

## CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of February 28, 2019, 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, 2018 and should be read in conjunction with the December 31, 2018 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" sections found at the end of this MD&A.

<b>Financial Highlights</b> (\$000, except as otherwise indicated)	<b>Three months ended</b>		<b>Year ended</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Financial Statement Highlights</b>				
Sales including realized hedging <sup>(3)</sup>	\$ 73,979	\$ 65,779	\$ 250,604	\$ 259,611
Net income and comprehensive income	\$ 25,162	\$ 21,425	\$ 11,119	\$ 95,039
per basic share <sup>(2)</sup>	\$ 0.14	\$ 0.12	\$ 0.06	\$ 0.51
Cash provided by operating activities	\$ 44,790	\$ 29,848	\$ 160,162	\$ 186,401
Cash provided by financing activities	\$ 8,576	\$ 50,659	\$ 53,015	\$ 48,945
Cash used in investing activities	\$ 50,723	\$ 73,591	\$ 213,734	\$ 228,430
Basic weighted average shares (000)	185,942	185,963	186,040	185,641
<b>Other Financial Highlights</b>				
Adjusted funds flow <sup>(1)</sup>	\$ 46,301	\$ 43,883	\$ 150,378	\$ 183,202
per mcfe	\$ 1.84	\$ 1.94	\$ 1.65	\$ 2.13
per basic share <sup>(2)</sup>	\$ 0.25	\$ 0.24	\$ 0.81	\$ 0.99
Net capital expenditures <sup>(1)</sup>	\$ 52,000	\$ 73,723	\$ 203,834	\$ 248,774
Working capital deficit	\$ 1,912	\$ 13,808	\$ 1,912	\$ 13,808
Bank indebtedness	\$ 270,918	\$ 208,978	\$ 270,918	\$ 208,978
Total debt <sup>(1)</sup>	\$ 272,830	\$ 222,786	\$ 272,830	\$ 222,786

(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.

Operating Highlights	Three months ended		Year ended	
	December 31		December 31	
	2018	2017	2018	2017
<b>Operating</b>				
Daily Production				
Natural gas (mcf/d)	262,269	237,780	240,959	228,583
Liquids (bbls/d)	1,974	1,227	1,491	1,218
Total mcfe/d	274,113	245,142	249,905	235,891
Total boe/d	45,686	40,857	41,651	39,315
Average prices (including realized hedging)				
Natural gas (\$/mcf) <sup>(2)</sup>	\$ 2.70	\$ 2.69	\$ 2.47	\$ 2.82
Liquids (\$/bbl)	\$ 49.23	\$ 60.48	\$ 62.12	\$ 54.28
<b>Operating Netback (\$/mcfe)</b>				
Sales of natural gas and liquids from production	\$ 2.81	\$ 2.38	\$ 2.44	\$ 2.69
Net sales of natural gas purchased from third parties <sup>(1)</sup>	-	-	0.01	-
Realized gains on derivatives	0.12	0.53	0.31	0.32
Royalty expense	(0.07)	(0.07)	(0.03)	(0.07)
Operating expense	(0.29)	(0.26)	(0.30)	(0.25)
Transportation expense	(0.53)	(0.50)	(0.56)	(0.40)
Operating netback <sup>(1)</sup>	\$ 2.04	\$ 2.08	\$ 1.87	\$ 2.29

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

<sup>(2)</sup> Excludes net sales of natural gas purchased from third parties.

## Natural Gas and Liquids Sales

(\$000)	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Natural gas sales	\$ 61,917	\$ 46,950	32 %	\$ 188,528	\$ 207,623	(9) %
Realized gains on derivatives	3,121	12,002	(74) %	28,269	27,847	2 %
Natural gas sales including derivatives	65,038	58,952	10 %	216,797	235,470	(8) %
Liquids sales	8,941	6,827	31 %	33,807	24,141	40 %
<b>Total <sup>(1)</sup></b>	<b>\$ 73,979</b>	<b>\$ 65,779</b>	<b>12 %</b>	<b>\$ 250,604</b>	<b>\$ 259,611</b>	<b>(3) %</b>

<sup>(1)</sup> Total excludes unrealized gains and losses on derivatives.

Higher natural gas production and stronger realized prices resulted in an increase of \$15.0 million or 32% to natural gas sales between the three months ended December 31, 2018 and 2017. Liquids sales increased by \$2.1 million or 31% over the same period as a result of a 61% increase in production, slightly offset by weaker realized prices. The higher natural gas and liquids sales was offset by lower realized gains on derivatives, resulting in an increase of \$8.2 million or 12% to total sales between the three months ended December 31, 2018 and 2017.

For the year ended December 31, 2018, Advantage realized a slight decrease of \$9.0 million or 3% to total sales compared to the year ended December 31, 2017. The decrease in total sales resulted from lower natural gas sales due to weaker realized prices which were partially offset by higher production. While total sales for 2018 were lower overall, liquids sales and realized gains on derivatives both increased. Liquids production increased 22% and was in conjunction with our increased focus on liquids-rich development. Variances in realized gains on derivatives between the year ended December 31, 2018 and 2017 were due to differences in natural gas prices and the pricing terms of contracts realized during each period (see “Commodity Price Risk Management and Market Diversification”).

## Production

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Natural gas (mcf/d)	262,269	237,780	10 %	240,959	228,583	5 %
Liquids (bbls/d)	1,974	1,227	61 %	1,491	1,218	22 %
<b>Total - mcfe/d</b>	<b>274,113</b>	<b>245,142</b>	<b>12 %</b>	<b>249,905</b>	<b>235,891</b>	<b>6 %</b>
<b>- boe/d</b>	<b>45,686</b>	<b>40,857</b>	<b>12 %</b>	<b>41,651</b>	<b>39,315</b>	<b>6 %</b>
Natural gas (%)	96%	97%		96%	97%	
Liquids (%)	4%	3%		4%	3%	

Advantage ramped up production following the completion of our Glacier gas plant expansion project to 400 mmcf/d of raw gas processing capacity including 6,800 bbls/d of liquids extraction capacity, resulting in higher natural gas and liquids production for the three months and year ended December 31, 2018 as compared to 2017. Advantage’s current development plan continues our increased focus on liquids-rich development.

