2018 Annual Report

Financial and Operating Highlights

Financial Highlights ($000, except as otherwise indicated)	Three months ended December 31 2018	2017	Year ended December 31 2018	2017
Financial Statement Highlights				
Sales including realized hedging [3]	**$ 73,979**	$ 65,779	**$ 250,604**	$ 259,611
Net income and comprehensive income	**$ 25,162**	$ 21,425	**$ 11,119**	$ 95,039
per basic share [2]	**$ 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
Other Financial Highlights				
Adjusted funds flow [1]	**$ 46,301**	$ 43,883	**$ 150,378**	$ 183,202
per mcfe	**$ 1.84**	$ 1.94	**$ 1.65**	$ 2.13
per basic share [2]	**$ 0.25**	$ 0.24	**$ 0.81**	$ 0.99
Net capital expenditures [1]	**$ 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 [1]	**$ 272,830**	$ 222,786	**$ 272,830**	$ 222,786
Operating				
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 ($/mcf) [3]	**$ 2.70**	$ 2.69	**$ 2.47**	$ 2.82
Liquids ($/bbl)	**$ 49.23**	$ 60.48	**$ 62.12**	$ 54.28
Operating Netback ($/mcfe)				
Sales of natural gas and liquids from production	**$ 2.81**	$ 2.38	**$ 2.44**	$ 2.69
Net sales of natural gas purchased from third parties [1]	**-**	-	**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 [1]	**$ 2.04**	$ 2.08	**$ 1.87**	$ 2.29

(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.

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MESSAGE TO SHAREHOLDERS

Liquids Growth, Market Diversification & Operational Excellence

Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce its 2018 results, culminating in increased liquids development, successful revenue diversification, and operational excellence. These accomplishments, combined with an emphasis on capital and financial discipline, will continue to strengthen the Corporation's solid business and advance its multi-year liquids development plan.

Highlights from our 2018 accomplishments include:

- Record annual production of 41,651 boe/d including a 22% increase in liquids;
- $59 million gain through marketing diversification initiatives;
- Low operating expenses of $1.80/boe;
- Year-end total debt[(a)] to adjusted funds flow[(a)] ratio of 1.8;
- 3 year capital efficiency[(a)] of $13,400/boe/d;
- Increased Montney holdings by acquiring 17 net sections (10,880 acres) of complimentary lands for $2 million resulting in total land ownership of 206 net sections (131,840 acres);
- 30% improvement in the liquids-rich Montney productivity per well through frac design enhancements;
- Completed Glacier plant expansion and new Valhalla liquids hub to accommodate liquids development strategy;
- Increased CO_2e sequestration credits by 59% to 90,500 tonnes; and
- Participated in several industry advocacy initiatives and continued to explore marketing opportunities.

We are proud of our Team's 2018 achievements and thank Advantage's Board of Directors and our shareholders for their support. We look forward to reporting on our progress as our Team continues to advance Advantage's multi-year liquids development plan.

2018 Operating and Financial Results Summary

- Record annual and fourth quarter production of 41,651 boe/d (249.9 mmcfe/d) and 45,686 boe/d (274.1 mmcfe/d), respectively, representing increases of 6% and 12% compared to the same periods of 2017.
- Annual liquids production increased 22% to 1,491 bbls/d and generated a 40% increase in liquids revenue over 2017.
- Achieved low annual 2018 costs including royalty costs of $0.18/boe, operating costs of $1.80/boe, transportation expenses of $3.36/boe, general and administrative costs of $0.60/boe and finance costs of $0.72/boe.
- Annual 2018 cash provided by operating activities of $160 million and adjusted funds flow[(a)] of $150 million was supported by $59 million market diversification gains (includes realized gains on derivatives and revenue less transportation realized from physical sales arrangements involving

markets outside of AECO). Advantage's revenue exposure to AECO daily prices was 22% in 2018 and is anticipated to be 20% in 2019.

- Year-end total debt[(a)] was $273 million resulting in a total debt[(a)] to adjusted funds flow[(a)] ratio of 1.8 and an undrawn bank credit facility of $120 million.

Strengthened Market Diversification and Hedging

On November 1, 2018, Advantage began receiving Midwest U.S. prices on 20,000 mcf/d, increasing to 40,000 mcf/d in April 2019. This arrangement complements our Dawn, Ontario market where we delivered 52,700 mcf/d in 2018.

For 2019, Advantage has fixed price hedges on 45% of our estimated natural gas production at an average price of Cdn $2.46/mcf, with 29% of production remaining exposed to AECO. In the summer when prices are anticipated to be more volatile, 52% of estimated natural gas production is hedged at an average price of Cdn $2.13/mcf, with only 19% of production remaining exposed to AECO.

Looking Forward

As previously communicated (see Advantage press release February 11, 2019) the Corporation's 2019 net capital expenditures[(a)] guidance range was reduced to $185 to $215 million from $210 to $240 million as a result of accelerated spending. Our 2019 production guidance range remains between 43,500 and 46,500 boe/d (261 and 279 mmcfe/d).

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. Liquids production is forecast to begin increasing through the second quarter as we tie-in new wells at east Glacier and Valhalla. Production from our Pipestone/Wembley asset is targeted to be brought on-stream during the third quarter when third party processing capacity is available.

Investment for the remainder of 2019 will be reviewed during the second quarter of 2019. The Corporation has identified capital projects of up to $100 million which could be deferred from our 2019 plan with minimal 2019 production impact. 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.

(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, 2018 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 28, 2019 and is available at www.advantageog.com and www.sedar.com.

Highlights – Gross Working Interest Reserves

	December 31, 2018	December 31, 2017
Proved plus probable reserves (mboe)	432,186	413,819
Net Present Value of future net revenue of 2P reserves discounted at 10%, before tax ($000)[1]	$ 2,169,187	$ 2,549,991
Net Asset Value per Share discounted at 10%, before tax[2]	$ 10.54	$ 12.91
Reserve Life Index (proved plus probable - years)[3]	25.9	27.7
Reserves per Share (proved plus probable - boe)[2]	2.32	2.23
Bank debt per boe of reserves (proved plus probable)	$ 0.63	$ 0.50

(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 185.942 million Shares outstanding at December 31, 2018 and 185.963 million at December 31, 2017.

