

2020 First Quarter Report

Financial and Operating Highlights

Three months ended
March 31

(\$000, except as otherwise indicated)

	2020	2019
Financial Statement Highlights		
Sales including realized derivatives ⁽³⁾	\$ 65,772	\$ 81,372
Net income (loss) and comprehensive income (loss)	\$ (266,519)	\$ 681
per basic share ⁽²⁾	\$ (1.43)	\$ 0.00
Cash provided by operating activities	\$ 20,826	\$ 44,483
Cash provided by financing activities	\$ 34,960	\$ 19,501
Cash used in investing activities	\$ 65,221	\$ 59,714
Basic weighted average shares (000)	186,911	185,942
Other Financial Highlights		
Adjusted funds flow ⁽¹⁾	\$ 32,093	\$ 50,023
per boe ⁽¹⁾	\$ 7.59	\$ 12.38
per basic share ⁽¹⁾⁽²⁾	\$ 0.17	\$ 0.27
Net capital expenditures ⁽¹⁾	\$ 93,630	\$ 57,422
Working capital deficit (surplus) ⁽¹⁾	\$ 34,284	\$ (9,325)
Bank indebtedness	\$ 330,644	\$ 290,612
Net debt ⁽¹⁾	\$ 364,928	\$ 281,287
Operating		
Daily Production		
Natural gas (mcf/d)	256,463	257,219
Crude oil and condensate (bbls/d)	2,151	750
NGLs (bbls/d)	1,563	1,280
Total production (boe/d)	46,458	44,900
Average realized prices (including realized derivatives)		
Natural gas (\$/mcf) ⁽²⁾	\$ 2.11	\$ 3.11
Crude oil and condensate (\$/bbl)	\$ 60.64	\$ 61.59
NGLs (\$/bbl)	\$ 32.98	\$ 46.28
Operating Netback (\$/boe)		
Petroleum and natural gas sales from production	\$ 15.18	\$ 18.90
Net sales of natural gas purchased from third parties ⁽¹⁾	-	(0.35)
Realized gains (losses) on derivatives	0.38	1.23
Royalty expense	(0.89)	(0.57)
Operating expense	(2.28)	(2.02)
Transportation expense	(3.50)	(3.40)
Operating netback ⁽¹⁾	\$ 8.89	\$ 13.79

⁽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.

MESSAGE TO SHAREHOLDERS

Advantage Announces First Quarter 2020 Results, Strong Asset Performance, and Revised Capital Program

Advantage Oil & Gas Ltd. (“Advantage” or the “Corporation”) is pleased to announce solid first quarter 2020 operating results including production of 46,458 boe/d (up 3% from first quarter 2019) and record liquids production of 3,714 bbls/d (up 83% from first quarter 2019) with continued low operating costs of \$2.28/boe. Production from new wells at Progress and Pipestone/Wembley is meeting or exceeding expectations, and performance of the foundational assets at Glacier and Valhalla has remained robust.

Advantage’s highly active first quarter included the completion of strategic oil infrastructure projects at both Pipestone/Wembley and Progress. With the recent commissioning of this infrastructure, Advantage has established flexibility to optimize capital deployment between our prolific low-cost gas at Glacier, our prolific condensate-rich gas at Valhalla, and our high quality light oil assets at Wembley and Progress.

In response to the current shift in commodity prices, the Corporation has updated 2020 capital guidance to between \$130 million and \$145 million, with plans to moderate liquids growth and focus spending on the highest rate-of-return investments at Glacier. This plan is designed to increase liquidity and financial flexibility, bolstering our ability to pursue strategic opportunities and execute value-generating investments with a disciplined approach. In conjunction with the Corporation’s recently announced sale of 12.5% of our Glacier Gas Plant for \$100 million (see Advantage news release dated April 13, 2020) to fortify our balance sheet, Advantage will continue to target a net debt to adjusted funds flow(a) ratio of 2x or less in 2021.

Advantage wishes to thank our field staff, head office staff and service providers for their commitment and hard work required to complete recent projects under strict health protocols, during the COVID 19 pandemic. We commend and appreciate their dedication, along with other industry producers and all front-line workers, as we continue to deliver environmentally responsible, essential energy to Canada and the world.

First quarter 2020 results:

- Total production of 46,458 boe/d including natural gas production of 256.5 mmcf/d and liquids production of 3,714 bbls/d
- Cash provided by operating activities of \$20.8 million and adjusted funds flow^(a) of \$32.1 million or \$0.17 per share
- Net capital expenditures^(a) of \$93.6 million. This included \$49 million of infrastructure spending to establish efficient operations at both Wembley and Progress. First half 2020 spending remains approximately \$100 million. All drilling, completions and facilities spending required to meet 2020 production guidance is now substantially complete; remaining capital spending is primarily discretionary investment in the highest rate-of-return projects.
- Bank indebtedness of \$330.6 million and net debt^(a) of \$364.9 million. The Corporation intends to use the proceeds from the \$100 million sale of 12.5% of our Glacier Gas Plant to reduce bank indebtedness on closing in July.
- Maintained low cash costs including operating costs of \$2.28/boe.
- A non-cash impairment expense of \$361 million (\$277 million net of tax) was recognized due to a significantly reduced independent reserve engineer price forecast attributable to exceptional commodity price volatility. The impairment has no impact on adjusted funds flow and could reverse in the future should the commodity futures recover.

(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.

Operational Update

At Progress, construction of a 26 km gathering system was completed during the first quarter, connecting five wells from our recently discovered light oil play to the Glacier Gas Plant. Productivity of the wells is exceeding expectations and the wells remain restricted, with maximum capacity of approximately 2,000 bbls/d, depending on frac water flowback rates. In preparation to construct a 5,000 bbl/d battery, \$18 million was spent during the quarter to purchase major equipment. Construction of this battery has been deferred while oil prices remain impacted by the COVID pandemic.

At Wembley, construction of our 36 mmcf/d gas and 5,000 bbl/d liquids hub was completed and commissioned during April. With liquids extraction and compression now in place, liquids constraints at a third-party gas plant have been alleviated and wellhead pressures have been reduced. Since the battery was commissioned, the 8 Wembley wells drilled to date have been ramping up and producing at expectations.

At Glacier, one previously drilled well was brought on production during the quarter. The well averaged 7.5 mmcf/d and 7.5 MPa flowing pressure over the first 30 days of production. Approximately four wells will be drilled during the remainder of 2020, targeting low-risk prolific gas that will produce into existing processing capacity at the Glacier Gas Plant.

All four properties (Glacier, Valhalla, Wembley and Progress) now have established infrastructure and proven productivity. Development of each of the assets can continue within existing capacity, with no major infrastructure or land spending, providing strong returns in most commodity price environments. Advantage has minimal take-or-pay obligations, which provides flexibility to redirect capital to the highest rate-of-return projects, and to vary the pace of development freely.

Advantage has hedged approximately 55% of its natural gas production for the second and third quarters of this year. For 2021, 12% of forecast natural gas production is hedged between Henry Hub, Chicago and Dawn at an average price of US \$2.51 per mmbtu, with more hedging planned in the coming months.