## Commodity Prices and Marketing

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
<b>Average Realized Prices</b>						
Natural gas, excluding hedging (\$/mcf) <sup>(1)</sup>	\$ 2.57	\$ 2.15	20 %	\$ 2.14	\$ 2.49	(14) %
Natural gas, including hedging (\$/mcf) <sup>(1)</sup>	\$ 2.70	\$ 2.69	- %	\$ 2.47	\$ 2.82	(12) %
Liquids, excluding and including hedging (\$/bbl)	\$ 49.23	\$ 60.48	(19) %	\$ 62.12	\$ 54.28	14 %
<b>Benchmark Prices</b>						
AECO daily (\$/mcf)	\$ 1.56	\$ 1.69	(8) %	\$ 1.50	\$ 2.15	(30) %
AECO monthly (\$/mcf)	\$ 1.90	\$ 1.95	(3) %	\$ 1.53	\$ 2.43	(37) %
Dawn daily (\$US/mmbtu)	\$ 3.78	\$ 2.87	32 %	\$ 3.13	\$ 3.10	1 %
Chicago Citygate (\$US/mmbtu)	\$ 3.62	\$ 2.92	24 %	\$ 3.05	\$ 3.04	- %
Henry Hub (\$US/mmbtu)	\$ 3.65	\$ 2.94	24 %	\$ 3.08	\$ 3.11	(1) %
WTI (\$US/bbl)	\$ 59.10	\$ 55.35	7 %	\$ 64.96	\$ 50.87	28 %
Exchange rate (US\$/CDN\$)	0.7569	0.7865	(4) %	0.7717	0.7712	- %

<sup>(1)</sup> Excludes sales of natural gas purchased from third parties.

Weak AECO natural gas prices were realized during the three months and year ended December 31, 2018 due to excess natural gas supply and pipeline constraints within Alberta. In order to offset weak AECO natural gas pricing, Advantage maintains a strategy of physical and financial natural gas price diversification. As part of these diversification efforts, Advantage sold natural gas into the Dawn, Ontario market and the Chicago market, both of which generated higher realized prices as compared to AECO. Advantage's firm transportation service to Dawn of 52,700 mcf/d is a ten-year commitment that began November 1, 2017 and represents approximately 20% of our natural gas production. The Dawn market has provided the Corporation with additional physical market diversification and exposure to higher prices net of transportation costs since this commitment began. Starting November 1, 2018, Advantage entered into sales arrangements for 20,000 mcf/d at Chicago Citygate prices, net of a fixed differential. Beginning April 2019, Chicago Citygate based sales will increase to 40,000 mcf/d.

While Advantage's realized liquids prices normally trend with fluctuations in WTI oil prices, during the fourth quarter of 2018 our realized liquids prices were significantly impacted by variations in differentials that were experienced by the Canadian industry. Advantage's current liquids mix is comprised of 68% pentanes and condensate, which have historically attracted higher market prices than 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 have fluctuated widely and are determined by supply and demand factors, including available access to pipelines and markets, weather, general economic conditions in natural gas consuming and producing regions throughout North America and political factors. Management has been proactive in entering into derivative contracts for the purposes of reducing cash flow volatility and diversifying price realizations to multiple markets in support of our Montney development plans. Advantage's Credit Facilities (as defined herein) allow us to enter fixed price derivative contracts 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/day with a maximum term of seven years. Basis swap arrangements do not count against the limitations on hedged production.

Our natural gas production and corresponding derivative contracts resulted in the realization of the following fixed market prices and variable market exposures for 2018:

<b>January 1 to December 31, 2018</b>			
	Volumes Contracted (mmcf/d) <sup>(1)</sup>	Average Minimum Price	% of Production
<b>Fixed Price</b>			
AECO fixed price swaps	61.1	\$2.99/mcf	25%
AECO put option bought	20.6	\$1.42/mcf	9%
Dawn fixed price swaps	33.3	US\$2.86/mcf	14%
	115.0		48%
<b>Variable Price</b>			
AECO physical	92.9	AECO	39%
Dawn physical	19.4	Dawn	8%
Chicago physical	3.3	Chicago less US\$1.19/mcf	1%
AECO / Henry Hub basis swaps	10.4	Henry Hub less US\$0.95/mcf	4%
	126.0		52%
<b>Total Natural Gas</b>	<b>241.0</b>		<b>100%</b>

<sup>(1)</sup> All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu

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 2019:

<b>January 1 to December 31, 2019</b>			
	Volumes Contracted (mmcf/d) <sup>(1)</sup>	Average Minimum Price	% of Estimated Production
<b>Fixed Price</b>			
AECO fixed price swaps	89.0	\$2.10/mcf	35%
Dawn fixed price swaps	22.9	US\$2.94/mcf	9%
	111.9		44%
<b>Variable Price</b>			
AECO physical	75.3	AECO	30%
Dawn physical	29.8	Dawn	12%
Chicago physical	35.0	Chicago less US\$1.19/mcf	14%
	140.1		56%
<b>Total Natural Gas</b> <sup>(2)</sup>	<b>252.0</b>		<b>100%</b>

<sup>(1)</sup> All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu

<sup>(2)</sup> Represents the midpoint of our Guidance for 2019 natural gas volumes (see News Release dated November 1, 2018)

A summary of realized and unrealized gains and losses on derivatives for the three months and years ended December 31, 2018 and 2017 are as follows:

(\$000s)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Realized gains on derivatives	\$ 3,121	\$ 12,002	\$ 28,269	\$ 27,847
Unrealized gains (losses) on derivatives	22,722	17,200	(9,139)	73,305
<b>Gains on derivatives</b>	<b>\$ 25,843</b>	<b>\$ 29,202</b>	<b>\$ 19,130</b>	<b>\$ 101,152</b>

For the three months and year ended December 31, 2018 and 2017, Advantage recognized realized gains on derivatives due to the settlement of contracts with average derivative contract prices that were above average market prices during the periods. For the three months ended December 31, 2018, Advantage recognized unrealized gains on derivatives resulting from an increase in the fair value of our derivative contracts to a net asset of \$41.6 million at December 31, 2018, as compared to a net asset of \$18.9 million at September 30, 2018. For the year ended December 31, 2018, Advantage recognized unrealized losses on derivatives resulting from a decrease in the fair value of our derivative contracts to a net asset of \$41.6 million at December 31, 2018, as compared to a net asset of \$50.8 million at December 31, 2017. The changes to the fair value of our outstanding derivative contracts was primarily attributable to actual cash received from derivative settlements and changes in commodity price assumptions during the periods. 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, 2019 and December 31, 2024.

