)		(1,627)
Balance at December 31, 2018	**$**	**22,613**
Additions		3,517
Transferred to property, plant and equipment (note 9)		(5,427)
Balance at December 31, 2019	**$**	**20,703**

8. Right-of-use assets

Cost		Buildings		Other		Total
Balance at January 1, 2019 (note 3)	**$**	**2,458**	**$**	**186**	**$**	**2,644**
Additions (note 11)		282		-		282
Expired leases		(422)		-		(422)
Balance at December 31, 2019	**$**	**2,318**	**$**	**186**	**$**	**2,504**

Accumulated depreciation		Buildings		Other		Total
Balance at January 1, 2019	**$**	**-**	**$**	**-**	**$**	**-**
Depreciation		534		38		572
Expired leases		(422)		-		(422)
Balance at December 31, 2019	**$**	**112**	**$**	**38**	**$**	**150**

Net book value		Buildings		Other		Total
At January 1, 2019	$	2,458	$	186	$	2,644
At December 31, 2019	**$**	**2,206**	**$**	**148**	**$**	**2,354**

9. Property, plant and equipment

Cost		**Natural gas and liquids properties**		**Furniture and equipment**		**Total**
Balance at December 31, 2017	**$**	**2,242,201**	**$**	**5,766**	**$**	**2,247,967**
Additions		198,531		159		198,690
Capitalized share-based compensation (note 16)		3,046		-		3,046
Changes in decommissioning liability (note 13)		3,867		-		3,867
Transferred from exploration and evaluation assets (note 7)		1,627		-		1,627
Balance at December 31, 2018	**$**	**2,449,272**	**$**	**5,925**	**$**	**2,455,197**
Additions		180,888		517		181,405
Capitalized share-based compensation (note 16)		3,157		-		3,157
Changes in decommissioning liability (note 13)		9,220		-		9,220
Transferred from exploration and evaluation assets (note 7)		5,427		-		5,427
Balance at December 31, 2019	**$**	**2,647,964**	**$**	**6,442**	**$**	**2,654,406**

Accumulated depreciation		**Natural gas and liquids properties**		**Furniture and equipment**		**Total**
Balance at December 31, 2017	**$**	**662,433**	**$**	**4,561**	**$**	**666,994**
Depreciation		118,801		241		119,042
Balance at December 31, 2018	**$**	**781,234**		**4,802**		**786,036**
Depreciation		118,634		268		118,902
Balance at December 31, 2019	**$**	**899,868**	**$**	**5,070**	**$**	**904,938**

Net book value		**Natural gas and liquids properties**		**Furniture and equipment**		**Total**
At December 31, 2018	$	1,668,038	$	1,123	$	1,669,161
At December 31, 2019	**$**	**1,748,096**	**$**	**1,372**	**$**	**1,749,468**

During the year ended December 31, 2019, Advantage capitalized general and administrative expenditures directly related to development activities of $5.0 million included in additions (year ended December 31, 2018 – $4.2 million).

Advantage included future development costs of $1.8 billion (December 31, 2018 – $1.7 billion) in property, plant and equipment costs subject to depreciation.

9. Property, plant and equipment (continued)

Impairment assessment

For the year ended December 31, 2019, the Corporation identified an indicator of impairment following decreases in the outlook of future natural gas commodity prices in the North American market. The Corporation performed an impairment test using after-tax discounted future cash flows of proved and probable reserves, utilizing an inflation rate of 2% and a discount rate of 10%. The following table summarizes the price forecast used in the Corporation's discounted cash flow estimates:

Year	WTI ($US/bbl)	Henry Hub ($US/mmbtu)	AECO ($Cdn/mmbtu)	Exchange Rate ($US/$Cdn)
2020	61.00	2.80	2.04	0.76
2021	65.00	3.00	2.27	0.77
2022	67.00	3.25	2.81	0.80
2023	68.34	3.32	2.89	0.80
2024	69.71	3.38	2.98	0.80
2025	71.10	3.45	3.06	0.80
2026	72.52	3.52	3.15	0.80
2027	73.97	3.59	3.24	0.80
2028	75.45	3.66	3.33	0.80
2029	76.96	3.73	3.42	0.80
2030	78.50	3.81	3.51	0.80
Thereafter	+2% per year	+2% per year	+2% per year	0.80

(1) Price forecast obtained from the Corporation's independent qualified reserves evaluator effective January 1, 2020.

The Corporation's CGUs were not impaired at December 31, 2019.

10. Financial risk management

As at December 31, 2019, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of the Corporation's 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: Fair value is determined using inputs that are not observable. Advantage has no assets or liabilities that use level 3 inputs.