Looking Forward and Updated Guidance

Although gas prices experienced a significant decline across the North American complex in the first quarter due to a warm winter, futures have strengthened significantly as supply and demand have rebalanced; as such, Advantage has adjusted capital spending to be prepared to capitalize on strategic opportunities and to deliver strong returns through organic development. The asset sale of 12.5% of our Glacier Gas Plant, which is scheduled to close in July, fortifies the Corporation's balance sheet and provides significant financial and operational flexibility during this period of unprecedented volatility. Key goals for our revised guidance will be to optimize returns, invest opportunistically, and target a net debt to adjusted funds flow⁽⁴⁾ ratio of approximately 2x or less in 2021. The Corporation has revised its 2020 guidance as follows:

	Updated Guidance ⁽¹⁾	Original Guidance ⁽²⁾
Cash Used in Investing Activities ⁽³⁾ (\$ millions)	\$130 to 145 ⁽⁴⁾	\$170 to \$200
Average Production (boe/d)	43,500 to 46,500	45,000 to 47,500
Gas Production (mmcf/d)	235 to 250	234 to 245
Liquids Production (bbls/d)	4,200 to 4,700	6,000 to 6,700
Royalty Rate (%)	3% to 5%	3% to 5%
Operating Expense (\$/boe)	\$2.50	\$2.50
Transportation Expense (\$/boe)	\$3.70	\$3.70
G&A/Finance Expense (\$/boe)	\$1.80	\$1.70

(1) Forward-looking information. Refer to Forward-Looking Information and Other Advisories for cautionary statements regarding Advantage's guidance including material assumptions and risk factors.

(2) See News Release dated January 8, 2020.

(3) Cash Used in Investing Activities is the same as Net Capital Expenditures as no change in non-cash working capital is assumed and other differences are immaterial.

(4) Excludes net proceeds from the asset sale of 12.5% of our Glacier Gas Plant.

Advisory

The information in this press release contains certain forward-looking statements, including within the meaning of applicable securities laws. These statements relate to future events or our future intentions or 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 "anticipate", "continue", "demonstrate", "expect", "may", "can", "will", "believe", "would" and similar expressions and include statements relating to, among other things, Advantage's strategy and development plans; and Advantage's expectations generally and with respect to its liquid development. 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 statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Advantage's control, including, but not limited to: changes in general economic, market and business conditions; industry conditions; actions by governmental or regulatory authorities including increasing taxes and changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; Advantage's success at acquisition, exploitation and development of reserves; unexpected drilling results; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties, including 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; delays in anticipated timing of drilling and completion of wells; individual well productivity; competition from other producers; the lack of availability of qualified personnel or management; credit risk; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; stock market volatility and market valuations; liabilities inherent in oil and natural gas operations; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; ability to obtain required approvals of regulatory authorities; and ability to access sufficient capital from internal and external sources. Many of these risks and uncertainties and additional risk factors are described in the Corporation's Annual Information Form which is available at www.sedar.com ("SEDAR") 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 press release, Advantage has made assumptions regarding, but not limited to: conditions in general economic and financial markets; effects of regulation by governmental agencies; current and future commodity prices and royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labor; availability of drilling and related equipment; timing and amount of net 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 sale of 12.5% of the Glacier Gas Plant will close in July 2020; 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 properties in the manner currently contemplated; current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated; and the estimates of the Corporation's production and reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this press release 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.

Advisory (continued)

Barrels of oil equivalent (boe) and thousand cubic feet of natural gas equivalent (mcf) may be misleading, particularly if used in isolation. Boe and mcf 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 mcf 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. References to natural gas or liquids production in this press release refer to conventional natural gas and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

References in this press release to production test rates, flow rates, yields and other 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, 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 of Advantage. Advantage cautions that test results and short-term production rates should be considered preliminary.

This press release contains a number of oil and gas metrics, including operating netback, 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 press release, should not be relied upon for investment or other purposes.

Non-GAAP Measures

The Corporation discloses several financial and performance measures in this press release that do not have any standardized meaning prescribed under GAAP. These financial and performance measures include "net capital expenditures", "adjusted funds flow", "operating netback", "net debt", "net debt to adjusted funds flow", "working capital" 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 "bank indebtedness" presented within the consolidated financial statements 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 incurred during the period. Management considers this measure reflective of actual capital activity for the period as it excludes changes in working capital related to other periods. A reconciliation between net capital expenditures and the nearest measure calculated in accordance with GAAP, cash used in investing activities, is provided below:

Non-GAAP Measures (continued)

(\$000)	Three months ended	
	March 31	
	2020	2019
Cash used in investing activities	\$ 65,221	\$ 59,714
Changes in non-cash working capital	28,409	(2,292)
Net capital expenditures	\$ 93,630	\$ 57,422

Working Capital

Working capital includes cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued payables at the reporting date. Working capital provides Management and users with a measure of the Corporation's operating liquidity.

Net Debt

Net debt is comprised of bank indebtedness and working capital. Net debt provides Management and users with a measure of the Corporation's bank indebtedness and expected settlement of net liabilities in the next year. A detailed calculation of net debt is provided below:

(\$000)	March 31		December 31	
	2020		2019	
Bank indebtedness (non-current)	\$	330,644	\$	295,624
Working capital deficit		34,284		7,996
Net debt	\$	364,928	\$	303,620

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 and other long-term liabilities 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. Adjusted funds flow has also been presented per boe, by dividing adjusted funds flow by total production in boe for the reporting period, and per basic share, by dividing by the basic weighted average shares outstanding of the Corporation.

A reconciliation between adjusted funds flow and the nearest measure calculated in accordance with GAAP, cash provided by operating activities, is provided below:

(\$000)	Three months ended	
	March 31	
	2020	2019
Cash provided by operating activities	\$ 20,826	\$ 44,483
Expenditures on decommissioning liability	179	865
Changes in non-cash working capital	11,088	4,675
Adjusted funds flow	\$ 32,093	\$ 50,023

Non-GAAP Measures (continued)

Net Debt to Adjusted Funds Flow

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

Operating Netback

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

	Three months ended			
	March 31			
	2020		2019	
	\$000	per boe	\$000	per boe
Petroleum and natural gas sales from production	\$ 64,185	\$ 15.18	\$ 76,393	\$ 18.90
Net sales of natural gas purchased from third parties	-	-	(1,400)	(0.35)
Realized gains on derivatives	1,587	0.38	4,979	1.23
Royalty expense	(3,755)	(0.89)	(2,302)	(0.57)
Operating expense	(9,647)	(2.28)	(8,157)	(2.02)
Transportation expense	(14,804)	(3.50)	(13,750)	(3.40)
Operating netback	\$ 37,566	\$ 8.89	\$ 55,763	\$ 13.79

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.

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months ended March 31, 2020 and 2019

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of May 6, 2020, provides a detailed explanation of the consolidated financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three months ended March 31, 2020 and should be read in conjunction with the unaudited condensed consolidated financial statements for the three months ended March 31, 2020 and the audited consolidated financial statements for the year ended December 31, 2019 (together, the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

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

Financial Highlights

(\$000, except as otherwise indicated)	Three months ended March 31	
	2020	2019
Financial Statement Highlights		
Sales including realized derivatives ⁽³⁾	\$ 65,772	\$ 81,372
Net income (loss) and comprehensive income (loss)	\$ (266,519)	\$ 681
per basic share ⁽²⁾	\$ (1.43)	\$ 0.00
Cash provided by operating activities	\$ 20,826	\$ 44,483
Cash provided by financing activities	\$ 34,960	\$ 19,501
Cash used in investing activities	\$ 65,221	\$ 59,714
Basic weighted average shares (000)	186,911	185,942
Other Financial Highlights		
Adjusted funds flow ⁽¹⁾	\$ 32,093	\$ 50,023
per boe ⁽¹⁾	\$ 7.59	\$ 12.38
per basic share ⁽¹⁾⁽²⁾	\$ 0.17	\$ 0.27
Net capital expenditures ⁽¹⁾	\$ 93,630	\$ 57,422
Working capital deficit (surplus) ⁽¹⁾	\$ 34,284	\$ (9,325)
Bank indebtedness	\$ 330,644	\$ 290,612
Net debt ⁽¹⁾	\$ 364,928	\$ 281,287