#### Sales of Natural Gas Purchased from Third Parties

(\$000s)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Sales of natural gas purchased from third parties	\$ -	\$ -	\$ 5,078	\$ -
Natural gas purchased from third parties	-	-	(3,967)	-
<b>Net sales of natural gas purchased from third parties</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,111</b>	<b>\$ -</b>

Due to a scheduled plant shutdown during the second quarter of 2018, the Corporation purchased natural gas volumes from third parties to satisfy physical delivery commitments. Advantage realized \$5.1 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of \$4.0 million. Transportation expense related to sales of natural gas purchased from third parties is included in transportation expense.

#### Royalty Expense

	Three months ended December 31			Year ended December 31		
	2018	2017	% change	2018	2017	% change
Royalty expense (\$000)	\$ 1,654	\$ 1,575	5 %	\$ 2,583	\$ 6,387	(60) %
per mcfe	\$ 0.07	\$ 0.07	- %	\$ 0.03	\$ 0.07	(57) %
Royalty Rate (percentage of sales of natural gas and liquids from production)	2.3 %	2.9 %	(0.6) %	1.2 %	2.8 %	(1.6) %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation has mineral leases with provincial governments, individuals and other companies. Our current average royalty rates are determined by various royalty regimes that incorporate factors including well depths, 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. The lower royalty expense for the year ended December 31, 2018 compared to the year ended December 31, 2017 was due to lower natural gas prices as well as a \$1.1 million refund received during 2018 due to GCA adjustments.

### Operating Expense

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Operating expense (\$000)	\$ 7,262	\$ 5,967	22 %	\$ 27,593	\$ 21,729	27 %
per mcf	\$ 0.29	\$ 0.26	12 %	\$ 0.30	\$ 0.25	20 %

Operating expense for the three months and year ended December 31, 2018 increased by 22% to \$7.3 million and by 27% to \$27.6 million compared to the respective periods of 2017. Higher operating expense incurred during the 2018 periods resulted from increased production and incremental operating costs related to process design changes required for the expansion of our 100% owned Glacier gas plant from 250 to 400 mmcf/d raw gas capability including 6,800 bbls/d of liquids. The expansion increased gas, water and hydrocarbon processing capacity which was made possible by adding additional equipment and plant processes. Additional municipal taxes and carbon tax accounted for 20% of the increase in operating costs.

Operating expense per mcf for the three months and year ended December 31, 2018 was \$0.29 and \$0.30, respectively. The higher operating costs per mcf incurred in the 2018 periods were in-line with Advantage's expectations of cost structure following the commissioning of the Glacier gas plant expansion.

### Transportation Expense

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Transportation expense						
Natural gas (\$000)	\$ 11,805	\$ 10,316	14 %	\$ 45,930	\$ 30,770	49 %
per mcf	\$ 0.49	\$ 0.29	69 %	\$ 0.52	\$ 0.37	41 %
Liquids (\$000)	\$ 1,545	\$ 1,034	49 %	\$ 4,764	\$ 3,747	27 %
per bbl	\$ 8.51	\$ 5.92	44 %	\$ 8.75	\$ 8.43	4 %
Total transportation expense (\$000)	\$ 13,350	\$ 11,350	18 %	\$ 50,694	\$ 34,517	47 %
per mcf	\$ 0.53	\$ 0.50	6 %	\$ 0.56	\$ 0.40	40 %

Transportation expense represents the cost of transporting our natural gas and liquids to the sales points, including associated fuel costs. Natural gas transportation expense for 2018 increased in conjunction with Advantage's participation in TCPL's Long-Term, Fixed Price service from Empress, Alberta to the Dawn market, which commenced November 1, 2017. Transportation under our firm commitment from AECO to Dawn is approximately \$1.10/mcf.

Liquids transportation expense increased for the three months and year ended December 31, 2018 predominantly due to higher liquids production. Liquids transportation expense per bbl may vary between periods attributable to local area constraints that can impact the delivery of liquids to a sales point.

## Operating Netback

	Three months ended				Year ended			
	December 31				December 31			
	2018		2017		2018		2017	
	\$000	per mcfe	\$000	per mcfe	\$000	per mcfe	\$000	per mcfe
Sales of natural gas and liquids from production	\$ 70,858	\$ 2.81	\$ 53,777	\$ 2.38	\$ 222,335	\$ 2.44	\$ 231,764	\$ 2.69
Net sales of natural gas purchased from third parties <sup>(1)</sup>	-	-	-	-	1,111	0.01	-	-
Realized gains on derivatives	3,121	0.12	12,002	0.53	28,269	0.31	27,847	0.32
Royalty expense	(1,654)	(0.07)	(1,575)	(0.07)	(2,583)	(0.03)	(6,387)	(0.07)
Operating expense	(7,262)	(0.29)	(5,967)	(0.26)	(27,593)	(0.30)	(21,729)	(0.25)
Transportation expense	(13,350)	(0.53)	(11,350)	(0.50)	(50,694)	(0.56)	(34,517)	(0.40)
<b>Operating netback <sup>(1)</sup></b>	<b>\$ 51,713</b>	<b>\$ 2.04</b>	<b>\$ 46,887</b>	<b>\$ 2.08</b>	<b>\$ 170,845</b>	<b>\$ 1.87</b>	<b>\$ 196,978</b>	<b>\$ 2.29</b>

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

Operating netback for the three months ended December 31, 2018 was \$51.7 million or \$2.04/mcfe. Operating netback per mcfe was comparable to the same period of 2017 with stronger realized natural gas prices primarily offset by lower realized gains on derivatives associated with Advantage's commodity price risk management program (see "Commodity Price Risk Management and Market Diversification"). Operating netback for the year ended December 31, 2018 was \$170.8 million or \$1.87/mcfe. Operating netback per mcfe decreased compared to 2017 due to overall weaker AECO realized natural gas prices, partially offset by premium prices realized from delivering production to the Dawn and Chicago markets, although resulting in higher transportation expense associated with accessing the Dawn market (see "Transportation Expense").