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;
- interest rate risk; and
- foreign exchange risk.

10. Financial risk management (continued)

(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 derivative contracts. The maximum exposure to credit risk is as follows:

		December 31 2019		**December 31 2018**
Trade and other receivables	$	29,318	$	28,350
Deposits		472		1,299
Derivative assets		2,025		42,536
	$	**31,815**	**$**	**72,185**

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 market 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 North American oil and gas industry. As such, trade and other receivables are subject to normal industry credit risks. As at December 31, 2019, $0.2 million or 0.7% of trade and other receivables are outstanding for 90 days or more (December 31, 2018 – $0.2 million or 0.9% of trade and other receivables). The Corporation believes the entire balance is collectible, and in some instances has the ability to mitigate risk through withholding production or offsetting payables with the same parties. At December 31, 2019, the average expected credit loss for trade and other receivables was 0.25% (December 31, 2018 – 0.03%). At December 31, 2019, the Corporation did not record an expected credit loss against trade and other receivables (December 31, 2018 – nil).

The Corporation's most significant customer, a North American oil and natural gas marketer, accounts for $13.4 million of the trade and other receivables at December 31, 2019 (December 31, 2018 – $10.2 million).

10. Financial risk management (continued)

(b) Liquidity risk

The Corporation is subject to liquidity risk attributed from trade and other accrued liabilities, derivative liabilities, lease liabilities, other long-term liabilities and bank indebtedness. Trade and other accrued liabilities are all due within one year of the Consolidated Statement of Financial Position date. The Corporation's lease liability and other long-term liabilities are mostly due between one and three years. Advantage does not anticipate any problems in satisfying these obligations from cash provided by operating activities and the existing credit facilities.

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

To the extent that Advantage enters derivatives to manage market 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 market risk exposures. As such, liquidity risk is mitigated since any losses realized are offset by increased cash flows realized from the higher commodity price environment.

The timing of cash outflows relating to financial liabilities as at December 31, 2019 and 2018 are as follows:

December 31, 2019	**Less than one year**	**One to three years**	**Beyond**	**Total**
Trade and other accrued liabilities	$ 51,900	$ -	$ -	$ 51,900
Derivative liability	11,173	16,644	6,492	34,309
Lease liability	266	809	1,462	2,537
Other long-term liabilities	-	1,252	-	1,252
Bank indebtedness - principal	-	298,000	-	298,000
- interest [(1)]	17,154	9,480	-	26,634
	$ 80,493	**$ 326,185**	**$ 7,954**	**$ 414,632**

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

10. Financial risk management (continued)

(b) Liquidity risk (continued)

December 31, 2018		Less than one year		One to three years		Total
Trade and other accrued liabilities	$	38,799	$	-	$	38,799
Derivative liability		94		822		916
Bank indebtedness - principal		-		273,000		273,000
- interest [1]		11,649		5,585		17,234
	$	**50,542**	**$**	**279,407**	**$**	**329,949**

[1] Interest on bank indebtedness was calculated assuming conversion of the revolving credit facility to a one-year term facility at the next annual facility review.

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 12). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in April 2020. The facilities are revolving and are extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one-year term facilities, with the principal payable at the end of such one-year terms. Management fully expects that the facilities will be extended at each annual review.

(c) Price risk

Advantage's derivative assets and liabilities are subject to price risk as their fair values are based on assumptions regarding forward market prices. The Corporation enters into non-financial derivatives to manage price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. Changes to price assumptions can have a significant effect on the fair value of the derivative assets and liabilities and thereby impact earnings. The estimated impact to net income (loss) for the year ended December 31, 2019 resulting from a 10% change to significant price assumptions is as follows:

Price Assumptions		Net Income (Loss) Impact ($ millions)
Forward AECO natural gas price	$	1.9
Forward Henry Hub natural gas price	$	1.6
Forward basis differential between Henry Hub and AECO natural gas prices	$	5.3
Forward Dawn natural gas price	$	0.2
Forward WTI crude oil price	$	2.0

10. Financial risk management (continued)

(c) Price risk (continued)