⁽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
March 31**

	2020	2019
Operating		
Daily Production		
Natural gas (mcf/d)	256,463	257,219
Crude oil and condensate (bbls/d)	2,151	750
NGLs (bbls/d)	1,563	1,280
Total production (boe/d)	46,458	44,900
Average realized prices (including realized derivatives)		
Natural gas (\$/mcf) ⁽²⁾	\$ 2.11	\$ 3.11
Crude oil and condensate (\$/bbl)	\$ 60.64	\$ 61.59
NGLs (\$/bbl)	\$ 32.98	\$ 46.28
Operating Netback (\$/boe)		
Petroleum and natural gas sales from production	\$ 15.18	\$ 18.90
Net sales of natural gas purchased from third parties ⁽¹⁾	-	(0.35)
Realized gains on derivatives	0.38	1.23
Royalty expense	(0.89)	(0.57)
Operating expense	(2.28)	(2.02)
Transportation expense	(3.50)	(3.40)
Operating netback ⁽¹⁾	\$ 8.89	\$ 13.79

⁽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.

2020 Corporate Update

COVID-19

During the first quarter of 2020, crude oil benchmark prices decreased substantially due to decreased global crude oil demand triggered by the impact of the COVID-19 pandemic on the global economy, and the adequacy of supply management efforts by the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC partners to address such dramatic changes. Although OPEC and non-OPEC partners have since agreed to production cuts, the magnitude of such reduced supply is well below the lower global demand and has not meaningfully impacted the low crude oil price environment that has continued into the second quarter. Actions taken to reduce the spread of COVID-19 have resulted in volatility and disruptions in regular business operations, supply chains and financial markets, as well as declining trade and market sentiment. With the rapid spread of COVID-19 and excess oil supply expected over the near term, oil prices and global equity markets have deteriorated significantly and are expected to remain under pressure. The extreme supply-demand imbalance is anticipated to cause a reduction in industry spending in 2020 which has had a significant impact on the oil and natural gas industry.

Advantage’s business operations to-date have not been disrupted by the COVID-19 pandemic, with energy providers being declared as an essential service by the Government of Alberta. The Corporation has the appropriate controls in place to allow operations to run safely and efficiently in this environment. The Corporation has implemented temporary procedures in its field operations and head office to ensure the health and safety of the Corporation’s employees, their families, service providers, stakeholders and the general public. These measures include maintaining appropriate social distancing, additional hygiene and sanitation measures and self-isolation protocols aligned with Government recommendations. The Corporation’s head office is maintaining normal operations with our employees having the ability to work remotely with access to all corporate information and systems.

Asset Sale

On April 13, 2020, Advantage announced the sale of a 12.5% interest in the Corporation’s 100% owned 400 mmcf/d Glacier Gas Plant for \$100 million, while retaining the remaining 87.5% interest (see News Release dated April 13, 2020). In conjunction with the transaction, Advantage will enter into a 15-year volume commitment agreement with the purchaser for 50 mmcf/d at a fee of \$0.66/mcf. The transaction is planned to close in July 2020, subject to customary closing conditions.

2020 Corporate Update (continued)

Guidance

Although gas prices experienced a significant decline across the North American complex in first quarter due to a warm winter, futures have strengthened significantly as supply and demand have rebalanced; as such, Advantage has adjusted capital spending to be prepared to capitalize on strategic opportunities and to deliver strong returns through organic development. The asset sale of 12.5% of our Glacier Gas Plant fortifies the Corporation's balance sheet and provides significant financial and operational flexibility during this period of unprecedented volatility. Key goals for our revised guidance will be to optimize returns, invest opportunistically, and target a net debt to adjusted funds flow ratio of approximately 2x or less in 2021.

The Corporation has revised its 2020 guidance as follows:

	Updated Guidance⁽¹⁾	Original Guidance⁽²⁾
Cash Used in Investing Activities ⁽³⁾ (\$ millions)	\$130 to 145 ⁽⁴⁾	\$170 to \$200
Average Production (boe/d)	43,500 to 46,500	45,000 to 47,500
Gas Production (mmcf/d)	235 to 250	234 to 245
Liquids Production (bbls/d)	4,200 to 4,700	6,000 to 6,700
Royalty Rate (%)	3% to 5%	3% to 5%
Operating Expense (\$/boe)	\$2.50	\$2.50
Transportation Expense (\$/boe)	\$3.70	\$3.70
G&A/Finance Expense (\$/boe)	\$1.80	\$1.70

⁽⁵⁾ Forward-looking information. Refer to Forward-Looking Information and Other Advisories for cautionary statements regarding Advantage's guidance including material assumptions and risk factors.

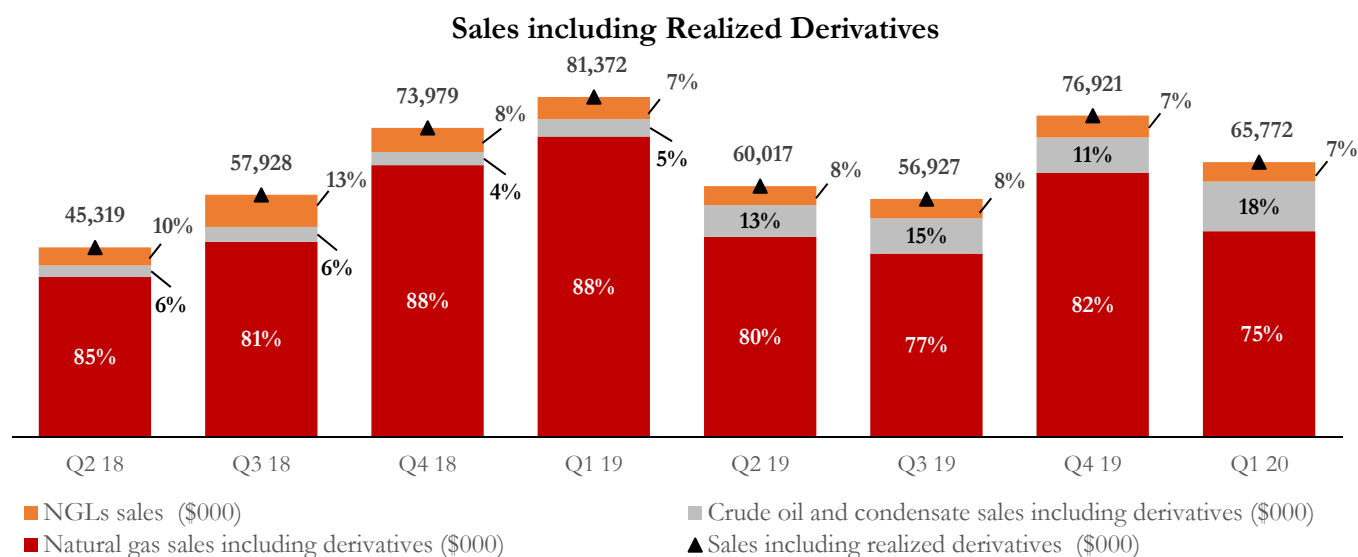
⁽⁶⁾ See News Release dated January 8, 2020.

⁽⁷⁾ Cash Used in Investing Activities is the same as Net Capital Expenditures as no change in non-cash working capital is assumed and other differences are immaterial.