## General and Administrative Expense

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
General and administrative expense	\$ 2,083	\$ 1,052	98 %	\$ 8,873	\$ 7,165	24 %
per mcfe	\$ 0.08	\$ 0.05	60 %	\$ 0.10	\$ 0.08	25 %
Employees at December 31				32	29	10 %

General and administrative ("G&A") expense increased for the three months and year ended December 31, 2018 compared to the same periods in 2017. For 2018, higher costs were due to external consulting costs associated with evaluating marketing and business development opportunities and an increased number of staff.



## Share Based Compensation

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Total share based compensation	\$ 2,190	\$ 2,040	7 %	\$ 8,208	\$ 8,364	(2) %
Capitalized	(813)	(791)	3 %	(3,046)	(3,245)	(6) %
Net share based compensation	\$ 1,377	\$ 1,249	10 %	\$ 5,162	\$ 5,119	1 %
per mcfe	\$ 0.05	\$ 0.06	(17) %	\$ 0.06	\$ 0.06	- %

Share based compensation represents the expense associated with Advantage's stock option plan and restricted and performance incentive plan that are designed to provide for long-term compensation to employees and contractors and to align the interests of these individuals with those of shareholders. Share based compensation for the three months and year ended December 31, 2018 was consistent with the comparative periods of 2017. During April 2018, 136,631 Performance Awards matured and were settled with the issuance of 239,791 common shares, while 112,057 Performance Awards matured and were net settled for \$0.5 million of cash consideration. As at December 31, 2018, a total of 2.0 million Stock Options and 2.9 million Performance Awards are unexercised which represents 2.7% of Advantage's total outstanding common shares.

## Finance Expense

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Finance expense						
Cash expense (\$000)	\$ 3,163	\$ 1,968	61 %	\$ 10,922	\$ 6,931	58 %
per mcfe	\$ 0.13	\$ 0.09	44 %	\$ 0.12	\$ 0.08	50 %
Accretion expense (\$000)	\$ 236	\$ 223	6 %	\$ 1,030	\$ 951	8 %
per mcfe	\$ 0.01	\$ 0.01	- %	\$ 0.01	\$ 0.01	- %
<b>Total finance expense (\$000)</b>	<b>\$ 3,399</b>	<b>\$ 2,191</b>	<b>55 %</b>	<b>\$ 11,952</b>	<b>\$ 7,882</b>	<b>52 %</b>
<b>per mcfe</b>	<b>\$ 0.14</b>	<b>\$ 0.10</b>	<b>40 %</b>	<b>\$ 0.13</b>	<b>\$ 0.09</b>	<b>44 %</b>

Advantage realized higher cash finance expense during the three months and year ended December 31, 2018 compared to the same periods of 2017 primarily due to higher average outstanding bank indebtedness due to lower cash provided by operating activities. Advantage's interest rates are primarily based on short-term bankers' acceptance rates plus a stamping fee and determined by total debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities. During 2018, we expected higher cash finance expense resulting from the higher average bank indebtedness and interest rates as determined by our total debt to EBITDA ratio.

## Depreciation Expense

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Depreciation expense (\$000)	\$ 33,065	\$ 29,394	12 %	\$ 119,042	\$ 117,945	1 %
per mcfe	\$ 1.31	\$ 1.30	1 %	\$ 1.31	\$ 1.37	(4) %

Depreciation of natural gas and liquids properties is provided on the units-of-production method based on total proved and probable reserves, including future development costs, on a component basis. Depreciation expense for the year ended December 31, 2018 increased as compared to 2017 due to higher production volumes, partially offset by a slightly reduced rate of depreciation expense.

## Taxes

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Deferred income tax expense (\$000)	\$ 9,632	\$ 8,624	12 %	\$ 5,841	\$ 37,285	(84) %
per mcfe	\$ 0.38	\$ 0.38	- %	\$ 0.06	\$ 0.43	(86) %

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the three months and year ended December 31, 2018, the Corporation recognized deferred income tax expenses of \$9.6 million and \$5.8 million as a result of \$34.8 million and \$17.0 million income before taxes, respectively. As at December 31, 2018, the Corporation had a deferred income tax liability of \$78.3 million.

Estimated tax pools at December 31, 2018, are as follows:

	(\$ millions)
Canadian Development Expenses	\$ 210
Canadian Exploration Expenses	66
Canadian Oil and Gas Property Expenses	14
Non-capital losses	715
Undepreciated Capital Cost	284
Capital losses	158
Scientific Research and Experimental Development Expenditures	33
Other	8
	<u>\$ 1,488</u>

## Net Income and Comprehensive Income

	Three months ended			Year ended		
	December 31			December 31		
	2018	2017	% change	2018	2017	% change
Net income and comprehensive income (\$000)	\$ 25,162	\$ 21,425	17 %	\$ 11,119	\$ 95,039	(88) %
per share - basic	\$ 0.14	\$ 0.12	17 %	\$ 0.06	\$ 0.51	(88) %
per share - diluted	\$ 0.13	\$ 0.11	18 %	\$ 0.06	\$ 0.50	(88) %

Advantage recognized net income of \$11.1 million for the year ended December 31, 2018. Net income was significantly lower as compared to the year ended December 31, 2017 due primarily to lower realized natural gas prices and an \$82.4 million decrease in unrealized gains on derivatives as compared to 2017. Advantage recognized net income of \$25.2 million for the three months ended December 31, 2018. Net income was modestly higher during the three months ended December 31, 2018 as compared to the same period of 2017 due to primarily increased production while stronger realized natural gas prices were predominately offset by a reduction in gains on derivatives. Unrealized gains and losses on derivatives are non-cash and can fluctuate greatly between periods from changes to the estimated value to settle outstanding contracts (see “Commodity Price Risk Management and Market Diversification”).