The Corporation's derivative contracts are classified as Level 2 within the fair value hierarchy. As at December 31, 2019, the Corporation had the following derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural Gas - AECO			
Fixed price swap	November 2019 to March 2020	18,956 mcf/d	Cdn $2.29/mcf
Fixed price swap	November 2019 to March 2020	9,478 mcf/d	Cdn $2.21/mcf
Fixed price swap	January 2020 to March 2020	9,478 mcf/d	Cdn $2.27/mcf
Fixed price swap	April 2020 to October 2020	47,391 mcf/d	Cdn $1.36/mcf
Fixed price swap(1)	April 2020 to October 2020	9,478 mcf/d	Cdn $1.82/mcf
Natural Gas - Dawn			
Fixed price swap	November 2019 to March 2020	10,000 mcf/d	US $3.16/mcf
Natural gas - Henry Hub NYMEX			
Fixed price swap	January 2020 to December 2020	20,000 mcf/d	US $2.31/mcf
Fixed price swap(1)	February 2020 to December 2020	20,000 mcf/d	US $2.28/mcf
Fixed price swap(1)	April 2020 to October 2020	20,000 mcf/d	US $2.09/mcf
Natural Gas - AECO/Henry Hub Basis Differential			
Basis swap	November 2019 to March 2020	20,000 mcf/d	Henry Hub less US $0.975/mcf
Basis swap	November 2019 to March 2020	10,000 mcf/d	Henry Hub less US $0.8875/mcf
Basis swap	January 2020 to December 2020	5,000 mcf/d	Henry Hub less US $1.20/mcf
Basis swap	January 2020 to December 2024	15,000 mcf/d	Henry Hub less US $1.20/mcf
Basis swap	January 2021 to December 2024	5,000 mcf/d	Henry Hub less US $1.135/mcf
Basis swap	January 2021 to December 2024	2,500 mcf/d	Henry Hub less US $1.185/mcf
Basis swap	January 2021 to December 2024	17,500 mcf/d	Henry Hub less US $1.20/mcf
Oil - WTI NYMEX			
Fixed price swap	January 2020 to March 2020	500 bbls/d	US $58.05/bbl
Fixed price swap	January 2020 to March 2020	500 bbls/d	US $57.76/bbl
Fixed price swap	April 2020 to June 2020	1,000 bbls/d	US $56.53/bbl
Fixed price swap	July 2020 to December 2020	1,000 bbls/d	US $55.44/bbl

(1) Contract entered into subsequent to December 31, 2019

10. Financial risk management (continued)

(c) Price risk (continued)

As at December 31, 2019 the fair value of the derivatives outstanding resulted in an aggregate asset of $2.0 million (December 31, 2018 – $42.5 million) and an aggregate liability of $34.3 million (December 31, 2018 – $0.9 million). The fair value of the commodity risk management derivatives has been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements.

The table below summarizes the realized and unrealized gains (losses) on derivatives recognized in net income (loss).

		Year ended December 31, 2019		Year ended December 31, 2018
Realized gains on derivatives	$	23,958	$	28,269
Unrealized losses derivatives		(73,904)		(9,139)
Gains (losses) on derivatives	**$**	**(49,946)**	**$**	**19,130**

(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, 2019, net income (loss) and comprehensive income (loss) would have changed by $2.1 million (December 31, 2018 – $1.8 million) based on the average debt balance outstanding during the year.

(e) Foreign exchange risk

Foreign exchange risk is the risk that future cash flows will fluctuate as a result of changes in the Cdn$/US$ exchange rate. While the majority of the Corporation's natural gas and liquids sales are settled in Canadian dollars, certain natural gas and oil prices where the Corporation markets its natural gas and liquids production are denominated in US dollars. The Corporation has not entered into any mitigating forward exchange rate contracts. Had the Cdn$/US$ foreign exchange rate been different by $0.02 throughout the year ended December 31, 2019, net income (loss) and comprehensive income (loss) would have changed by $2.4 million.

10. Financial risk management (continued)

(f) 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 (cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued payables), bank indebtedness, 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, 2019 and 2018 is as follows:

		December 31 2019		**December 31 2018**
Bank indebtedness (non-current) (note 12)	$	295,624	$	270,918
Working capital deficit [1]		7,996		1,912
Net debt [2]	**$**	**303,620**	**$**	**272,830**
Shares outstanding (note 15)		186,910,848		185,942,141
Share closing market price ($/share)	$	2.75	$	1.98
Market Capitalization		514,005		368,165
Total Capitalization	**$**	**817,625**	**$**	**640,995**

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

(2) Net debt is a non-GAAP measure that includes bank indebtedness net of working capital.

11. Lease liability

		Year ended December 31, 2019
Balance at January 1, 2019 (note 3)	$	2,644
Additions (note 8)		282
Interest expense (note 20)		104
Lease payments		(493)
Balance, at December 31, 2019	**$**	**2,537**
Current lease liability	$	266
Non-current lease liability	$	2,271

The Corporation incurs lease payments related to its head office and other miscellaneous equipment. The Corporation has recognized a lease liability in relation to all lease arrangements measured at the present value of the remaining lease payments using the Corporation's weighted-average incremental borrowing rate of 4.3%.