⁽⁸⁾ Excludes proceeds from the sale of the 12.5% interest in the Glacier Gas Plant.

Petroleum and Natural Gas Sales

(\$000)	Three months ended		
	March 31		%
	2020	2019	change
Natural gas			
Sales from production	\$ 49,109	\$ 66,904	(27) %
Realized gains on derivatives	102	4,979	(98) %
	\$ 49,211	\$ 71,883	(32) %
Crude oil and condensate			
Sales from production	\$ 10,385	\$ 4,157	150 %
Realized gains on derivatives	1,485	-	nm
	\$ 11,870	\$ 4,157	186 %
NGLs			
Sales from production	\$ 4,691	\$ 5,332	(12) %
Sales including realized derivatives	\$ 65,772	\$ 81,372	(19) %



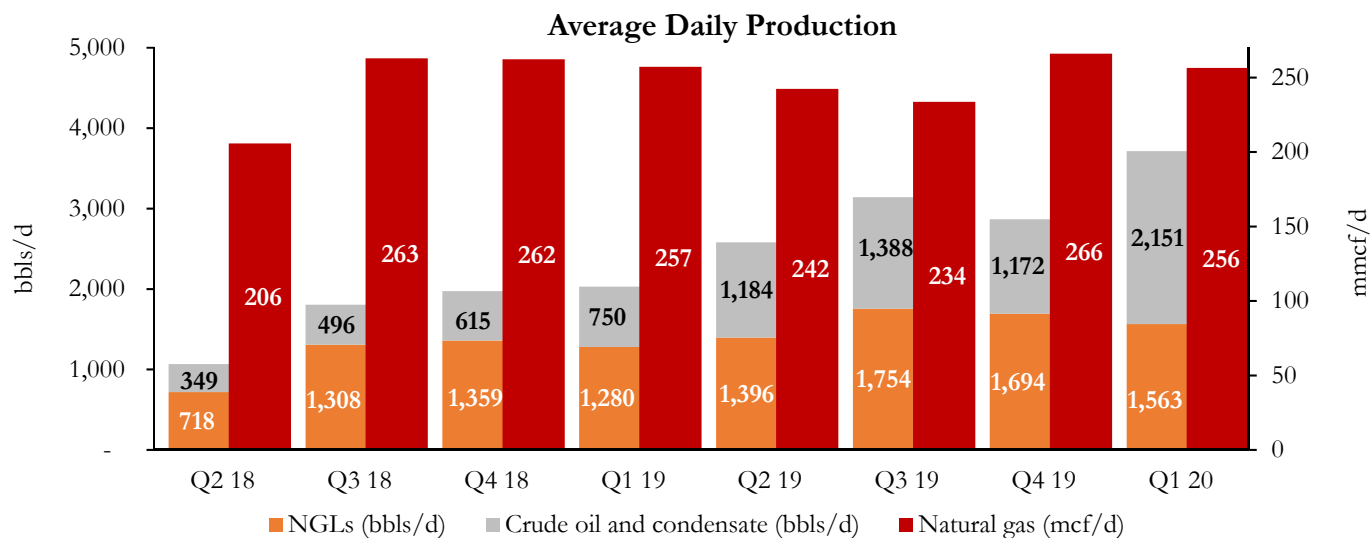
Advantage's natural gas sales excluding derivatives was \$49.1 million for the three months ended March 31, 2020, a 27% decrease compared to the same period of 2019, primarily attributed to the decreases in natural gas benchmark prices in the North American market (see "Commodity Prices and Marketing").

Crude oil and condensate sales excluding derivatives for the three months ended March 31, 2020 increased by \$6.2 million or 150%, as a result of significantly increased crude oil and condensate production, partially offset by weaker realized crude oil prices. NGLs sales for the three months ended March 31, 2020 decreased by 12% as compared to the same period of 2019. Crude oil and condensate sales and NGLs sales contributed 18% and 7%, respectively, of total sales for the three months ended March 31, 2020, including realized gains on derivatives.

Realized gains on commodity derivatives during the three months ended March 31, 2020 were \$1.6 million, a \$3.4 million decrease compared to the same period of 2019. Realized gains on commodity derivatives and changes from prior periods are the result of differences in natural gas and crude oil prices, and contracts outstanding during the three months ended March 31, 2020 and 2019 (see "Market Diversification and Commodity Price Risk Management").

Production

	Three months ended		% change
	March 31		
	2020	2019	
Natural gas (mcf/d)	256,463	257,219	- %
Crude oil and condensate (bbls/d)	2,151	750	187 %
NGLs (bbls/d)	1,563	1,280	22 %
Total production (boe/d)	46,458	44,900	3 %
Natural gas (%)	92 %	95 %	
Crude oil and condensate (%)	5 %	2 %	
NGLs (%)	3 %	3 %	



Total production for the three months ended March 31, 2020 averaged 46,458 boe/d, a 3% increase from total average production of 44,900 boe/d for the same period of 2019. Advantage's total production increased due to our continued liquids development, resulting in a 187% growth in crude oil and condensate production, accompanied with a 22% growth in NGLs production. The increase in crude oil, condensate and NGLs is a result of initial production from our Pipestone/Wembley area beginning in the fourth quarter of 2019 at restricted rates, along with initial production from Progress beginning in the first quarter of 2020 similarly at restricted rates. Advantage's natural gas production for the three months ended March 31, 2020 was comparable to the same period of 2019.

Commodity Prices and Marketing

Average Realized Prices	Three months ended		
	March 31		%
	2020	2019	change
Natural gas			
Excluding derivatives (\$/mcf) ⁽¹⁾	\$ 2.10	\$ 2.89	(27) %
Including derivatives (\$/mcf) ⁽¹⁾	\$ 2.11	\$ 3.11	(32) %
Crude oil and condensate			
Excluding derivatives (\$/bbl)	\$ 53.05	\$ 61.59	(14) %
Including derivatives (\$/bbl)	\$ 60.64	\$ 61.59	(2) %
NGLs			
Excluding derivatives (\$/bbl)	\$ 32.98	\$ 46.28	(29) %
Average Benchmark Prices			
Natural Gas			
AECO daily (\$/mcf)	\$ 2.04	\$ 2.62	(22) %
AECO monthly (\$/mcf)	\$ 2.14	\$ 1.94	10 %
Dawn daily (\$US/mmbtu)	\$ 1.76	\$ 2.92	(40) %
Chicago Citygate (\$US/mmbtu)	\$ 1.95	\$ 3.33	(41) %
Henry Hub (\$US/mmbtu)	\$ 1.88	\$ 2.88	(35) %
Crude Oil			
WTI (\$US/bbl)	\$ 46.08	\$ 54.83	(16) %
MSW Edmonton (\$/bbl)	\$ 52.77	\$ 67.44	(22) %
Average Exchange rate (US\$/CDN\$)	0.7446	0.7511	(1) %

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

Advantage's realized natural gas price excluding derivatives was \$2.10/mcf for the three months ended March 31, 2020, a 27% decrease to the same period of 2019. This decrease was primarily attributed to lower natural gas benchmark prices in the AECO, Chicago Citygate and Dawn markets which was driven by warmer winter weather across North America when compared to the prior period. Natural gas prices have remained resilient going into the second quarter of 2020 and have not been impacted in the same manner as crude oil prices.