## Cash Provided by Operating Activities and Adjusted Funds Flow

(\$000, except as otherwise indicated)	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Cash provided by operating activities	\$ 44,790	\$ 29,848	\$ 160,162	\$ 186,401
Expenditures on decommissioning liability	1,045	370	1,782	1,190
Changes in non-cash working capital	3,629	15,633	(644)	2,542
Finance expense <sup>(1)</sup>	(3,163)	(1,968)	(10,922)	(6,931)
<b>Adjusted funds flow <sup>(2)</sup></b>	<b>\$ 46,301</b>	<b>\$ 43,883</b>	<b>\$ 150,378</b>	<b>\$ 183,202</b>
Adjusted funds flow per share <sup>(2)</sup>	\$ 0.25	\$ 0.24	\$ 0.81	\$ 0.99

<sup>(1)</sup> Finance expense excludes non-cash accretion expense.

<sup>(2)</sup> Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

For the year ended December 31, 2018, cash provided by operating activities was \$160.2 million, a reduction as compared to 2017 due to lower adjusted funds flow as noted below. For the three months ended December 31, 2018, cash provided by operating activities was \$44.8 million, an increase as compared to the same 2017 period due to stronger adjusted funds flow as noted below and a reduction in the change in non-cash operating working capital. Advantage's non-cash working capital can vary significantly depending on the timing and amount of trade payable settlements.

For the year ended December 31, 2018, Advantage realized adjusted funds flow of \$150.4 million or \$0.81/share. Adjusted funds flow for the year ended December 31, 2018 was lower as compared to 2017 primarily due to reduced natural gas sales resulting from weaker AECO natural gas prices. For the three months ended December 31, 2018, Advantage realized adjusted funds flow of \$46.3 million or \$0.25/share. Advantage realized slightly higher adjusted funds flow for the three months ended December 31, 2018 as compared to the same period of 2017 due to increased production while stronger realized natural gas prices were predominately offset by a reduction in realized gains on derivatives. During 2018, adjusted funds flow has also been positively impacted by our increased focus on liquids-rich development that has increased liquids sales from both higher liquids production and stronger realized liquids prices.

## 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 cash flow in an ongoing manner. The following table is a summary of the Corporation's remaining contractual obligations and commitments. Advantage has no guarantees or off-balance sheet arrangements other than as disclosed.

(\$ millions)	Payments due by period						
	Total	2019	2020	2021	2022	2023	After 2023
Building leases	\$ 6.4	\$ 0.8	\$ 0.7	\$ 0.7	\$ 0.7	\$ 0.7	\$ 2.8
Transportation and processing	370.9	49.4	49.3	48.2	46.9	40.4	136.7
Bank indebtedness <sup>(1)</sup>							
- principal	273.0	-	273.0	-	-	-	-
- interest	17.2	11.6	5.6	-	-	-	-
<b>Total contractual obligations</b>	<b>\$ 667.5</b>	<b>\$ 61.8</b>	<b>\$ 328.6</b>	<b>\$ 48.9</b>	<b>\$ 47.6</b>	<b>\$ 41.1</b>	<b>\$ 139.5</b>

<sup>(1)</sup> As at December 31, 2018, 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 June 2019. 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, 2018	December 31, 2017
Bank indebtedness (non-current)	\$ 270,918	\$ 208,978
Working capital deficit	1,912	13,808
<b>Total debt<sup>(1)</sup></b>	<b>\$ 272,830</b>	<b>\$ 222,786</b>
Shares outstanding	185,942,141	185,963,186
Shares closing market price (\$/share)	\$ 1.98	\$ 5.40
<b>Market capitalization</b>	<b>\$ 368,165</b>	<b>\$ 1,004,201</b>
<b>Total capitalization</b>	<b>\$ 640,995</b>	<b>\$ 1,226,987</b>
<b>Total debt to adjusted funds flow<sup>(2)</sup></b>	<b>1.8</b>	<b>1.2</b>

<sup>(1)</sup> Total debt is a non-GAAP measure that includes bank indebtedness and working capital deficit.

<sup>(2)</sup> Total debt to adjusted funds flow is calculated by dividing total debt by adjusted funds flow for the previous four quarters.

Advantage has a \$400 million credit facility of which \$120.2 million or 30% was available at December 31, 2018 after deducting letters of credit of US\$5 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 \$203.8 million for the year ended December 31, 2018. With major facilities expenditures in 2018 including the Glacier gas plant expansion and the substantial completion of a new compression and liquids handling hub at Valhalla, Advantage still maintained a strong balance sheet with a total debt to twelve-month trailing adjusted funds flow ratio of 1.8 times as at December 31, 2018. 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 our multi-year development plan.

Advantage monitors its capital structure and makes adjustments according to market conditions and 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.

### **Shareholders' Equity**

Advantage's common shares are publicly traded on the Toronto Stock Exchange. Advantage voluntarily de-listed its common shares from the New York Stock Exchange effective September 21, 2018 to simplify administrative processes and recognize cost savings. 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.

As at December 31, 2018, a total of 2.0 million Stock Options and 2.9 million Performance Awards were unexercised, which represents 2.7% of Advantage's total outstanding common shares. No Stock Options were exercised during the year ended December 31, 2018. During April 2018, 136,631 Performance Awards matured and were settled with the issuance of 239,791 common shares while 112,057 Performance Awards matured and were net settled for \$0.5 million of cash consideration. As at February 28, 2019, Advantage had 185.9 million common shares outstanding.

### **Bank Indebtedness, Credit Facilities and Other Obligations**

At December 31, 2018, Advantage had bank indebtedness outstanding of \$270.9 million, an increase of \$61.9 million since December 31, 2017. The increase in bank indebtedness was consistent with the timing and execution of Advantage's 2018 capital expenditure program. 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"). 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 2018, 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 annual review is scheduled to occur in June 2019. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage's working capital deficit of \$1.9 million as at December 31, 2018 was lower than the working capital deficit at December 31, 2017 due to differences in the timing of capital expenditures and related payments. Our working capital includes items expected for normal operations such as cash and cash equivalents, trade receivables, prepaid expenses, deposits, and trade payables and accruals. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. Our working capital is normally in a deficit position due to our capital development activities. We do not anticipate any problems in meeting future obligations as they become due as they can be satisfied with adjusted funds flow and our available Credit Facilities.