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

Corporation Gross (before royalties) Working Interest Reserves
Summary as at December 31, 2018

	Light & Medium Crude Oil (mbbl)	Conventional Natural Gas (mmcf)	Natural Gas Liquids (mbbl)	Total Oil Equivalent (mboe)
Proved				
Developed Producing	-	490,850	5,974	87,782
Developed Non-producing	266	52,097	871	9,821
Undeveloped	2,745	1,234,075	19,038	227,462
Total Proved	**3,011**	**1,777,022**	**25,884**	**325,065**
Probable	1,393	583,135	8,539	107,121
Total Proved + Probable	**4,404**	**2,360,157**	**34,423**	**432,186**

(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)] ($000)

	Before Income Taxes Discounted at		
	0%	10%	15%
Proved			
Developed Producing	$ 1,206,385	$ 778,999	$ 653,677
Developed Non-producing	167,849	86,014	68,431
Undeveloped	2,712,159	652,328	336,103
Total Proved	**4,086,393**	**1,517,341**	**1,058,212**
Probable	2,044,535	651,846	441,686
Total Proved Plus Probable	$ **6,130,928**	$ **2,169,187**	$ **1,499,898**

(1) Advantage's light crude oil and medium crude oil, conventional natural gas and NGL reserves were evaluated using Sproule's product price forecast effective December 31, 2018 prior to interests, debt service charges and general and administrative expenses. It should not be assumed that the future net revenue estimated by Sproule represents the fair market value of the reserves.

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

(3) Future net revenue incorporates management's estimates of required abandonment and reclamation costs, including expected timing such costs will be incurred, associated with all wells (including undrilled wells that have been attributed reserves), facilities and infrastructure. No abandonment and reclamation costs have been excluded.

(4) Tables may not add due to rounding

Sproule Price Forecasts

The net present value of future net revenue at December 31, 2018 was based upon oil, natural gas and natural gas liquids pricing assumptions prepared by Sproule effective December 31, 2018. 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	Canadian Light Sweet Crude 40o API ($Cdn/bbl)	Alberta AECO-C Natural Gas ($Cdn/mmbtu)	Henry Hub Natural Gas ($US/mmbtu)	Edmonton Propane ($Cdn/bbl)	Edmonton Butane ($Cdn/bbl)	Edmonton Pentanes Plus ($Cdn/bbl)	Exchange Rate ($US/$Cdn)
2019	75.27	1.95	3.00	30.27	40.91	75.32	0.77
2020	77.89	2.44	3.25	34.51	50.25	80.00	0.80
2021	82.25	3.00	3.50	38.15	56.88	83.75	0.80
2022	84.79	3.21	3.57	39.64	58.01	85.50	0.80
2023	87.39	3.30	3.64	40.62	59.17	87.29	0.80
2024	89.14	3.39	3.71	41.62	60.36	89.11	0.80
2025	90.92	3.49	3.79	42.64	61.56	90.96	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, 2017	$ 36.14	$ 12.91	$ 8.82
Present value proved and probable reserves	$ 6,130,928	$ 2,169,187	$ 1,499,898
Undeveloped land[2]	22,613	22,613	22,613
Working capital and other[3]	39,708	39,708	39,708
Bank debt	(270,918)	(270,918)	(270,918)
Net asset value - December 31, 2018	5,922,331	1,960,590	1,291,301
Net asset value per Share [1] - December 31, 2018	$ 31.85	$ 10.54	$ 6.94

(1) Based on 185.942 million Shares outstanding at December 31, 2018 and 185.963 million at December 31, 2017.

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

(3) 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 [1]

Proved	Light & Medium Crude Oil (mbbl)	Conventional Natural Gas (mmcf)	Natural Gas Liquids (mbbl)	Total Oil Equivalent (mboe)
Opening balance December 31, 2017	4	1,698,002	23,057	306,062
Extensions	3,011	37,170	1,956	11,162
Infill Drilling	-	66,715	1,304	12,423
Improved recovery	-	-	-	-
Technical revisions	(4)	85,997	287	14,616
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Economic factors	-	(22,907)	(176)	(3,994)
Production	-	(87,955)	(544)	(15,204)
Closing balance at December 31, 2018	3,011	1,777,022	25,884	325,065

Corporation Gross (before royalties) Working Interest Reserves Reconciliation (continued)

Proved Plus Probable	Light & Medium Crude Oil (mbbl)	Conventional Natural Gas (mmcf)	Natural Gas Liquids (mbbl)	Total Oil Equivalent (mboe)
Opening balance December 31, 2017	6	2,292,273	31,768	413,819
Extensions	4,404	51,000	2,755	15,659
Infill Drilling	-	85,127	1,644	15,832
Improved recovery	-	-	-	-
Technical revisions	(5)	47,473	(1,009)	6,897
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Economic factors	-	(27,761)	(191)	(4,817)
Production	-	(87,955)	(544)	(15,204)
Closing balance at December 31, 2018	4,404	2,360,157	34,423	432,186

(1) Technical revisions accounted for 43% of the total proved reserve additions and 21% of the total proved plus probable reserve additions. Percentage of each category calculated by dividing the technical revisions in the category by the total reserve additions in the same category before production. The technical revisions were a result of stronger well performance than forecasted in the prior year and reserve category changes. Extensions and infill drilling changes were the result of wells drilled in 2018 and economic factor changes were primarily related to lower forecasted prices for natural gas and associated liquids.

(2) Tables may not add due to rounding

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

Corporation 2018 F&D Cost – Gross (before royalties) Working Interest Reserves Including Future Development Capital(1)(2)(3)

	Proved	Proved Plus Probable
Capital expenditures ($000)	$ 203,834	$ 203,834
Net change in Future Development Capital ($000)	81,206	66,049
Total capital ($000)	285,040	269,883
Total mboe, end of year	325,065	432,186
Total mboe, beginning of year	306,062	413,819
Production, mboe	15,204	15,204
Reserve additions, mboe	34,207	33,571
2018 F&D cost ($/boe)	$ 8.33	$ 8.04
2017 F&D cost ($/boe)	$ 5.88	$ 5.01
Three-year average F&D cost ($/boe)	$ 4.88	$ 3.88

(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.

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.