Advantage sells natural gas into the AECO, Dawn and Chicago markets. Advantage's firm transportation service to Dawn of 52,700 mcf/d represents approximately 21% of our current natural gas production. Advantage began 2019 with Chicago sales arrangements for 19,512 mcf/d at Chicago Citygate prices, net of a fixed differential, that increased to 39,024 mcf/d in April 2019. Chicago sales represents approximately 15% of our current natural gas production. In April 2020, Advantage's Chicago sales arrangements increased to 53,658 mcf/d.

Realized crude oil and condensate price excluding derivatives decreased by 14% for the three months ended March 31, 2020, compared to the same period of the prior year. The decrease has been primarily due to lower WTI prices triggered by the impact of the COVID-19 pandemic resulting in significantly decreased global crude oil demand. The Corporation expects the low crude oil price environment to continue through the second quarter as global demand remains low. The Corporation has approximately 39% of our crude oil and condensate production hedged for the remainder of 2020, which limits our exposure to the expected period of depressed crude oil prices.

Realized NGLs price excluding derivatives decreased by 29% for the three months ended March 31, 2020, compared to the same period of the prior year. The decrease has been primarily a result of lower WTI prices and the underlying price differential on which many of our contracts are based. Advantage's current NGLs mix is comprised of 50% pentanes, which generally attracts higher market prices than our other NGLs.

Market Diversification and Commodity Price Risk Management

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

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

	January 1 to December 31, 2020		
	Volumes Contracted (mmcf/d) ⁽¹⁾	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	48.2	\$1.64/mcf	20 %
Dawn fixed price swaps	21.3	US\$1.99/mcf ⁽²⁾	9 %
Chicago fixed price swaps	2.5	US\$2.51/mcf	1 %
Henry Hub fixed price swaps	38.3	US\$2.30/mcf	15 %
	110.3		45 %
Variable Price			
AECO physical	45.4	AECO	18 %
Dawn physical	31.5	Dawn ⁽²⁾	13 %
Empress physical	4.2	Empress ⁽³⁾	2 %
Emerson physical	4.5	Emerson ⁽⁴⁾	2 %
Midwest physical	49.1	Chicago, Ventura & Henry Hub less differentials ⁽⁵⁾	20 %
	134.7		55 %
Total Natural Gas ⁽⁶⁾	245.0		100 %

⁽¹⁾ All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu.

⁽²⁾ Transportation under our firm commitment from AECO to Dawn is approximately \$1.10/mcf.

⁽³⁾ Transportation under our firm commitment from AECO to Empress is approximately \$0.18/mcf.

⁽⁴⁾ Transportation under our firm commitment from Empress to Emerson is approximately \$0.63/mcf.

⁽⁵⁾ Refer to the Corporation's website for details on differentials: <http://www.advantageog.com/investors/hedging>.

⁽⁶⁾ Represents the midpoint of our revised guidance for 2020 natural gas volumes (see "2020 Corporate Update").

Market Diversification and Commodity Price Risk Management (continued)

A summary of realized and unrealized commodity derivative gains and losses for the three months ended March 31, 2020 and 2019 are as follows:

(\$000)	Three months ended March 31	
	2020	2019
Realized gains on commodity derivatives		
Natural gas	\$ 102	\$ 4,979
Crude oil	1,485	-
Total	1,587	4,979
Unrealized gains (losses) on commodity derivatives		
Natural gas	3,245	(15,287)
Crude oil	11,905	-
Total	15,150	(15,287)
Gains (losses) on commodity derivatives		
Natural gas	3,347	(10,308)
Crude oil	13,390	-
Total	\$ 16,737	\$ (10,308)

For the three months ended March 31, 2020, Advantage recognized realized gains on commodity derivatives of \$1.6 million due to the settlement of contracts with average derivative contract prices that were above average market prices. For the three months ended March 31, 2020, Advantage recognized unrealized gains on commodity derivatives of \$15.2 million due to an improvement in the fair value of our future derivative contracts, resulting from a reduction in the net commodity derivative liability to \$17.1 million from \$32.3 million at December 31, 2019.

The change in the fair value of our outstanding derivative contracts during the first quarter of 2020 was mainly attributable to the valuation of our crude oil derivative contracts due to weakening WTI prices. Additionally, the valuation of natural gas derivative contracts increased as a result of weakening Henry Hub prices.

The fair value of the net derivative 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 April 1, 2020 and December 31, 2024.

Sales of Natural Gas Purchased from Third Parties

	Three months ended March 31		% change
	2020	2019	
Sales of natural gas purchased from third parties (\$000)	\$ -	\$ 637	nm
Natural gas purchased from third parties (\$000)	-	(2,037)	nm
Net sales of natural gas purchased from third parties (\$000)	\$ -	\$ (1,400)	nm
per boe	\$ -	\$ (0.35)	nm

Advantage infrequently purchases natural gas volumes from third parties to satisfy physical delivery commitments during brief outages at our Glacier Gas Plant. The Corporation did not incur purchases and sales of natural gas from third parties during the three months ended March 31, 2020. During the three months ended March 31, 2019, Advantage realized \$0.6 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of \$2.0 million.

Royalty Expense

	Three months ended		% change
	March 31		
	2020	2019	
Royalty expense (\$000)	\$ 3,755	\$ 2,302	63 %
per boe	\$ 0.89	\$ 0.57	56 %
Royalty rate (%) ⁽¹⁾	5.9 %	3.0 %	2.9 %

⁽¹⁾ Percentage of petroleum and natural gas sales from production.

Royalty expense for the three months ended March 31, 2020 increased due to higher crude oil and condensate sales. The increase in royalty rates was primarily due to increased liquids production, along with decreased revenue enhancements from market diversification when compared to the same period in 2019.

Operating Expense

	Three months ended		% change
	March 31		
	2020	2019	
Operating expense (\$000)	\$ 9,647	\$ 8,157	18 %
per boe	\$ 2.28	\$ 2.02	13 %

Operating expense for the three months ended March 31, 2020 was \$9.6 million, an 18% increase compared to the same period of 2019. The increase in operating expense was attributable to one-time operating expenses, along with gas processing costs, both of which were associated with initial Wembley/Pipestone production that occurred during the first quarter of 2020, prior to the operation of our newly constructed oil battery and liquids hub. The oil battery and liquids hub were commissioned in April 2020 and will result in the elimination of some temporary operating cost that occurred in the quarter.

Transportation Expense

	Three months ended		% change
	March 31		
	2020	2019	
Natural gas (\$000)	\$ 12,874	\$ 12,395	4 %
Liquids (\$000)	1,930	1,355	42 %
Total transportation expense (\$000)	\$ 14,804	\$ 13,750	8 %
per boe	\$ 3.50	\$ 3.40	3 %

Transportation expense represents the cost of transporting our natural gas and liquids (crude oil, condensate and NGLs) to the sales points, including associated fuel costs. Transportation expense for the three months ended March 31, 2020 increased by 8% compared to the same periods of 2019. The increase in total transportation expense was attributable to increased liquids transportation associated with increased crude oil, condensate and NGLs production (see "Production").

Operating Netback

	Three months ended			
	March 31			
	2020		2019	
	\$000	per boe	\$000	per boe
Petroleum and natural gas sales from production	\$ 64,185	\$ 15.18	\$ 76,393	\$ 18.90
Net sales of natural gas purchased from third parties ⁽¹⁾	-	-	(1,400)	(0.35)
Realized gains on derivatives	1,587	0.38	4,979	1.23
Royalty expense	(3,755)	(0.89)	(2,302)	(0.57)
Operating expense	(9,647)	(2.28)	(8,157)	(2.02)
Transportation expense	(14,804)	(3.50)	(13,750)	(3.40)
Operating netback ⁽¹⁾	\$ 37,566	\$ 8.89	\$ 55,763	\$ 13.79

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

Advantage's operating netback for the three months ended March 31, 2020 was \$37.6 million or \$8.89/boe, a decrease of \$18.2 million compared to the same period in 2019. The decrease in the Corporation's operating netback was primarily due to the decrease in petroleum and natural gas sales from production as a result of decreased natural gas and crude oil benchmark prices (see "Commodity Prices and Marketing").