The following table details the undiscounted cash flows and contractual maturities of the Corporation's lease liability, as at December 31, 2019:

		As at December 31, 2019
Less than 1 year	$	360
1-3 years		680
4-5 years		750
Beyond 5 years		1,242
Total undiscounted future lease payments	$	3,032

12. Bank indebtedness

		December 31 2019		December 31 2018
Revolving credit facility	$	298,000	$	273,000
Discount on bankers' acceptance and other fees		(2,376)		(2,082)
Balance, end of year	**$**	**295,624**	**$**	**270,918**

As at December 31, 2019, the Corporation had credit facilities with a borrowing base of $400 million. The Credit Facilities are comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $380 million extendible revolving credit facility from a syndicate of financial institutions.

In October 2019, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base. The revolving period for the Credit Facilities will end in April 2020 unless extended at the option of the syndicate for a further 364-day period. If not extended, the credit facility will be converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. The Credit Facilities are subject to re-determination of the borrowing base semi-annually in October and April of each year, with the next annual review scheduled to occur in April 2020. 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 assumptions. 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 1.5% to 3.5% per annum, and Canadian prime or US base rate plus 0.5% to 2.5% 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 0.3375% to 0.7875% 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 base and the Corporation is in compliance with all covenants, representations and warranties.

The Credit Facilities prohibit the Corporation from entering into any fixed price derivative contract, excluding basis swaps, where the term of such contract exceeds five years. Further, the aggregate of such contracts cannot hedge greater than 75% of total estimated natural gas and liquids production over the first three years and 50% over the fourth and fifth years. In addition, the Credit Facilities allow us to enter into basis swap arrangements to any natural gas price point in North America for up to 100,000 MMbtu/day with a maximum term of seven years. Basis swap arrangements do not count against the limitations on hedged production.

The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The Corporation did not have any financial covenants at December 31, 2019 and 2018. Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating ("LMR") is not less than 2.0. As at December 31, 2019 the Corporation had a 26.6 LMR (December 31, 2018 – 26.2 LMR). All other applicable non-financial covenants were met at December 31, 2019 and 2018. Breach of any covenant will result in an event of default in which case the Corporation has 30 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, 2019, the average effective interest rate on the outstanding amounts under the facilities was approximately 4.2% (December 31, 2018 – 4.3%). The Corporation had letters of credit of US$6 million outstanding at December 31, 2019 (December 31, 2018 – US$5 million).

13. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2020 and 2079. A risk-free rate of 1.67% (December 31, 2018 – 2.15%) and an inflation factor of 2.0% (December 31, 2018 – 2.0%) were used to calculate the fair value of the decommissioning liability at December 31, 2019. A reconciliation of the decommissioning liability is provided below:

		Year ended December 31, 2019		Year ended December 31, 2018
Balance, beginning of the year	$	50,028	$	46,913
Accretion expense (note 20)		936		1,030
Liabilities incurred		1,773		1,381
Change in estimates		(668)		(760)
Effect of change in risk-free rate and inflation rate factor		8,115		3,246
Liabilities settled		(1,911)		(1,782)
Balance, end of year (1)	**$**	**58,273**	**$**	**50,028**

(1) Included in the balance of the Corporation's decommissioning liability for the year ended December 31, 2019 is $1,284 which is expected to be settled within one year and included in the current portion of non-current liabilities.

14. Income taxes

The provision for income taxes is as follows:

		December 31 2019		December 31 2018
Current income tax expense	$	-	$	-
Deferred income tax (recovery) expense		(19,879)		5,841
Income tax (recovery) expense	**$**	**(19,879)**	**$**	**5,841**

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, 2019		Year ended December 31, 2018
Income (loss) before taxes	$	(44,533)	$	16,960
Combined federal and provincial income tax rates		26.50 %		27.00 %
Expected income tax expense (recovery)		(11,801)		4,579
Increase (decrease) in income taxes resulting from:				
Non-deductible share-based compensation		1,431		2,002
Change in provincial corporate tax rate (1)		(9,421)		-
Other		(88)		(740)
Income tax (recovery) expense	$	(19,879)	$	5,841
Effective tax rate		44.64 %		34.44 %

(1) The Corporation's provincial corporate tax rate decreased to 11% (from 12%) on July 1, 2019, with a further 1% rate reduction every year on January 1 until the provincial corporate tax rate is 8% on January 1, 2022.