Financial Highlights ($000, except as otherwise indicated)	Three months ended December 31 2018	 2017	Year ended December 31 2018	 2017
Financial Statement Highlights				
Sales including realized hedging [3]	**$ 73,979**	$ 65,779	**$ 250,604**	$ 259,611
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per basic share [2]	**$ 0.14**	$ 0.12	**$ 0.06**	$ 0.51
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Basic weighted average shares (000)	**185,942**	185,963	**186,040**	185,641
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per mcfe	**$ 1.84**	$ 1.94	**$ 1.65**	$ 2.13
per basic share [2]	**$ 0.25**	$ 0.24	**$ 0.81**	$ 0.99
Net capital expenditures [1]	**$ 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 [1]	**$ 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 December 31 **2018**	**2017**	Year ended December 31 **2018**	**2017**
Operating				
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 ($/mcf) (2)	**$ 2.70**	$ 2.69	**$ 2.47**	$ 2.82
Liquids ($/bbl)	**$ 49.23**	$ 60.48	**$ 62.12**	$ 54.28
Operating Netback ($/mcfe)				
Sales of natural gas and liquids from production	**$ 2.81**	$ 2.38	**$ 2.44**	$ 2.69
Net sales of natural gas purchased from third parties (1)	**-**	-	**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 (1)	**$ 2.04**	$ 2.08	**$ 1.87**	$ 2.29

(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 2018	2017	% change	Year ended December 31 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 %
Total [1]	**$ 73,979**	**$ 65,779**	**12 %**	**$ 250,604**	**$ 259,611**	**(3) %**

[1] 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 December 31 2018	2017	% change	Year ended December 31 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 %
Total - mcfe/d	**274,113**	**245,142**	**12 %**	**249,905**	**235,891**	**6 %**
- boe/d	**45,686**	**40,857**	**12 %**	**41,651**	**39,315**	**6 %**
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 December 31					Year ended December 31				
		2018		2017	% change		2018		2017	% change
Average Realized Prices										
Natural gas, excluding hedging ($/mcf)[1]	$	2.57	$	2.15	20 %	$	2.14	$	2.49	(14) %
Natural gas, including hedging ($/mcf)[1]	$	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 %
Benchmark Prices										
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	- %

(1) 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:

	January 1 to December 31, 2018		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Production
Fixed Price			
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%
Variable Price			
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%
Total Natural Gas	241.0		100%

(1) 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:

	January 1 to December 31, 2019		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	89.0	$2.10/mcf	35%
Dawn fixed price swaps	22.9	US$2.94/mcf	9%
	111.9		44%
Variable Price			
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%
Total Natural Gas [2]	252.0		100%

(1) All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu
(2) 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 2018		Three months ended December 31 2017		Year ended December 31 2018		Year ended December 31 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
Gains on derivatives	**$**	**25,843**	**$**	**29,202**	**$ 19,130**	**$**	**101,152**

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 2018	Three months ended December 31 2017	Year ended December 31 2018	Year ended December 31 2017
Sales of natural gas purchased from third parties	$ -	$ -	$ 5,078	$ -
Natural gas purchased from third parties	-	-	(3,967)	-
Net sales of natural gas purchased from third parties	**$ -**	**$ -**	**$ 1,111**	**$ -**

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 2018	Three months ended December 31 2017	% change	Year ended December 31 2018	Year ended December 31 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 December 31			Year ended December 31		
	2018	2017	% change	2018	2017	% change
Operating expense ($000)	$ 7,262	$ 5,967	22 %	$ 27,593	$ 21,729	27 %
per mcfe	$ 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 mcfe for the three months and year ended December 31, 2018 was $0.29 and $0.30, respectively. The higher operating costs per mcfe 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 December 31			Year ended 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 mcfe	$ 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 December 31				Year ended 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 [1]	-	-	-	-	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)
Operating netback [1]	**$ 51,713**	**$ 2.04**	**$ 46,887**	**$ 2.08**	**$ 170,845**	**$ 1.87**	**$ 196,978**	**$ 2.29**

(1) 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 December 31			Year ended 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 December 31			Year ended 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 December 31			Year ended 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	- %
Total finance expense ($000)	**$ 3,399**	**$ 2,191**	**55 %**	**$ 11,952**	**$ 7,882**	**52 %**
per mcfe	**$ 0.14**	**$ 0.10**	**40 %**	**$ 0.13**	**$ 0.09**	**44 %**

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 December 31			Year ended 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 December 31			Year ended 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
	$ 1,488

Net Income and Comprehensive Income

	Three months ended December 31			Year ended 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

	Three months ended December 31		Year ended December 31	
($000, except as otherwise indicated)	**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 [(1)]	(3,163)	(1,968)	(10,922)	(6,931)
Adjusted funds flow [(2)]	**$ 46,301**	**$ 43,883**	**$ 150,378**	**$ 183,202**
Adjusted funds flow per share [(2)]	$ 0.25	$ 0.24	$ 0.81	$ 0.99

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

(2) 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.

		Payments due by period						
($ millions)		**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 [(1)]	- principal	273.0	-	273.0	-	-	-	-
	- interest	17.2	11.6	5.6	-	-	-	-
Total contractual obligations		**$ 667.5**	**$ 61.8**	**$ 328.6**	**$ 48.9**	**$ 47.6**	**$ 41.1**	**$ 139.5**

(1) 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
Total debt [(1)]	**$ 272,830**	**$ 222,786**
Shares outstanding	185,942,141	185,963,186
Shares closing market price ($/share)	$ 1.98	$ 5.40
Market capitalization	**$ 368,165**	**$ 1,004,201**
Total capitalization	**$ 640,995**	**$ 1,226,987**
Total debt to adjusted funds flow [(2)]	**1.8**	**1.2**

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

(2) 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 December 31 2018	Three months ended December 31 2017	Year ended December 31 2018	Year ended December 31 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
Net capital expenditures (1)(2)	**$ 52,000**	**$ 73,723**	**$ 203,834**	**$ 248,774**
Changes in non-cash working capital	(464)	661	12,648	(17,098)
Capitalized non-cash stock-based compensation	(813)	(791)	(2,748)	(3,245)
Cash used in investing activities	**$ 50,723**	**$ 73,593**	**$ 213,734**	**$ 228,431**

(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) [1]	$	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) [2]	$	270,918	$	208,978	$	153,102