General and Administrative Expense

	Three months ended		
	March 31		
	2020	2019	% change
General and administrative expense (\$000)	1,975	2,481	(20) %
per boe	\$ 0.47	\$ 0.61	(23) %
Employees at March 31	39	32	22 %

General and administrative ("G&A") expense for the three months ended March 31, 2020 decreased primarily due the reduction in value of the deferred share units liability resulting from the lower share price.

Share-based Compensation

	Three months ended		
	March 31		
	2020	2019	% change
Share-based compensation (\$000)	\$ 2,383	\$ 1,705	40 %
Capitalized (\$000)	(832)	(629)	32 %
Share-based compensation expense (\$000)	\$ 1,551	\$ 1,076	44 %
per boe	\$ 0.37	\$ 0.27	37 %

Under the Corporation's Restricted and Performance Award Incentive Plan, Performance Share Units are granted to service providers of Advantage to align the interests of these individuals with those of shareholders. Capitalized share-based compensation is attributable to personnel involved with the development of the Corporation's capital projects. The Corporation recognized \$1.6 million of share-based compensation expense during the three months ended March 31, 2020 and capitalized \$0.8 million. The increase was primarily attributed to an increase in the number Performance Share Units outstanding when compared to the same period in 2019 due to increased staffing levels.

Finance Expense and Interest Rate Risk Management

	Three months ended		% change
	March 31		
	2020	2019	
Cash finance expense (\$000) ⁽¹⁾	\$ 3,498	\$ 3,295	6 %
per boe	\$ 0.84	\$ 0.80	5 %
Accretion expense (\$000)	198	231	(14) %
Total finance expense (\$000)	\$ 3,696	\$ 3,526	5 %
per boe	\$ 0.87	\$ 0.87	- %

⁽¹⁾ Cash finance expense includes interest on bank indebtedness, interest on lease liability, interest on other long-term liability and gains (losses) on foreign exchange.

Advantage realized higher cash finance expense during the three months ended March 31, 2020 due to higher average outstanding bank indebtedness. Advantage's interest rates are primarily based on short-term bankers' acceptance rates plus a stamping fee and determined by net debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities.

The Corporation's Credit Facilities are exposed to interest rate risk. Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Management has been proactive in entering into interest rate derivative contracts for the purposes of reducing the volatility of interest rates posted by lenders. The Corporation has a \$175 million notional amount of fixed interest rate swaps covering April 2020 to March 2022 at a weighted average fixed rate of 0.81%. A summary of realized and unrealized interest rate derivative gains (losses) for the three months ended March 31, 2020 and 2019 are as follows:

(\$000)	Three months ended	
	March 31	
	2020	2019
Realized gains (losses) on interest rate derivatives	\$ -	\$ -
Unrealized losses on interest rate derivatives	(238)	-
Losses on interest rate derivatives	\$ (238)	\$ -

Depreciation and Impairment Expense

	Three months ended		% change
	March 31		
	2020	2019	
Depreciation expense (\$000)	\$ 30,331	\$ 32,001	(5) %
per boe	\$ 7.17	\$ 7.92	(9) %
Impairment expense (\$000)	\$ 361,000	\$ -	nm

For the period ended March 31, 2020, the Corporation identified an indicator of impairment following the decrease in demand for crude oil as a result of the COVID-19 pandemic, and the adequacy of supply management efforts by OPEC and non-OPEC partners to address such dramatic changes. The Corporation performed an impairment test on the Corporation's CGUs using after-tax discounted future cash flows of proved and probable reserves, utilizing a discount rate of 10%, which resulted in an impairment charge of \$361 million to the Greater Glacier Area CGU (\$277 million net of tax).

Taxes

	Three months ended		
	March 31		%
	2020	2019	change
Income tax recovery (expense) (\$000)	\$ 79,746	\$ (719)	nm

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the three months ended March 31, 2020, the Corporation recognized a deferred income tax recovery of \$79.7 million as a result of a \$346.3 million loss before taxes, primarily due to the \$361 million impairment recognized during the quarter. As at March 31, 2020, the Corporation had a deferred income tax asset of \$21.3 million. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses can be utilized.

Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended		
	March 31		%
	2020	2019	change
Net income (loss) and comprehensive income (loss) (\$000)	\$ (266,519)	\$ 681	nm
per share - basic	\$ (1.43)	\$ 0.00	nm
per share - diluted	\$ (1.43)	\$ 0.00	nm

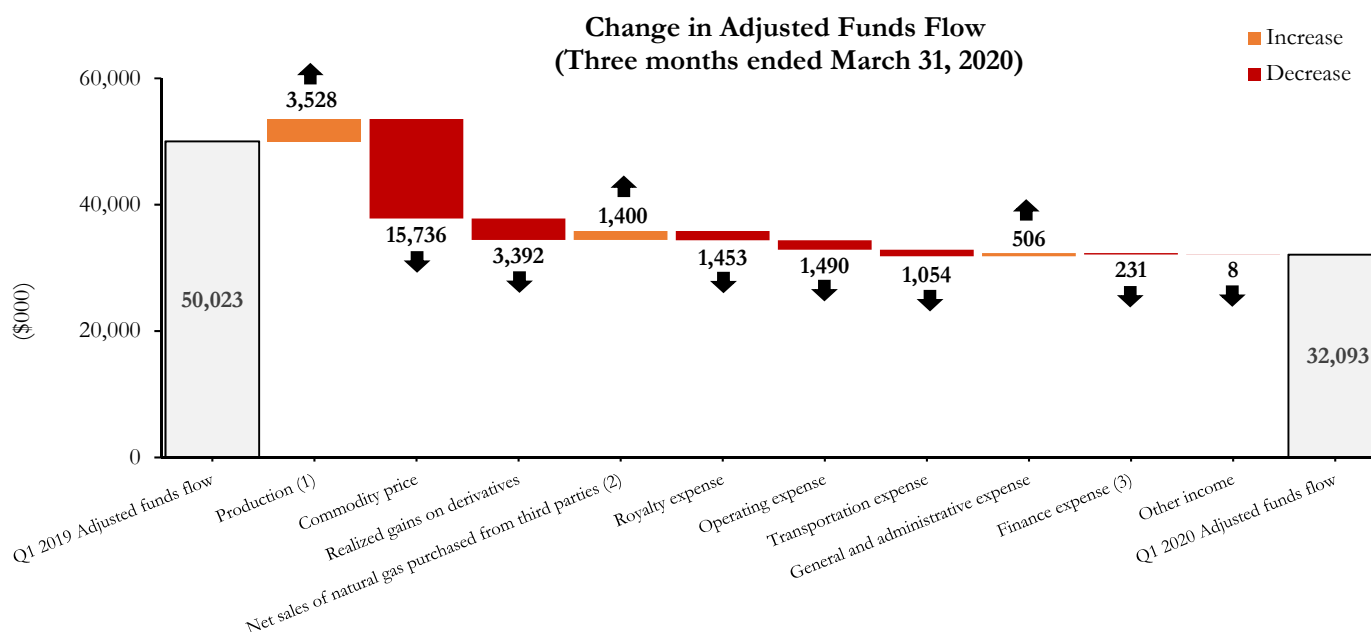
Advantage recognized a net loss of \$266.5 million for the three months ended March 31, 2020. The decreases in net income (loss) and comprehensive income (loss) was due to the non-cash impairment expense of \$361 million offset by a deferred tax recovery of \$79.7 million related to the impairment expense. Further reductions in future commodity prices could potentially lead to additional impairments; however, if the outlook for commodity prices in North America were to improve in future quarters, the Corporation may recognize impairment recoveries against the \$361 million impairment expense, which would lead to future income volatility.