14. Income taxes (continued)

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

Deferred income tax liability	Property, plant and equipment	Derivative Asset/liability	Other	Total
Balance at December 31, 2017	$ 281,711	$ 13,705	$ -	$ 295,416
Charged (credited) to income	15,193	(2,468)	121	12,846
Balance at December 31, 2018	$ 296,904	$ 11,237	$ 121	$ 308,262
Credited to loss	(25,196)	(18,892)	(121)	(44,209)
Balance at December 31, 2019	$ 271,708	$ (7,655)	$ -	$ 264,053

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
Balance at December 31, 2017	$ (12,666)	$ (186,445)	$ (23,805)	$ (222,916)
Charged (credited) to income	(877)	(6,623)	495	(7,005)
Balance at December 31, 2018	$ (13,543)	$ (193,068)	$ (23,310)	$ (229,921)
Charged to loss	81	19,821	4,428	24,330
Balance at December 31, 2019	$ (13,462)	$ (173,247)	$ (18,882)	$ (205,591)

Net deferred income tax liability	
Balance at December 31, 2017	$ 72,500
Charged to income	5,841
Balance at December 31, 2018	$ 78,341
Credited to loss	(19,879)
Balance at December 31, 2019	$ **58,462**

The estimated tax pools available at December 31, 2019 are as follows:

Canadian development expenses	$ 212,417
Canadian exploration expenses	67,361
Canadian oil and gas property expenses	14,271
Non-capital losses	746,749
Undepreciated capital cost	283,355
Capital losses	157,869
Scientific research and experimental development expenditures	32,506
Other	7,401
	$ 1,521,929

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, 2018 – $158 million). Recognition is dependent on the realization of future taxable capital gains.

15. Share capital

(a) Authorized

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

(b) Issued

	Common Shares		Amount
Balance at December 31, 2017	185,963,186	$	2,340,801
Shares issued on Performance Share Unit settlements	239,791		-
Contributed surplus transferred on Performance Share Unit settlements	-		1,906
Share cancellations	(256,387)		-
Share repurchases	(4,449)		(18)
Balance at December 31, 2018	185,942,141	$	2,342,689
Shares issued on Performance Share Unit settlements (note 16 (b))	968,707		-
Contributed surplus transferred on Performance Share Unit settlements	-		7,014
Balance at December 31, 2019	**186,910,848**	**$**	**2,349,703**

The Corporation's common shares are publicly traded on the Toronto Stock Exchange. The Corporation voluntarily de-listed its common shares from the New York Stock Exchange effective September 21, 2018.

During August 2018, in accordance with sunset clauses associated with past common share conversions, 256,387 common shares were cancelled and $2.0 million of proceeds were recognized as a reduction to deficit.

On March 27, 2018, Advantage commenced an odd-lot share repurchase program for registered and beneficial shareholders of Advantage who owned 99 or fewer common shares. The program was voluntary and allowed odd-lot holders to sell all, but not less than all, of their common shares without incurring brokerage fees. The program expired on June 19, 2018 and 4,449 shares were repurchased under the program for a total of $18 thousand.

16. Long-term compensation plans

(a) Stock Option Plan

Under the Stock Option Plan, service providers are granted Stock 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, 2019:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2017	2,005,857	$ 6.30
Forfeited	(16,708)	6.82
Balance at December 31, 2018	1,989,149	$ 6.29
Forfeited	(38,691)	6.82
Expired	(1,110,009)	5.87
Balance at December 31, 2019	**840,449**	**$ 6.82**

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
$6.82	840,449	0.26	6.82	840,449	6.82

No Stock Options were exercised during the year ended December 31, 2019.

16. Long-term compensation plans (continued)

(b) Restricted and Performance Award Incentive Plan – Restricted and Performance Share Units

Under the Restricted and Performance Award Incentive Plan, service providers can be granted two types of equity incentive awards: Restricted Share Units and Performance Share Units. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. As at December 31, 2019, no Restricted Share Units have been granted.

The following table is a continuity of Performance Share Units:

	Performance Share Units
Balance at December 31, 2017	1,580,299
Granted	1,695,135
Settled	(248,688)
Forfeited	(87,495)
Balance at December 31, 2018	2,939,251
Granted	1,670,929
Settled	(598,069)
Forfeited	(64,535)
Balance at December 31, 2019	**3,947,576**

During April 2019, 598,069 Performance Share Units matured and were settled with the issuance of 968,707 common shares.