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

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

Quarterly Performance

($000, except as otherwise indicated)	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1
Daily production								
Natural gas (mcf/d)	262,269	262,841	205,712	232,456	237,780	219,812	225,844	230,906
Liquids (bbls/d)	1,974	1,804	1,067	1,105	1,227	1,395	1,098	1,151
Total (mcfe/d)	274,113	273,665	212,114	239,086	245,142	228,182	232,432	237,812
Total (boe/d)	45,686	45,611	35,352	39,848	40,857	38,030	38,739	39,635
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 2.57	$ 1.85	$ 1.63	$ 2.46	$ 2.15	$ 1.84	$ 2.98	$ 2.99
Including realized hedging (2)	$ 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 (1)(2)	$ 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 activites	$ 44,790	$ 30,786	$ 23,681	$ 60,905	$ 29,848	$ 56,661	$ 44,382	$ 55,510
Adjusted funds flow (3)	$ 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 descried 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 "mcfe" or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or mcfe conversion ratio of six thousand cubic feet of natural gas equivalent to one barrel of oil (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Forward-Looking Information 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 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 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 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 28, 2019

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, 2018 and 2017, 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 statement of financial position as at December 31, 2018 and 2017;
- the consolidated statement of comprehensive income for the years then ended;
- the consolidated statement of changes in shareholders' equity for the years then ended;
- the consolidated statement 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.

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 28, 2019

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

(thousands of Canadian dollars)	Notes		December 31, 2018		December 31, 2017
ASSETS					
Current assets					
Cash and cash equivalents	5	$	6,359	$	6,916
Trade and other receivables	6		28,350		28,678
Prepaid expenses and deposits			2,178		1,602
Derivative asset	9		29,593		33,093
Total current assets			**66,480**		**70,289**
Non-current assets					
Derivative asset	9		12,943		17,777
Exploration and evaluation assets	7		22,613		22,143
Property, plant and equipment	8		1,669,161		1,580,973
Total non-current assets			**1,704,717**		**1,620,893**
Total assets		**$**	**1,771,197**	**$**	**1,691,182**
LIABILITIES					
Current liabilities					
Trade and other accrued liabilities		$	38,799	$	51,004
Derivative liability	9		94		111
Total current liabilities			**38,893**		**51,115**
Non-current liabilities					
Derivative liability	9		822		-
Bank indebtedness	10		270,918		208,978
Decommissioning liability	11		50,028		46,913
Deferred income tax liability	12		78,341		72,500
Total non-current liabilities			**400,109**		**328,391**
Total liabilities			**439,002**		**379,506**
SHAREHOLDERS' EQUITY					
Share capital	13		2,342,689		2,340,801
Contributed surplus			115,574		110,077
Deficit			(1,126,068)		(1,139,202)
Total shareholders' equity			**1,332,195**		**1,311,676**
Total liabilities and shareholders' equity		**$**	**1,771,197**	**$**	**1,691,182**

Commitments (note 22)

See accompanying Notes to the Consolidated Financial Statements

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

Paul G. Haggis, Director

Andy J. Mah, Director

Consolidated Statement of Comprehensive Income

(thousands of Canadian dollars, except for per share amounts)	Notes	Year ended December 31 2018	2017
Revenues			
Sales of natural gas and liquids from production	16	$ 222,335	$ 231,764
Sales of natural gas purchased from third parties	17	5,078	-
Royalty expense		(2,583)	(6,387)
Natural gas and liquids revenue		224,830	225,377
Gains on derivatives	9	19,130	101,152
Other income		188	320
Total revenues and other income		**244,148**	**326,849**
Expenses			
Operating expense		(27,593)	(21,729)
Transportation expense		(50,694)	(34,517)
Natural gas purchased from third parties	17	(3,967)	-
General and administrative expense	18	(8,873)	(7,165)
Share based compensation	15	(5,162)	(5,119)
Depreciation expense	8	(119,042)	(117,945)
Exploration and evaluation expense	7	-	(168)
Finance expense	19	(11,952)	(7,882)
Gains on foreign exchange		95	-
Total expenses		**(227,188)**	**(194,525)**
Income before taxes		**16,960**	**132,324**
Income tax expense	12	(5,841)	(37,285)
Net income and comprehensive income		**$ 11,119**	**$ 95,039**
Net income per share	14		
Basic		**$ 0.06**	**$ 0.51**
Diluted		**$ 0.06**	**$ 0.50**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

(thousands of Canadian dollars)	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	15	-	8,208	-	**8,208**
Settlement of Performance Awards	13, 15(b)	1,906	(2,711)	-	**(805)**
Proceeds on share cancellations	13	-	-	2,015	**2,015**
Share repurchases	13	(18)	-	-	**(18)**
Balance, December 31, 2018		**$ 2,342,689**	**$ 115,574**	**$ (1,126,068)**	**$ 1,332,195**

(thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2016		$ 2,334,199	$ 108,315	$ (1,234,241)	**$ 1,208,273**
Net income and comprehensive income		-	-	95,039	**95,039**
Share based compensation	15	-	8,364	-	**8,364**
Settlement of Performance Awards	13, 15(b)	5,374	(5,374)	-	**-**
Exercise of Stock Options	13, 15(a)	1,228	(1,228)	-	**-**
Balance, December 31, 2017		**$ 2,340,801**	**$ 110,077**	**$ (1,139,202)**	**$ 1,311,676**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Notes	Year ended December 31 2018	2017
Operating Activities			
Income before taxes		$ 16,960	$ 132,324
Add (deduct) items not requiring cash:			
Share based compensation	15	5,162	5,119
Exploration and evaluation expense	7	-	168
Depreciation expense	8	119,042	117,945
Unrealized (gains) losses on derivatives	9	9,139	(73,305)
Unrealized gains on foreign exchange		(449)	-
Finance expense	19	11,952	7,882
Settlement of Performance Awards	15(b)	(506)	-
Expenditures on decommissioning liability	11	(1,782)	(1,190)
Changes in non-cash working capital	21	644	(2,542)
Cash provided by operating activities		**160,162**	**186,401**
Financing Activities			
Increase in bank indebtedness	10	62,999	56,189
Interest paid		(11,981)	(7,244)
Proceeds on share cancellations	13	2,015	-
Share repurchases	13	(18)	-
Cash provided by financing activities		**53,015**	**48,945**
Investing Activities			
Payments on property, plant and equipment	8, 21	(211,637)	(221,223)
Payments on exploration and evaluation assets	7	(2,097)	(7,207)
Cash used in investing activities		**(213,734)**	**(228,430)**
Net change in cash and cash equivalents		(557)	6,916
Cash and cash equivalents, beginning of year		6,916	-
Cash and cash equivalents, end of year		**$ 6,359**	**$ 6,916**

See accompanying Notes to the Consolidated Financial Statements

(thousands of Canadian dollars except as otherwise indicated)

1. Business and structure of Advantage Oil & Gas Ltd.

Advantage Oil & Gas Ltd. and its subsidiaries (together "Advantage" or the "Corporation") is an intermediate natural gas and liquids development and production corporation with a significant position in the Montney resource play located in Western Canada.