## Cash Used in Investing Activities and Net Capital Expenditures

(\$000)	Three months ended		Year ended	
	December 31		December 31	
	2018	2017	2018	2017
Drilling, completions and workovers	\$ 29,793	\$ 44,781	\$ 97,208	\$ 143,797
Well equipping and facilities	20,488	29,272	104,370	97,652
Other	159	(5)	159	118
Expenditures on property, plant and equipment	50,440	74,048	201,737	241,567
Expenditures on exploration and evaluation assets	1,560	(325)	2,097	7,207
<b>Net capital expenditures</b> <sup>(1)(2)</sup>	<b>\$ 52,000</b>	<b>\$ 73,723</b>	<b>\$ 203,834</b>	<b>\$ 248,774</b>
Changes in non-cash working capital	(464)	661	12,648	(17,098)
Capitalized non-cash stock-based compensation	(813)	(791)	(2,748)	(3,245)
<b>Cash used in investing activities</b>	<b>\$ 50,723</b>	<b>\$ 73,593</b>	<b>\$ 213,734</b>	<b>\$ 228,431</b>

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

(2) Net capital expenditures excludes change in decommissioning liability.

Advantage invested \$52.0 million and \$203.8 million on property, plant, equipment and exploration and evaluation assets purchases during the three months and year ended December 31, 2018, respectively.

For the year ended December 31, 2018 approximately 45% of expenditures were related to infrastructure projects including finishing construction and commissioning of the expansion of our 100% owned Glacier gas plant from 250 to 400 mmcf/d raw gas capability including 6,800 bbls/d of liquids extraction capacity; the construction of our first compressor and liquids handling facility at Valhalla; the installation of a meter station connection to the Alliance Pipeline and the construction of power lines that will allow electricity sales from the Glacier gas plant. The expanded and newly constructed facilities provide current excess capacity for our drilling programs or third-party processing. Advantage's strategy of owning and operating our own infrastructure has helped us achieve a low cost structure and provides opportunities to diversify our revenue streams.

During the year, Advantage drilled 15 wells (including 1 service well) focusing on liquid-rich Montney opportunities across our acreage position.

### Glacier

During the first quarter of 2018, Advantage completed an eight well pad with six of the wells being in the liquids-rich Middle Montney. The six wells delineated all three layers within the Middle Montney and had an average per well test rate and average flowing pressure of 86% and 126%, respectively, higher compared to all of our previously drilled Glacier Middle Montney wells. Average frac count was increased to 34 stages per well which represents a 76% increase over our previous Middle Montney wells. The two Lower Montney wells drilled off of the same pad were flow tested at an average rate that is consistent with the exceptional Lower Montney results that have been achieved in the western portion of Glacier over the past number of drilling programs.

In the second half of 2018 completion operations focused on a separate and previously drilled 10 well pad at Glacier which includes 5 liquids-rich Middle Montney wells. Test results from the pad were strong with all wells expected to be on production by the end of the first quarter of 2019.

At Glacier, our 2018 completed wells are out-performing Advantage's average well type curve by 35% after more than 150 days of production.

Drilling activity took place in the second half of 2018 and focused on a 10 well Middle Montney pad on the eastern side of Glacier where liquid yields are as high as 80 bbls/mmcf. These wells will be completed in the first quarter of 2019.

## Wembley

The Corporation's Pipestone/Wembley land block consists of 31 net sections (19,840 acres) and is located in a prolific 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 2018, Advantage's first well in this land block was tested at an average flow rate of 1,312 boe/d consisting of 2.9 mmcf/d of gas and 819 bbls/d of condensate and NGLs. This well is expected to be on-production by the fourth quarter of 2019.

Front-end engineering and design work is ongoing for a compressor/liquid handling hub and associated gathering system. Stakeholder consultations is underway in anticipation of securing regulatory approvals later in 2019 with construction planned for the first half of 2020.

## Valhalla

At Valhalla, our new compressor station and liquids hub was constructed and has been commissioned. The facility will increase drawdown of existing wells and provide capacity for future liquids-rich wells, including seven wells that make up our current winter Valhalla program. The facility was designed to handle 40 mmcf/d of raw gas and 2,000 bbls/d of free liquids and is expandable to accommodate future liquids-rich production growth at Valhalla. The majority of major equipment was sourced from surplus equipment resulting from the Glacier gas plant expansion project.

## Corporate

Advantage's current standing well inventory consists of nineteen total wells. Of these wells, four are tied-in waiting on production; ten are completed; and five are cased waiting to be completed.

During 2018, Advantage acquired 17 additional sections of Doig/Montney rights proximal to our existing land holdings. We now hold a total of 206 net sections (131,840 net acres) of Doig/Montney rights with 116 of those net sections outside of Glacier in the Valhalla/Progress/Wembley areas that have potential for liquids-rich and multi-layer development.

## Guidance and Estimates

### 2018 Guidance

Major facilities expenditures in 2018 included the Glacier gas plant expansion to 400 mmcf/d and 6,800 bbls/d of liquids, and the substantial completion of a new compression and liquids handling hub at Valhalla. In addition, certain liquids-rich well operations and capital expenditures that were previously planned for January 2019 were accelerated to December 2018 to capitalize on temporary service discounts and reinforce our production outlook. This resulted in higher net capital expenditures of \$204 million for 2018 as compared to our original guidance of \$175 million.

Adjusted funds flow of \$150 million for 2018 was lower than our original guidance range of \$175 to \$200 million due to weaker natural gas prices than our original guidance estimates. The combination of accelerated capital spending and lower adjusted funds flow resulted in a higher total debt to adjusted funds flow ratio of 1.8 as compared to our original guidance of 1.0 to 1.3.