Cash Provided by Operating Activities and Adjusted Funds Flow

(\$000, except as otherwise indicated)	Three months ended March 31	
	2020	2019
Cash provided by operating activities	\$ 20,826	\$ 44,483
Expenditures on decommissioning liability	179	865
Changes in non-cash working capital	11,088	4,675
Adjusted funds flow ⁽¹⁾	\$ 32,093	\$ 50,023
Adjusted funds flow per share ⁽¹⁾	\$ 0.17	\$ 0.27

⁽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 three months ended March 31, 2020, Advantage realized adjusted funds flow of \$32.1 million or \$0.17/share, a \$17.9 million decrease compared to the same period of 2019. The decrease in adjusted funds flow was primarily due to the decrease in petroleum and natural gas sales from production as a result of decreased natural gas and crude oil benchmark prices (see "Commodity Prices and Marketing"), and lower realized gains on derivatives (see "Market Diversification and Commodity Price Risk Management").



⁽¹⁾ The change in petroleum and natural gas sales from production related to the change in production is determined by multiplying the prior period realized price by current period production.

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

⁽³⁾ Finance expense excludes accretion of decommissioning liability.

Contractual Obligations and Commitments

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

(\$ millions)	Payments due by period						
	Total	2020	2021	2022	2023	2024	Beyond
Building operating cost ⁽¹⁾	\$ 2.9	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4	\$ 0.4	\$ 1.1
Processing	64.4	0.9	3.9	8.5	8.5	8.5	34.1
Transportation	509.9	35.2	53.9	62.0	57.0	53.2	248.6
Bank indebtedness ⁽²⁾							
- principal	330.6	-	330.6	-	-	-	-
- interest	17.8	10.7	7.1	-	-	-	-
Total contractual obligations	\$ 925.6	\$ 47.1	\$ 395.8	\$ 70.9	\$ 65.9	\$ 62.1	\$ 283.8

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

⁽²⁾ As at March 31, 2020 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 May 2020. The facility is revolving and extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

Liquidity and Capital Resources

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

(\$000, except as otherwise indicated)	March 31 2020	December 31 2019
Bank indebtedness (non-current)	\$ 330,644	\$ 295,624
Working capital deficit ⁽¹⁾	34,284	7,996
Net debt ⁽¹⁾	\$ 364,928	\$ 303,620
Shares outstanding	186,910,848	186,910,848
Shares closing market price (\$/share)	\$ 1.43	\$ 2.75
Market capitalization	\$ 267,283	\$ 514,005
Total capitalization	\$ 632,211	\$ 817,625
Net debt to adjusted funds flow ⁽¹⁾	2.7	2.0

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

Advantage has a \$400 million Credit Facility of which \$58.6 million or 15% was available at March 31, 2020 after deducting letters of credit of US\$6 million outstanding (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's adjusted funds flow and bank indebtedness was utilized to fund our first quarter 2020 capital expenditure program of \$93.6 million. This resulted in a net debt to adjusted funds flow ratio of 2.7 times as at March 31, 2020. Advantage continues to be focused on maintaining a strong balance sheet, a disciplined commodity risk management program, a low-cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing its multi-year development plan.

Liquidity and Capital Resources (continued)

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital, bank indebtedness, and share capital. Advantage may manage its capital structure by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, or adjusting capital spending. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis. Management of the Corporation's capital structure is facilitated through its financial and operational forecasting processes. Selected forecast information is frequently provided to the Board of Directors. This continual financial assessment process further enables the Corporation to mitigate risks. The Corporation continues to satisfy all liabilities and commitments as they come due.

With closing of the disposition of a 12.5% working interest in the Glacier Gas Plant, we would expect liquidity to improve as the proceeds received that will reduce bank indebtedness would more than offset the borrowing base impact from the volume commitment agreement.

Bank Indebtedness, Credit Facilities and Other Obligations

As at March 31, 2020, Advantage had bank indebtedness outstanding of \$330.6 million, an increase of \$35.0 million since December 31, 2019. Advantage's Credit Facilities have a borrowing base of \$400 million that is collateralized by a \$1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating as determined by the Alberta Energy Regulator is not less than 2.0. The borrowing base for the Credit Facilities is determined by the banking syndicate through an evaluation of our reserve estimates based upon their own commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. The semi-annual redetermination of the Credit Facilities borrowing base was extended by Advantage and the banking syndicate until May 2020. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage had a working capital deficit of \$34.3 million as at March 31, 2020, an increase of \$26.3 million compared to December 31, 2019 due to differences in the timing of capital expenditures and related payments. Our working capital includes cash and cash equivalents, trade receivables, prepaid expenses and deposits, trade payables and other accrued liabilities. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. We do not anticipate any problems in meeting future obligations as they become due as they can be satisfied with cash provided by operating activities and our available Credit Facilities.

Shareholders' Equity

As at March 31, 2020, a total of 0.8 million Stock Options and 3.9 million Performance Share Units were outstanding, which represents 2.5% of Advantage's total outstanding common shares. No Stock Options were exercised during the three months ended March 31, 2020 and all outstanding Stock Options have since expired. As at May 6, 2020, Advantage had 188.1 million common shares outstanding.

Cash Used in Investing Activities and Net Capital Expenditures

(\$000)	Three months ended March 31	
	2020	2019
Drilling, completion and workovers	\$ 33,466	\$ 43,740
Well equipping and facilities	59,137	13,090
Other	97	-
Expenditures on property, plant and equipment	92,700	56,830
Expenditures on exploration and evaluation assets	930	592
Net capital expenditures ⁽¹⁾	\$ 93,630	\$ 57,422
Changes in non-cash working capital	(28,409)	2,292
Cash used in investing activities	\$ 65,221	\$ 59,714

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

Advantage invested \$93.6 million on property, plant, and equipment and exploration and evaluation assets during the three months ended March 31, 2020. During the first quarter of 2020, Advantage's capital activity was focused on completions, tie-ins and infrastructure projects. No wells were drilled during the quarter.

Progress

Advantage completed two wells that were drilled in the fourth quarter of 2019 and tied-in 5 wells that have targeted multiple layers on the land block. This activity has moved the 100% owned 50 net section land block from the appraisal stage to production with Progress now connected to our existing Glacier Gas Plant and Valhalla liquid hub.

The start of production from the land block represents another milestone in demonstrating high-quality resources with attractive economics on each of Advantage's land blocks. The Progress asset is now a significant element of the Corporation's gas and liquids development program along with Glacier, Valhalla and Pipestone/Wembley.

Design and procurement of equipment continued during the quarter for a new 25 mmcf/d compressor and 5,000 bbl/d oil battery and liquids hub to be located on the land block. Due to the recent decline in crude oil prices the start of construction has been delayed until oil prices support continued growth from the area.