Advantage is domiciled and incorporated in Canada under the Business Corporations Act (Alberta). Advantage's head office address is 300, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation's 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").

The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of February 28, 2019, the date the Board of Directors approved the statements.

(b) Basis of measurement

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

The methods used to measure fair values of derivative instruments are discussed in note 9.

(c) Functional and presentation currency

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

3. Significant accounting policies

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

3. Significant accounting policies (continued)

(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.

(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

The Corporation adopted IFRS 9, *Financial Instruments,* effective January 1, 2018 and the standard was applied retrospectively. Comparative figures have not been restated, in accordance with transitional provisions. The Corporation's consolidated financial statements were substantially unchanged by the adoption of IFRS 9.

On January 1, 2018, the Corporation determined the appropriate classification category and measurement for each of its financial assets and financial liabilities under IFRS 9 and compared each to their original classification and measurement under IAS 39. Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income or fair value through profit and loss. No adjustments were made to the carrying amounts of financial instruments as a result of the adoption of IFRS 9.

<u>Accounting policy prior to the adoption of IFRS 9</u>

All financial instruments are initially recognized at fair value on the Consolidated Statement of Financial Position. Measurement of financial instruments subsequent to the initial recognition, as well as resulting gains and losses, is based on how each financial instrument was initially classified. The Corporation has classified each identified financial instrument into the following categories: fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, and financial assets and liabilities at amortized cost. Fair value through profit or loss financial instruments are measured at fair value with gains and losses recognized in income immediately. Available for sale financial assets are measured at fair value with gains and losses, other than impairment losses, recognized in other comprehensive income and transferred to income when the asset is derecognized. Loans and receivables, held to maturity investments and financial assets and liabilities at amortized cost, are recognized at amortized cost using the effective interest method and impairment losses are recorded in income when incurred.

Derivative instruments executed by the Corporation to manage market risk associated with volatile commodity prices are classified as fair value through profit or loss and recorded on the Consolidated Statement of Financial Position 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 in the period they occur. Gains and losses on derivative instruments are comprised of cash receipts and payments associated with periodic settlement that occurs over the life of the instrument, and non-cash gains and losses associated with changes in the fair values of the instruments, which are remeasured at each reporting date and recorded on the Consolidated Statement of Financial Position.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

Accounting policy after the adoption of IFRS 9

Financial instruments are classified as amortized cost, fair value through other comprehensive income or fair value through profit and loss. A comparison of the Corporation's classification of each identified financial instrument under IAS 39 and IFRS 9 is provided below:

Financial Instrument	Measurement Category (IAS 39)	Measurement Category (IFRS 9)
Cash and cash equivalents	Loans and receivables (measured at amortized cost)	Amortized cost
Trade and other receivables	Loans and receivables (measured at amortized cost)	Amortized cost
Prepaid expenses and deposits	Loans and receivables (measured at amortized cost)	Amortized cost
Derivative asset	Fair value through profit and loss	Fair value through profit and loss
Trade and other accrued liabilities	Financial liabilities (measured at amortized cost)	Amortized cost
Derivative liability	Fair value through profit and loss	Fair value through profit and loss
Bank indebtedness	Financial liabilities (measured at amortized cost)	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 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

IFRS 9 requires the application of an expected credit loss ("ECL") model to financial assets measured at amortized cost, contract assets and debt investments measured at fair value through other comprehensive income. For the Corporation's financial assets measured at amortized cost, loss allowances are determined based on the expected credit loss 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. Substantially all of the Corporation's trade and other receivables are with counterparties with high credit ratings. At December 31, 2018, the average expected credit loss for trade and other receivables was 0.03% and no expected credit loss was recognized.

3. Significant accounting policies (continued)

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

(i) Recognition and measurement

Exploration and evaluation costs

Pre-license costs are recognized in the Consolidated Statement of Comprehensive Income 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.

Property, plant and equipment

Items of property, plant and equipment, which include natural gas and liquids properties, are measured at cost less accumulated depreciation and accumulated impairment losses. Costs include lease acquisition, drilling and completion, production facilities, decommissioning costs, geological and geophysical costs and directly attributable general and administrative costs 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 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 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.

(v) Impairment

The carrying amounts of the Corporation's property, plant and equipment are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For the purpose of impairment testing of property, plant and equipment, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU").

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability, and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets are allocated to CGU's or groups of CGU's for the purposes of assessing such assets for impairment.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposition. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proved and probable reserves. Fair value less costs of disposition is assessed utilizing market valuation based on an arm's length transaction between active participants. In the absence of any such transactions, fair value less costs of disposition is estimated by discounting the expected after-tax cash flows of the CGU at an after-tax discount rate that reflects the risk of the properties in the CGU. The discounted cash flow calculation is then increased by a tax-shield calculation, which is an estimate of the amount that a prospective buyer of the cash generating unit would be entitled. The carrying value of the CGU 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 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.

3. Significant accounting policies (continued)

(d) 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.

(e) Share based compensation

Advantage accounts for share based compensation expense based on the fair value of rights granted under its share based compensation plans.

Advantage's Stock Option Plan ("Stock Option Plan") authorizes the Board of Directors to grant Stock Options to service providers, including directors, officers, employees and consultants of Advantage. Compensation 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 for service providers. Awards granted under this plan 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".

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

(f) Revenue

IFRS 15, Revenue from Contracts with Customers

Adoption

The Corporation adopted IFRS 15, *Revenue from contracts with customers*, effective January 1, 2018 and the standard was adopted using the Modified Retrospective approach. The Corporation elected to apply IFRS 15 retrospectively only to contracts that were not completed as at January 1, 2018 and, for modified contracts, elected to evaluate the original contract together with any contract modifications at the date of initial application. The Corporation's revenue recognition was substantially unchanged by the adoption of IFRS 15 and did not result in an adjustment to the Deficit balance at January 1, 2018.