(c) Share-based compensation expense

Share-based compensation recognized by plan for the years ended December 31, 2019 and 2018 is as follows:

	Year ended December 31	
	2019	**2018**
Stock Options	$ -	$ 57
Performance Share Units	8,556	8,151
Total share-based compensation	8,556	8,208
Capitalized (note 9)	(3,157)	(3,046)
Share-based compensation expense	**$ 5,399**	**$ 5,162**

16. Long-term compensation plans (continued)

(d) Performance Award Incentive Plan – Performance Awards

Under the Performance Award Incentive Plan, service providers can be granted cash Performance Awards. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. Performance Awards are amortized to general and administrative expense with the recording of a long-term liability until eventually settled in cash.

The following table is a continuity of the Corporation's long-term liability related to outstanding Performance Awards:

		Year ended December 31, 2019
Balance, beginning of the year	$	-
Amortization of Performance Awards		1,247
Interest expense (note 20)		5
Balance, end of year	**$**	**1,252**

17. Net income (loss) per share

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

		Year ended December 31 2019		Year ended December 31 2018
Net income (loss)				
Basic and diluted	$	(24,654)	$	11,119
Weighted average shares outstanding				
Basic		186,658,719		186,039,947
Performance Share Units		-		4,892,004
Diluted		186,658,719		190,931,951
Net income (loss) per share				
Basic	$	(0.13)	$	0.06
Diluted	$	(0.13)	$	0.06

18. Revenues

(a) Sales of natural gas and liquids from production

Advantage's revenue is comprised of natural gas and liquids sales to multiple customers. For the year ended December 31, 2019 and 2018, revenue realized from natural gas and liquids sales was as follows:

	Year ended December 31	
	2019	**2018**
Natural gas	$ 203,223	$ 188,528
Liquids	48,056	33,807
Natural gas and liquids sales	**$ 251,279**	**$ 222,335**

At December 31, 2019, receivables from contracts with customers, which are included in trade and other receivables, were $27.8 million (December 31, 2018 – $25.2 million).

(b) Sales of natural gas purchased from third parties

During the year ended December 31, 2019 and 2018, the Corporation purchased natural gas volumes from third parties to satisfy physical sales commitments. Purchases and sales of natural gas from third parties was as follows:

	Year ended December 31	
	2019	**2018**
Sales of natural gas purchased from third parties	$ 857	$ 5,078
Natural gas purchased from third parties	$ (2,362)	$ (3,967)

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

	Year ended December 31	
	2019	**2018**
Personnel	$ 12,868	$ 9,756
Professional fees	1,503	1,381
Information technology cost	1,486	1,371
Office rent and administration cost	941	515
Total G&A	16,798	13,023
Capitalized	(4,996)	(4,150)
General and administrative expense	**$ 11,802**	**$ 8,873**

20. Finance expense

	Year ended December 31 2019	2018
Interest on bank indebtedness (note 12)	$ 13,159	$ 10,922
Accretion of decommissioning liability (note 13)	936	1,030
Interest on lease liability and other long-term liability (note 11, 16)	109	-
Losses (gains) on foreign exchange	245	(95)
Total finance expense	**$ 14,449**	**$ 11,857**

21. Related party transactions

Key management compensation:

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

	Year ended December 31 2019	2018
Salaries, director fees and short-term benefits	$ 4,215	$ 3,283
Share-based compensation and Performance Awards (1)	4,790	4,600
	$ 9,005	**$ 7,883**

(1) Represents the grant date fair value of Stock Options, Performance Share Units and Performance Awards granted.

As at December 31, 2019, there is a commitment of $4.2 million (December 31, 2018 – $3.4 million) related to change of control or termination of employment of officers.

22. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31 2019	2018
Source (use) of cash:		
Trade and other receivables	$ (968)	$ 777
Prepaid expense and deposits	691	(576)
Trade and other accrued liabilities	13,101	(12,205)
Other long-term liabilities	1,252	-
	$ 14,076	$ (12,004)
Related to operating activities	$ 2,794	$ 644
Related to financing activities	-	-
Related to investing activities	11,282	(12,648)
	$ 14,076	$ (12,004)
Cash interest paid	$ 13,807	$ 11,981
Cash income taxes paid	$ -	$ -

23. Commitments

At December 31, 2019, Advantage had commitments relating to building operating cost of $3.1 million, processing commitments of $64.6 million and transportation commitments of $521.7 million. The estimated remaining payments are as follows:

	Payments due by period						
($ millions)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Beyond**
Building operating cost [1]	$ 3.1	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.1
Processing	64.6	1.1	3.9	8.5	8.5	8.5	34.1
Transportation	521.7	47.0	53.9	62.0	57.0	53.2	248.6
Total commitments	**$ 589.4**	**$ 48.5**	**$ 58.2**	**$ 70.9**	**$ 65.9**	**$ 62.1**	**$ 283.8**

(1) Excludes fixed lease payments which are included in the Corporation's lease liability. See note 11 for the remaining payments under the Corporation's lease liability.