### 2019 Guidance

With the exception of cash used in investing activities and net capital expenditures for 2019, Advantage's guidance has not materially changed from the November 1, 2018 Press Release. Advantage's 2019 cash used in investing activities and net capital expenditures guidance range has been reduced to \$185 to \$215 million from \$210 to \$240 million as a result of certain liquids-rich well operations and capital expenditures that were previously planned for January 2019 being accelerated to December 2018. Advantage is planning to invest approximately \$65 million through the first quarter of 2019 which is expected to substantially provide the well productivity to achieve our 2019 annual production guidance. Investment for the remainder of 2019 will be reviewed during the second quarter of 2019. The Corporation has identified additional capital projects of up to \$100 million which could be deferred from our 2019 plan with minimal 2019 production impacts. Capital deferrals will be prioritized to minimize impact on the highest-return liquids projects. 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 liquids development. The Corporation has made no changes to the 2020 and 2021 guidance. Please refer to the "Development Plan Summary Table" per the November 1, 2018 Press Release.

## Annual Financial Information

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

	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017	Year ended Dec. 31, 2016
Total sales (\$000) <sup>(1)</sup>	\$ 222,335	\$ 231,764	\$ 161,933
Net income (loss) (\$000)	\$ 11,119	\$ 95,039	\$ (15,734)
per share - basic	\$ 0.06	\$ 0.51	\$ (0.09)
per share - diluted	\$ 0.06	\$ 0.50	\$ (0.09)
Total assets	\$ 1,771,197	\$ 1,691,182	\$ 1,496,459
Long term financial liabilities (\$000) <sup>(2)</sup>	\$ 270,918	\$ 208,978	\$ 153,102

<sup>(1)</sup> Before royalties and excludes sales of natural gas purchased from third parties.

<sup>(2)</sup> Long term financial liabilities exclude derivative liability, decommissioning liability and deferred income tax liability.



## Quarterly Performance

(\$000, except as otherwise indicated)	2018				2017			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Daily production								
Natural gas (mcf/d)	262,269	262,841	205,712	232,456	237,780	219,812	225,844	230,906
Liquids (bbls/d)	1,974	1,804	1,067	1,105	1,227	1,395	1,098	1,151
Total (mcf/d)	274,113	273,665	212,114	239,086	245,142	228,182	232,432	237,812
Total (boe/d)	45,686	45,611	35,352	39,848	40,857	38,030	38,739	39,635
Average prices								
Natural gas (\$/mcf)								
Excluding hedging	\$ 2.57	\$ 1.85	\$ 1.63	\$ 2.46	\$ 2.15	\$ 1.84	\$ 2.98	\$ 2.99
Including realized hedging <sup>(2)</sup>	\$ 2.70	\$ 1.93	\$ 2.05	\$ 3.19	\$ 2.69	\$ 2.26	\$ 3.09	\$ 3.24
AECO daily	\$ 1.56	\$ 1.19	\$ 1.18	\$ 2.08	\$ 1.69	\$ 1.46	\$ 2.79	\$ 2.70
AECO monthly	\$ 1.90	\$ 1.55	\$ 1.03	\$ 1.85	\$ 1.95	\$ 2.04	\$ 2.77	\$ 2.95
Liquids (\$/bbl)								
Excluding and including hedging	\$ 49.23	\$ 67.90	\$ 72.32	\$ 66.11	\$ 60.48	\$ 46.95	\$ 57.27	\$ 53.73
WTI (\$US/bbl)	\$ 59.10	\$ 69.75	\$ 68.05	\$ 62.91	\$ 55.35	\$ 48.15	\$ 48.24	\$ 51.71
Total sales including realized hedging <sup>(1)(2)</sup>	\$ 73,979	\$ 57,928	\$ 45,319	\$ 73,378	\$ 65,779	\$ 51,706	\$ 69,169	\$ 72,957
Net income (loss)	\$ 25,162	\$ (8,852)	\$ (15,294)	\$ 10,103	\$ 21,425	\$ 13,026	\$ 18,339	\$ 42,249
per share - basic	\$ 0.14	\$ (0.05)	\$ (0.08)	\$ 0.05	\$ 0.12	\$ 0.07	\$ 0.10	\$ 0.23
per share - diluted	\$ 0.14	\$ (0.05)	\$ (0.08)	\$ 0.05	\$ 0.11	\$ 0.07	\$ 0.10	\$ 0.22
Cash provided by operating activities	\$ 44,790	\$ 30,786	\$ 23,681	\$ 60,905	\$ 29,848	\$ 56,661	\$ 44,382	\$ 55,510
Adjusted funds flow <sup>(3)</sup>	\$ 46,301	\$ 32,035	\$ 23,160	\$ 48,882	\$ 43,883	\$ 36,722	\$ 48,625	\$ 53,972

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

(2) Excludes unrealized hedging.

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

The table above highlights the Corporation's performance for the fourth quarter of 2018 and for the preceding seven quarters. In the first and second quarters of 2017, Advantage continued to increase production thereby substantially filling the Glacier gas plant processing capacity, consistent with our development plan. Production for the third quarter of 2017 was slightly impacted by TCPL capacity restrictions and planned production decreases due to the ongoing expansion of the Glacier gas plant. Production increased during the fourth quarter of 2017, filling the Glacier gas plant capacity and achieving record production for Advantage at that time. Advantage's production volumes were reduced during the first and second quarter of 2018 as a result of Glacier gas plant expansion activities, with production increasing significantly in the third and fourth quarters of 2018 following the completion of the expansion to 400 mmcf/d with Advantage achieving a new record production level.

Sales and adjusted funds flow were strong during early 2017 in conjunction with continued production growth, low cash costs and gains realized from our commodity risk management program. Sales and adjusted funds flow were weaker in the second half of 2017 as operational achievements were offset by a decline in natural gas prices. As commodity prices strengthened in the first quarter of 2018, both sales and adjusted funds flow recovered briefly but was subsequently followed by weak natural gas prices in the second quarter of 2018, associated with NGTL system maintenance, resulting in a considerable reduction in both sales and adjusted funds flow. Both sales and adjusted funds flow improved during the third and fourth quarters of 2018 largely as a result of higher production, especially increased liquids production with stronger realized prices. From early 2017 to the end of 2018, 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.