<u>Accounting policy prior to the adoption of IFRS 15</u>

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

<u>Accounting policy after to the adoption of IFRS 15</u>

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 liquids 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)

(g) Finance expense

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

(h) 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.

(i) Net income per share

Basic net income per share is calculated by dividing the net income attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted net income per share is determined by adjusting the net income attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as Performance Awards and Stock Options granted to service providers using the treasury stock method.

(j) 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.

3. Significant accounting policies (continued)

(k) Accounting Pronouncement 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:

(iv) 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.
(v) 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.
(vi) 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.

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

Management has determined there to be a single 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.

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

(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 cash generating units are determined based on the higher of value-in-use calculations and fair values less costs of disposition. These calculations require the use of estimates and assumptions, that are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs.

(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 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.

(e) 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.

(f) 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, 2018	December 31, 2017
Cash at financial institutions	$ 6,359	$ 6,916

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at December 31, 2018, cash at financial institutions included US$1.9 million (December 31, 2017: US$0.1 million). The Corporation only deposits cash with major financial institutions of high quality credit ratings.

6. Trade and other receivables

	December 31, 2018	December 31, 2017
Trade receivables	$ 25,955	$ 25,384
Receivables from joint venture partners	524	1,425
Other	1,871	1,869
	$ 28,350	**$ 28,678**

7. Exploration and evaluation assets

Balance at December 31, 2016	**$ 16,012**
Additions	7,207
Lease expiries	(168)
Transferred to property, plant and equipment (note 8)	(908)
Balance at December 31, 2017	**$ 22,143**
Additions	2,097
Transferred to property, plant and equipment (note 8)	(1,627)
Balance at December 31, 2018	**$ 22,613**

8. Property, plant and equipment

Cost		Natural gas and liquids properties		Furniture and equipment		Total
Balance at December 31, 2016	$	**1,993,684**	$	**5,648**	$	**1,999,332**
Additions		241,449		118		241,567
Change in decommissioning liability (note 11)		6,160		-		6,160
Transferred from exploration and evaluation assets (note 7)		908		-		908
Balance at December 31, 2017	$	**2,242,201**	$	**5,766**	$	**2,247,967**
Additions		201,577		159		201,736
Change in decommissioning liability (note 11)		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**

Accumulated depreciation		Natural gas and liquids properties		Furniture and equipment		Total
Balance at December 31, 2016	$	**544,790**	$	**4,259**	$	**549,049**
Depreciation		117,643		302		117,945
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**

Net book value		Natural gas and liquids properties		Furniture and equipment		Total
At December 31, 2017	$	1,579,768	$	1,205	$	1,580,973
At December 31, 2018	**$**	**1,668,038**	**$**	**1,123**	**$**	**1,669,161**

During the year ended December 31, 2018, Advantage capitalized general and administrative expenditures directly related to development activities of $4.2 million (year ended December 31, 2017 - $4.1 million) and capitalized share based compensation directly related to development activities of $3.0 million (year ended December 31, 2017 - $3.2 million).

At December 31, 2018, Advantage included future development costs of $1.7 billion (December 31, 2017 – $1.7 billion) in property, plant and equipment costs subject to depreciation.

9. Financial risk management

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

Cash and cash equivalents, trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities and bank indebtedness are classified as 'amortized cost'. As at December 31, 2018, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

Fair value is determined following a three level hierarchy:

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

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

9. 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, 2018		December 31, 2017
Trade and other receivables	$	28,350	$	28,678
Deposits		1,299		938
Derivative asset		42,536		50,870
	$	**72,185**	**$**	**80,486**

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 Canadian oil and gas industry. As such, trade and other receivables are subject to normal industry credit risks. As at December 31, 2018, $0.2 million or 0.9% of trade and other receivables are outstanding for 90 days or more (December 31, 2017 - $0.2 million or 0.8% 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, 2018 no expected credit loss was recognized.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for $10.2 million of the trade and other receivables at December 31, 2018 (December 31, 2017 - $19.2 million).

9. Financial risk management (continued)

(b) Liquidity risk

The Corporation is subject to liquidity risk attributed from trade and other accrued liabilities and bank indebtedness. Trade and other accrued liabilities are all due within one year of the Consolidated Statement of Financial Position date and Advantage does not anticipate any problems in satisfying the obligations from cash provided by operating activities and the existing credit facilities. The Corporation's bank indebtedness is subject to $400 million credit facility agreements. Although the credit facilities are a source of liquidity risk, the facilities also 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 actually 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, 2018 and 2017 are as follows:

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**

December 31, 2017		**Less than one year**	**One to three years**	**Total**
Trade and other accrued liabilities		$ 51,004	$ -	$ 51,004
Derivative liability		111	-	111
Bank indebtedness	- principal	-	210,001	210,001
	- interest [(1)]	9,404	4,483	13,887
		$ 60,519	**$ 214,484**	**$ 275,003**

[(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 10). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in June 2019. The facilities are revolving and are extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one year term facilities, with the principal payable at the end of such one year terms. Management fully expects that the facilities will be extended at each annual review.

9. Financial risk management (continued)

(c) Price risk

Advantage's derivative assets and liabilities are subject to price risk as their fair values are based on assumptions regarding forward 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 for the year ended December 31, 2018 resulting from a 10% change to significant price assumptions is as follows:

Price Assumption	**$ millions**	
Forward AECO natural gas price	$	2.5
Forward basis differential between Henry Hub and AECO natural gas prices	$	7.7
Forward Dawn natural gas price	$	2.2

9. 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, 2018, the Corporation had the following derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas – AECO			
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to March 2019	9,478 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to December 2019	25,000 mcf/d	Cdn $2.58/mcf
Fixed price swap	November 2018 to March 2019	9,478 mcf/d	Cdn $2.64/mcf
Fixed price swap	April 2019 to October 2019	61,608 mcf/d	Cdn $1.77/mcf
Fixed price swap	April 2019 to October 2019	4,739 mcf/d	Cdn $1.28/mcf (1)
Fixed price swap	April 2019 to October 2019	18,956 mcf/d	Cdn $1.27/mcf (1)
Natural gas – Dawn			
Fixed price swap	November 2018 to March 2019	25,000 mcf/d	US $3.13/mcf
Fixed price swap	November 2018 to October 2019	20,000 mcf/d	US $2.87/mcf
Natural gas – AECO/Henry Hub Basis Differential			
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

(1) Contract entered into subsequent to December 31, 2018.