ADVISORY

This document contains certain forward-looking statements and forward-looking information (collectively, "forward-looking statements"), which are based on our current internal expectations, estimates, projections, assumptions and beliefs. These forward-looking 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 in this document include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; the expectation that the Corporation will continue to deliver clean and sustainable energy, contributing to a reduction in global emissions by displacing high-carbon fuels; the expectation that several additional critical milestones in oil development will have been accomplished by the fourth quarter of 2020; the expectation that the Corporation will retain a strong balance sheet while advancing our multi-year strategy to increase exposure to high value commodities; the Corporation’s focus on market diversification; the Corporation's hedging activities; expectation that greater focus on liquids-rich development in the Corporation’s Progress and Pipestone/Wembley assets will enhance and diversify production, revenues and cash provided by operating activities; terms of the Corporation's derivative contracts, including their purposes, the timing of settlement of such contracts and the expected realization of fixed market prices and variable market exposures for 2020; anticipation that the Corporation’s operating expense will increase and the reasons therefor; expectation that the Corporation will maintain low operating expense per boe and the reasons therefor; estimated tax pools and liability; future commitments and contractual obligations; terms of the Corporation's Credit Facilities, including timing of the next review of the Credit Facilities, 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 financing arrangements, share repurchases, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; timing for final tie-in and equipping of wells at Progress; anticipated timing of infrastructure commissioning at Pipestone/Wembley and the benefits to be derived therefrom; the statements under "critical accounting estimates" in this document; and other matters.

In addition, statements relating to "reserves" are by their nature 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. The recovery and reserve estimates of Advantage's reserves provided herein are estimates only and there is no guarantee that the estimated reserves will be recovered. Advantage’s actual decisions, activities, results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits that Advantage will derive from them.

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, regulatory approvals, 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 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; lack of available capacity on pipelines; delays in obtaining stakeholder and regulatory approvals; the failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of

Advisory (continued)

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 document, 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 stakeholder and 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; availability of pipeline capacity; 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 document 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 document 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.

References to natural gas or liquids production in the annual report refer to conventional natural gas and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

Certain information contained herein may be considered "analogous information" as defined in National Instrument 51-101. In particular, this document discloses that the Montney formation are liquids-rich gas accumulations in all layers in adjacent lands to those of the Corporation. Such analogous information has not been prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook and the Corporation is unable to confirm whether such information has been prepared by a qualified reserves evaluator. Such information is not intended to be a projection of future results. Such information is based on independent public data and public information received from other producers and the Corporation has no way of verifying the accuracy of such information. Such information has been presented to help demonstrate the basis for the Corporation's business plans and strategies. There is no certainty that such results will be achieved by the Corporation and such information should not be construed as an estimate of future reserves or future production levels.

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.

Advisory (continued)

This document contains a number of oil and gas metrics, including operating netback, F&D, recycle ratio and reserve life index which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Corporation's performance; however, such measures are not reliable indicators of the future performance of the Corporation and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide securityholders with measures to compare Advantage's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this document, should not be relied upon for investment or other purposes. Operating netback is calculated by adding natural gas and liquids sales, realized gains (losses) on derivatives and net sales of natural gas purchased from third parties, net of expenses resulting from field operations, including royalty expense, operating expense and transportation expense.

Recycle ratio is calculated by dividing Advantage's fourth quarter operating netback by the calculated F&D cost of the applicable year and expressed as a ratio. Reserve life index is calculated by dividing the total volume of reserves by the fourth quarter production rate and expressed in years. Reserves per share is calculated as the total volume of reserves divided by the number of common shares issued and outstanding at year end.

The recovery and reserve estimates of reserves provided in this annual report are estimates only, and there is no guarantee that the estimated reserves will be recovered. Actual reserves may eventually prove to be greater than, or less than, the estimates provided herein.

Non-GAAP Measures

The Corporation discloses several financial and performance measures in the annual report that do not have any standardized meaning prescribed under GAAP. These financial and performance measures include "net capital expenditures", " working capital", "net debt", "adjusted funds flow", "net debt to adjusted funds flow", "operating netback", and "net sales of natural gas purchased from third parties", which should not be considered as alternatives to, or more meaningful than "net income (loss)", "comprehensive income (loss)", "cash provided by operating activities", "cash used in investing activities", or individual expenses presented within the consolidated statement of comprehensive income (loss) as determined in accordance with GAAP. Management believes that these measures provide an indication of the results generated by the Corporation's principal business activities and provide useful supplemental information for analysis of the Corporation's operating performance and liquidity. 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.