Although Advantage has generally reported net income, the net losses reported in the second and third quarters of 2018 were primarily due to the recognition of unrealized derivative losses that are non-cash and can fluctuate greatly between periods from changes to the estimated value to settle outstanding contracts (see “Commodity Price Risk Management and Market Diversification”). Net income generated through 2017, the first quarter of 2018 and the fourth quarter of 2018 has been attributable to increased production with strong adjusted funds flow as well as the recognition of unrealized derivative gains resulting from an increase in the fair value of our outstanding derivative contracts (see “Commodity Price Risk Management and Market Diversification”). Despite periods of weak Alberta natural gas prices, Advantage has maintained a strong balance sheet. Advantage’s production growth, low cash costs, strong capital efficiencies and commodity risk management program have achieved long-term profitability despite the natural gas price volatility.

### **Critical Accounting Estimates**

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

Management relies on the estimate of reserves as prepared by the Corporation’s independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates. The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact natural gas and liquids prices, operating expense, royalty burden changes, and future development costs. Reserve estimates impact net income and comprehensive income through depreciation and impairment of natural gas and liquids properties. The reserve estimates are also used to assess the borrowing base for the Corporation’s Credit Facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on asset values, net income, comprehensive income and the borrowing base of the Corporation.

Management has determined there to be a single cash-generating unit (“CGU”), the Glacier Area, on the basis of its ability to generate independent cash flows, similar reserve characteristics, geographical location, and shared infrastructure, namely a single processing plant owned by Advantage. For purposes of assessment of impairment, Management has allocated all exploration and evaluation assets to the Glacier Area CGU, on the basis of their geographic proximity.

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 and comprehensive income.

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

### **Changes in Accounting Policies**

During the year ended December 31, 2018, the Corporation adopted IFRS 9 and IFRS 15. Additional information regarding the adoption of the standards and their impact can be found in the Consolidated Financial Statements for the year ended December 31, 2018.

## **Accounting Pronouncements not yet Adopted**

IFRS 16 Leases applies to annual periods beginning on or after January 1, 2019. Under IFRS 16, lease assets and liabilities will be required to be recognized on the balance sheet for many leases, where the entity is acting as a lessee. The Corporation intends to adopt IFRS 16 using the modified retrospective method. Under this method, comparative asset and liability balances will not be restated as any cumulative effect of applying the standard to prior periods would be adjusted in opening retained earnings. The value of the lease liability at January 1, 2019 will be based on the present value of lease payments remaining to be made as of January 1, 2019 and the lease asset recognized will be equal to the lease liability at the date of transition. The Corporation intends to apply the following adoption expedients:

- (i) Exemption of short-term leases. A lease is considered to be short term if, at its commencement date, it has a term of 12 months or less.
- (ii) Exemption of low-value leases. A lease is considered to be low value if the value of its underlying asset(s), when new, is equal to US \$5,000 or less.
- (iii) Application of IFRS 16 to a portfolio of leases with similar characteristics.

The Corporation has identified leases and arrangements qualifying as leases under IFRS 16 in which the Corporation is currently a party and which will be subject to the recognition requirements of IFRS 16. The Corporation anticipates the value of lease assets and equivalent lease liabilities to be recognized upon adoption of IFRS 16 to be between \$2.5 million and \$3.5 million.

## **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, 2018. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of the end of the year, in all material respects.

## **Evaluation of Internal Controls Over Financial Reporting**

Advantage's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR"). They have as at the financial year end December 31, 2018, 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, 2018. 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, 2018 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", "adjusted funds flow", "operating netback", "total debt", and "net sales of natural gas purchased from third parties", which should not be considered as alternatives to, or more meaningful than "net income", "comprehensive income", "cash provided by operating activities", "cash used in investing activities", or individual expenses presented within the consolidated statement of comprehensive income 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 the section "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.

#### *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 or paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production, highly variable and discretionary. Please see the section "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 Per Share*

Adjusted funds flow per share is comprised of adjusted funds flow described above, over the Corporation's total outstanding common shares. Please see the section "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.

#### *Total Debt*

Total debt is comprised of bank indebtedness and working capital deficit. Total 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 the section "Liquidity and Capital Resources".

#### *Operating Netback*

Operating netback is comprised of sales revenue, realized gains 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 the section "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 “mcf” or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or mcf conversion ratio of six thousand cubic feet of natural gas equivalent to one barrel of oil (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

### **Forward-Looking Information 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 included in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus; Corporation's focus on liquids-rich development; the Corporation's hedging activities; terms of the Corporation's derivative contracts, including the timing of settlement of such contracts; effect of fluctuations in commodity prices as compared to valuation assumptions on actual gains or losses realized on cash settlement of derivatives; expectation that carbon tax will be less in subsequent years and the Corporation will benefit from the new methodology going forward; variation of liquids transportation expense and reasons therefor; estimated tax pools; variation in Corporation's non-cash working capital and reasons therefor; 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 belief that it is well positioned to successfully execute its multi-year development plan; 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 benefits to be derived by the Corporation over the next number of years from the expanded and newly constructed facilities; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; the Corporation's drilling and completion plans; the status of stakeholder communications, regulatory approvals and commencing construction, of the compressor/liquid handling hub and associated gathering system at Wembley; the benefits to be derived from the compressor and liquids handling facility at Valhalla; expected 2019 net capital expenditures; the estimated amount of planned investment in the first quarter of 2019 and the results therefrom; timing to review remainder of investment in 2019; ability to defer some capital projects in 2019; 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 completion of the Corporation's facility installation at Valhalla and Wembley; 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](http://www.sedar.com) and [www.advantageog.com](http://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 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.

References in this MD&A to production test rates are useful in confirming the presence of hydrocarbons, however such rates are not determinative of the rates at which such wells will commence production and decline thereafter and are not indicative of long-term performance or of ultimate recovery. Additionally, such rates may also include recovered "load oil" fluids used in well completion stimulation. While encouraging, readers are cautioned not to place reliance on such rates in calculating the aggregate production for Advantage. A pressure-transient analysis or well-test interpretation has not been carried out in respect of all wells. Accordingly, the Corporation cautions that the test results should be considered preliminary.

### **Additional Information**

Additional information relating to Advantage can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and the Corporation's website at [www.advantageog.com](http://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 28, 2019