9. Financial risk management (continued)

(c) Price risk (continued)

As at December 31, 2018, the fair value of the derivatives outstanding resulted in an aggregate asset of $42.5 million (December 31, 2017 – $50.9 million) and an aggregate liability of $0.9 million (December 31, 2017 – $0.1 million). The fair value of the derivatives has been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements.

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

		Year ended December 31, 2018		Year ended December 31, 2017
Realized gains on derivatives	$	28,269	$	27,847
Unrealized gains (losses) on derivatives		(9,139)		73,305
Gains on derivatives	**$**	**19,130**	**$**	**101,152**

(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, 2018, net income and comprehensive income would have changed by $1.8 million (December 31, 2017 - $1.2 million) based on the average debt balance outstanding during the year.

9. Financial risk management (continued)

(e) Capital management

The Corporation manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including replacement of production, funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital (excluding derivative assets and liabilities), bank indebtedness, 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, 2018 and 2017 is as follows:

		December 31, 2018		December 31, 2017
Bank indebtedness (non-current) (note 10)	$	270,918	$	208,978
Working capital deficit		1,912		13,808
Total debt [(1)]	**$**	**272,830**	**$**	**222,786**
Shares outstanding (note 13)		185,942,141		185,963,186
Share closing market price ($/share)	$	1.98	$	5.40
Market capitalization		368,165		1,004,201
Total capitalization	**$**	**640,995**	**$**	**1,226,987**

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

10. Bank indebtedness

		December 31, 2018		December 31, 2017
Revolving credit facility	$	273,000	$	210,001
Discount on Bankers Acceptances and other fees		(2,082)		(1,023)
Balance, end of year	**$**	**270,918**	**$**	**208,978**

As at December 31, 2018, 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 2018, 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 June 2019 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 June of each year, with the next annual review 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. 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, 2018 and December 31, 2017. All applicable non-financial covenants were met at December 31, 2018 and 2017. 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, 2018, the average effective interest rate on the outstanding amounts under the facilities was approximately 4.3% (December 31, 2017 – 4.5%). The Corporation had letters of credit of US$5 million outstanding at December 31, 2018 (December 31, 2017 – nil).

11. 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 2019 and 2078. A risk-free rate of 2.15% (December 31, 2017 – 2.20%) and an inflation factor of 2.0% (December 31, 2017 – 2.0%) were used to calculate the fair value of the decommissioning liability at December 31, 2018. A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2018	Year ended December 31, 2017
Balance, beginning of year	$ 46,913	$ 40,992
Accretion expense	1,030	951
Property acquisitions	-	751
Liabilities incurred	1,381	2,175
Change in estimates	(760)	(2,665)
Effect of change in risk-free rate and inflation rate factor	3,246	5,899
Liabilities settled	(1,782)	(1,190)
Balance, end of year	**$ 50,028**	**$ 46,913**

12. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Current income tax expense	$ -	$ -
Deferred income tax expense	5,841	37,285
Income tax expense	**$ 5,841**	**$ 37,285**

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, 2018	Year ended December 31, 2017
Income before taxes	$ 16,960	$ 132,324
Combined federal and provincial income tax rates	27.00%	27.00%
Expected income tax expense	4,579	35,727
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	2,002	2,261
Other	(740)	(703)
	$ 5,841	$ 37,285
Effective tax rate	34.44%	28.18%

12. 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, 2016	$ 268,189	$ (6,088)	$ -	$ 262,101
Charged to income	13,522	19,793	-	33,315
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

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
Balance at December 31, 2016	$ (11,073)	$ (191,713)	$ (24,100)	$ (226,886)
Charged (credited) to income	(1,593)	5,268	295	3,970
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)

Net deferred income tax liability	
Balance at December 31, 2016	$ 35,215
Charged to income	37,285
Balance at December 31, 2017	$ 72,500
Charged to income	5,841
Balance at December 31, 2018	$ 78,341

The estimated tax pools available at December 31, 2018 are as follows:

Canadian development expenses	$ 209,754
Canadian exploration expenses	65,994
Canadian oil and gas property expenses	13,588
Non-capital losses	715,067
Undepreciated capital cost	283,587
Capital losses	157,869
Scientific research and experimental development expenditures	32,506
Other	8,382
	$ 1,486,747

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, 2017 – $158 million). Recognition is dependent on the realization of future taxable capital gains.

13. 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, 2016	184,654,333	$	2,334,199
Shares issued on Performance Award settlements (note 15(b))	825,359		-
Contributed surplus transferred on Performance Award settlements (note 15(b))	-		5,374
Shares issued on exercise of stock options (note 15(a))	483,494		-
Contributed surplus transferred on exercise of stock options (note 15(a))	-		1,228
Balance at December 31, 2017	185,963,186	$	2,340,801
Shares issued on Performance Award settlements (note 15(b))	239,791		-
Contributed surplus transferred on Performance Award settlements (note 15(b))	-		1,906
Share cancellations	(256,387)		-
Share repurchases	(4,449)		(18)
Balance at December 31, 2018	**185,942,141**	**$**	**2,342,689**

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.

14. Net income per share

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

	Year ended December 31 2018	Year ended December 31 2017
Net income		
Basic and diluted	$ 11,119	$ 95,039
Weighted average shares outstanding		
Basic	186,039,947	185,641,050
Stock Options	-	389,977
Performance Awards	4,892,004	3,545,861
Diluted	190,931,951	189,576,888
Net income per share		
Basic	$ 0.06	$ 0.51
Diluted	$ 0.06	$ 0.50

15. Share based compensation

(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, 2018:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2016	3,109,915	$ 5.75
Exercised	(1,085,681)	4.72
Forfeited	(18,377)	6.82
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**

15. Share based compensation (continued)

(a) Stock Option Plan (continued)

	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	
$5.87 - $6.81	1,110,009	0.29	$	5.87	1,110,009	$	5.87
$6.82	879,140	1.26		6.82	879,140		6.82
$5.87 - $6.82	1,989,149	0.98	$	6.29	1,989,149	$	6.29

No Stock Options were exercised during the year ended December 31, 2018.