Net Capital Expenditures

Net capital expenditures include total capital expenditures related to property, plant and equipment and exploration and evaluation assets. Management considers this measure reflective of actual capital activity for the period as it excludes changes in working capital related to other periods. Please see "Cash Used in Investing Activities and Net Capital Expenditures" in the MD&A for a reconciliation to the nearest measure calculated in accordance with GAAP, cash used in investing activities.

Working Capital

Working capital includes cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued liabilities. Working capital provides Management and users with a measure of the Corporation's operating liquidity. Please see "Liquidity and Capital Resources" in the MD&A.

Non-GAAP Measures (continued)

Net Debt

Net debt is comprised of bank indebtedness and working capital. Net debt provides Management and users with a measure of the Corporation's indebtedness and expected settlement of net liabilities in the next year. Please see "Liquidity and Capital Resources" in the MD&A.

Adjusted Funds Flow

The Corporation considers adjusted funds flow to be a useful measure of Advantage's ability to generate cash from the production of natural gas and liquids, which may be used to settle outstanding debt and obligations, and to support future capital expenditures plans. Changes in non-cash working capital are excluded from adjusted funds flow as they may vary significantly between periods and are not considered to be indicative of the Corporation's operating performance as they are a function of the timeliness of collecting receivables and paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production and are partially discretionary due to the natural of our low liability. Please see "Cash Provided by Operating Activities and Adjusted Funds Flow" in the MD&A for a reconciliation to the nearest measure calculated in accordance with GAAP, cash provided by operating activities. Adjusted funds flow has also been presented per boe, by dividing adjusted funds flow by total production in boe for the reporting period, and per basic share, by dividing by the basic weighted average shares outstanding of the Corporation.

Net Debt to Adjusted Funds Flow

Net debt to adjusted funds flow is calculated by dividing net debt by adjusted fund flow for the previous four quarters. Net debt to adjusted funds flow is a coverage ratio that provides Management and users the ability to determine how long it would take the Corporation to repay its debt if it devoted all its adjusted funds flow to debt repayment. Please see "Liquidity and Capital Resources" in the MD&A.

Operating Netback

Advantage calculates operating netback on a total and per boe basis. Operating netback is comprised of sales revenue, realized gains (losses) on derivatives and net sales of natural gas purchased from third parties, net of expenses resulting from field operations, including royalty expense, operating expense and transportation expense. Operating netback provides Management and users with a measure to compare the profitability of field operations between companies, development areas and specific wells. Please see "Operating Netback" in the MD&A.

Net Sales of Natural Gas Purchased from Third Parties

Net sales of natural gas purchased from third parties represents the revenue or loss generated from the sale of natural gas volumes purchased from third parties, after deducting the cost to purchase the volumes. The purchase and sale transactions are non-routine and are considered by Management to be related for performance purposes.

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 20, 2020

ABBREVIATIONS

Crude Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	MMcf	million cubic feet
Mbbls	thousand barrels	bcf/d	billion cubic feet per day
NGLs	natural gas liquids	Mcf/d	thousand cubic feet per day
BOE or boe	barrel of oil equivalent	MMcf/d	million cubic feet per day
Mboe	thousand barrels of oil equivalent	Mcfe	thousand cubic feet of natural gas equivalent, using the ratio of 6 Mcf of natural gas being equivalent to one bbl of oil
MMboe	million barrels of oil equivalent	MMcfe/d	million cubic feet of natural gas equivalent per day
boe/d	barrels of oil equivalent per day	MMbtu	million British Thermal Units
bbls/d	barrels of oil per day	GJ/d	Gigajoules per day

Other

AECO	a notional market point on the NGTL system, located at the AECO ‘C’ hub in Southeastern Alberta, where the purchase and sale of natural gas is transacted
Henry Hub	a central delivery location, located near Louisiana’s Gulf Coast connecting several intrastate and interstate pipelines, that serves as the official delivery location for futures contracts on the NYMEX
WTI	means West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade

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Grant B. Fagerheim (2)(3)
Paul G. Haggis (1)(2)(3)(4)
Andy J. Mah
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(2) Member of Reserve Evaluation Committee
(3) Member of Compensation Committee
(4) Member of Governance Committee

Officers

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Mike Belenkie, President and COO
Craig Blackwood, CFO
Neil Bokenfohr, Senior Vice President
David Sterna, Vice President, Marketing and Commercial
John Quaife, Vice President, Finance

Corporate Secretary

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

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PricewaterhouseCoopers LLP

Bankers

The Bank of Nova Scotia
National Bank of Canada
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
Alberta Treasury Branches
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