(b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of Incentive Awards: Restricted Awards and Performance Awards. As at December 31, 2018, no Restricted Awards have been granted.
The following table is a continuity of Performance Awards:

	Performance Awards
Balance at December 31, 2016	1,327,663
Granted	723,676
Settled	(402,582)
Forfeited	(68,458)
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**

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.

Share based compensation recognized by plan for the years ended December 31, 2018 and 2017 is as follows:

	Year ended December 31			
		2018		2017
Stock Options	$	57	$	355
Performance Awards		8,151		8,009
Total share based compensation		8,208		8,364
Capitalized (note 8)		(3,046)		(3,245)
Net share based compensation expense	**$**	**5,162**	**$**	**5,119**

16. Sales of natural gas and liquids from production

Advantage's revenue is comprised of natural gas and liquids sales to multiple customers. Revenue from the transfer of natural gas and liquids volumes to customers is recognized at a point of time, when Advantage's performance obligations are fully satisfied upon transfer of these volumes to customers. For the years ended December 31, 2018 and 2017, revenue realized from natural gas and liquids sales was as follows:

	Year ended December 31	
	2018	**2017**
Natural gas sales	$ 188,528	$ 207,623
Liquids sales	33,807	24,141
Sales of natural gas and liquids from production	**$ 222,335**	**$ 231,764**

17. Sales of natural gas purchased from third parties

During the year ended December 31, 2018, the Corporation purchased natural gas volumes from third parties in order to satisfy physical sales commitments. No natural gas volumes were purchased during the year ended December 31, 2017.

	Year ended December 31	
	2018	**2017**
Sales of natural gas purchased from third parties	$ 5,078	$ -
Natural gas purchased from third parties	$ (3,967)	$ -

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

	Year ended December 31	
	2018	**2017**
Salaries, benefits and consultants	$ 9,635	$ 8,741
Office rent	1,072	1,069
Other	2,316	1,432
Total G&A	13,023	11,242
Capitalized (note 8)	(4,150)	(4,077)
General and administrative expense	**$ 8,873**	**$ 7,165**

19. Finance expense

	Year ended December 31	
	2018	**2017**
Interest on bank indebtedness (note 10)	$ 10,922	$ 6,931
Accretion of decomissioning liability (note 11)	1,030	951
Total finance expense	**$ 11,952**	**$ 7,882**

20. Related party transactions

Key management compensation

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

	December 31			
		2018		2017
Salaries, director fees and short-term benefits	$	3,283	$	2,495
Share based compensation [1]		4,600		4,300
	$	**7,883**	**$**	**6,795**

[1] Represents the grant date fair value of Performance Awards and Stock Options granted.

As at December 31, 2018, there is a commitment of $3.4 million (December 31, 2017 - $2.9 million) related to change of control or termination of employment of officers.

21. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31			
		2018		2017
Source (use) of cash:				
Trade and other receivables	$	777	$	(2,373)
Prepaid expenses and deposits		(576)		79
Trade and other accrued liabilities		(12,205)		16,850
	$	(12,004)	$	14,556
Related to operating activities	$	644	$	(2,542)
Related to financing activities		-		-
Related to investing activities		(12,648)		17,098
	$	(12,004)	$	14,556

22. Commitments

At December 31, 2018, Advantage had lease commitments relating to office buildings of $6.4 million (December 31, 2017 - $1.8 million) and transportation commitments of $370.9 million (December 31, 2017 - $384.9 million). The estimated remaining annual minimum payments are as follows:

	December 31			
		2018		2017
2018	$	-		47,327
2019		50,250		51,316
2020		49,929		49,941
2021		48,885		45,997
2022		47,628		43,885
2023		41,107		36,821
2024 and thereafter		139,472		111,418
Total commitments	**$**	**377,271**	**$**	**386,705**

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 included in this document 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 document; the benefits derived from accelerating certain well operations, market diversification and low cost structure; the capital expenditure acceleration is not anticipated to impact 2019 production guidance; the anticipated timing of when production will increase at east Glacier and Valhalla and the timing of when production from our Pipestone/Wembley assets is to be brought on-stream; Advantage’s 2019 anticipated revenue exposure to AECO daily natural gas prices; 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 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.

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

This document contains a number of oil and gas metrics, including operating netback, F&D, reserve life index and reserve replacement 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 with realized gains/losses on derivatives and subtracting royalty expense, operating expense and transportation expense. Reserve replacement is calculated by dividing reserves net volume additions by the current annual production and expressed as a percentage. 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.

References in this annual report to short-term production 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, some 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 of 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.

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”, “adjusted funds flow”, “operating netback”, “total debt”, “net sales of natural gas purchased from third parties” and “capital efficiency” 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”, “bank indebtedness” 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.

<u>Net Capital Expenditures</u>

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” in the MD&A for a reconciliation to the nearest measure calculated in accordance with GAAP, cash used in investing activities.

<u>Adjusted Funds Flow</u>

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" in the MD&A 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 descried above, over the Corporation's total outstanding common shares. Please see the section "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.

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" in the MD&A.

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" 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.

Capital Efficiency

Three-year and single year capital efficiency is calculated by dividing total capital development costs for oil and gas activities including drilling, completion, facilities, infrastructure, office and capitalized general and administrative costs (excluding abandonment and reclamation costs, exploration and evaluation costs, and acquisition and disposition related costs and proceeds) by the average production additions of the applicable year to replace base production declines and deliver production growth targets, expressed in $/boe/d. Capital efficiency is considered by management to be a useful performance measure as a common metric used to evaluate the efficiency with which capital activity is allocated to achieve production additions.

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 19, 2019

Abbreviations

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

Other

AECO	Alberta Energy Company's natural gas storage facility located at Suffield, Alberta
MM$	means millions of dollars
WTI	means West Texas Intermediate, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade

Directors

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

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

Officers

Andy J. Mah, President and CEO
Mike Belenkie, COO
Craig Blackwood, Vice President, Finance and CFO
Neil Bokenfohr, Senior Vice President
David Sterna, Vice President, Marketing and Commercial

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

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

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Corporate Office

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

Contact Us

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

Toronto Stock Exchange Trading Symbol

AAV

ADVANTAGE
OIL & GAS LTD.

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

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