Pipestone/Wembley

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

In the first quarter of 2020, activity focused on finishing completions and flowback of the 7 gross (7.0 net) Montney wells and one water disposal well that were drilled in the second half of 2019. In addition, construction activity continued on our 36 mmcf/d compressor and 5,000 bbl/d oil battery and liquids hub. The facility was commissioned in April 2020.

The property has transitioned from our first well completed in the first quarter of 2018 to production from 8 wells connected to a 100% owned significant gas and liquids handling hub.

Valhalla

Activity during the quarter centered around continued production of the Valhalla wells and initial production from the Progress property through our 40 mmcf/d compressor and liquids hub. With the addition of gas from Progress and one remaining well to be placed on production at Valhalla, the facility is anticipated to be full for the balance of 2020.

Glacier

Glacier activity during the quarter was limited to completion and tie-in of one previously drilled Upper Montney well. With increasing gas prices, Glacier will continue to be an important foundation of our activity in subsequent drilling programs.

Corporate

Advantage's current standing well inventory consists of five total wells that are all tied-in.

Quarterly Performance

	2020		2019				2018	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(\$000, except as otherwise indicated)								
Financial Statement Highlights								
Sales including realized derivatives ⁽³⁾	\$ 65,772	\$ 76,921	\$ 56,927	\$ 60,017	\$ 81,372	\$ 73,979	\$ 57,928	\$ 45,319
Net income (loss) and comprehensive income (loss)	\$ (266,519)	\$ (1,844)	\$ (26,863)	\$ 3,372	\$ 681	\$ 25,162	\$ (8,852)	\$ (15,294)
per basic share ⁽²⁾	\$ (1.43)	\$ (0.01)	\$ (0.14)	\$ 0.02	\$ 0.00	\$ 0.14	\$ (0.05)	\$ (0.08)
Cash provided by operating activities	\$ 20,826	\$ 39,965	\$ 27,323	\$ 44,292	\$ 44,483	\$ 41,627	\$ 27,950	\$ 21,009
Cash provided by (used in) financing activities	\$ 34,960	\$ 20,115	\$ 5,010	\$ (20,309)	\$ 19,501	\$ 11,739	\$ 11,005	\$ 12,852
Cash used in investing activities	\$ 65,221	\$ 50,365	\$ 36,258	\$ 27,303	\$ 59,714	\$ 50,723	\$ 39,085	\$ 38,701
Basic weighted average shares (000)	186,911	186,911	186,911	186,858	185,942	185,942	186,065	186,190
Other Financial Highlights								
Adjusted funds flow ⁽¹⁾	\$ 32,093	\$ 44,452	\$ 27,928	\$ 32,777	\$ 50,023	\$ 46,301	\$ 32,035	\$ 23,160
per boe ⁽¹⁾	\$ 7.59	\$ 10.20	\$ 7.21	\$ 8.38	\$ 12.38	\$ 11.02	\$ 7.63	\$ 7.20
per basic share ⁽¹⁾⁽²⁾	\$ 0.17	\$ 0.23	\$ 0.15	\$ 0.18	\$ 0.27	\$ 0.25	\$ 0.17	\$ 0.12
Net capital expenditures ⁽¹⁾	\$ 93,630	\$ 59,609	\$ 48,313	\$ 19,578	\$ 57,422	\$ 51,187	\$ 47,502	\$ 25,324
Working capital (surplus) deficit ⁽¹⁾	\$ 34,284	\$ 7,996	\$ 13,322	\$ (1,891)	\$ (9,325)	\$ 1,912	\$ 8,169	\$ 3,206
Bank indebtedness	\$ 330,644	\$ 295,624	\$ 275,594	\$ 270,495	\$ 290,612	\$ 270,918	\$ 259,179	\$ 250,189
Net debt ⁽¹⁾	\$ 364,928	\$ 303,620	\$ 288,916	\$ 268,604	\$ 281,287	\$ 272,830	\$ 267,348	\$ 253,395
Operating Highlights								
Daily Production								
Natural gas (mcf/d)	256,463	266,035	233,625	242,409	257,219	262,269	262,841	205,712
Crude oil and condensate (bbls/d)	2,151	1,337	1,388	1,184	750	615	496	349
NGLs (bbls/d)	1,563	1,694	1,754	1,396	1,280	1,359	1,308	718
Total production (boe/d)	46,458	47,370	42,080	42,982	44,900	45,686	45,611	35,352
Average prices (including realized derivatives)								
Natural gas (\$/mcf) ⁽³⁾	\$ 2.11	\$ 2.58	\$ 2.04	\$ 2.17	\$ 3.11	\$ 2.70	\$ 1.93	\$ 2.05
Crude oil and condensate (\$/bbl)	\$ 60.64	\$ 78.18	\$ 66.52	\$ 70.33	\$ 61.59	\$ 55.32	\$ 78.08	\$ 84.67
NGLs (\$/bbl)	\$ 32.98	\$ 33.68	\$ 28.54	\$ 35.99	\$ 46.28	\$ 46.48	\$ 64.04	\$ 66.32
Operating Netback (\$/boe)								
Petroleum and natural gas sales from production	\$ 15.18	\$ 17.69	\$ 11.98	\$ 13.14	\$ 18.90	\$ 16.86	\$ 13.33	\$ 11.65
Net sales of natural gas purchased from third parties ⁽¹⁾	\$ -	\$ -	\$ (0.03)	\$ -	\$ (0.35)	\$ -	\$ -	\$ 0.35
Realized gains (losses) on derivatives	\$ 0.38	\$ (0.04)	\$ 2.72	\$ 2.20	\$ 1.23	\$ 0.74	\$ 0.47	\$ 2.43
Royalty (expense) recovery	\$ (0.89)	\$ (0.51)	\$ (0.06)	\$ 0.02	\$ (0.57)	\$ (0.39)	\$ (0.19)	\$ 0.33
Operating expense	\$ (2.28)	\$ (1.89)	\$ (2.12)	\$ (1.89)	\$ (2.02)	\$ (1.73)	\$ (1.61)	\$ (2.06)
Transportation expense	\$ (3.50)	\$ (3.46)	\$ (3.58)	\$ (3.56)	\$ (3.40)	\$ (3.18)	\$ (3.09)	\$ (3.75)
Operating netback ⁽¹⁾	\$ 8.89	\$ 11.79	\$ 8.91	\$ 9.91	\$ 13.79	\$ 12.30	\$ 8.91	\$ 8.95

(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.

The table above highlights the Corporation's performance for the first quarter of 2020 and for the preceding seven quarters. Advantage's production volumes were lower during the first half of 2018 as a result of Glacier Gas Plant expansion activities, with production increasing significantly afterwards following the completion of the 400 mmcf/d expansion. Production decreased in the second and third quarters of 2019 due to Advantage proactively shutting-in dry natural gas exposed to periods of extremely low AECO pricing. Advantage ramped up natural gas production in the fourth quarter of 2019 in response to an increase in AECO pricing. Sales and adjusted funds flow deteriorated in the second and third quarters of 2018 as natural gas prices weakened associated with NGTL system maintenance. Both sales and adjusted funds flow improved from the third quarter of 2018 to the first quarter of 2019 largely as a result of higher production, especially increased liquids production, and stronger realized prices.

Quarterly Performance (continued)

Sales and adjusted funds flow that were weaker in the second and third quarters of 2019 due to decreased production and lower realized natural gas prices, benefited significantly from a continued increase in liquids production and our market diversification portfolio, including derivatives. Sales and adjusted funds flow increased in the fourth quarter of 2019 as a result of increased production and stronger natural gas prices. However weaker realized prices for crude oil and natural gas triggered by the COVID-19 pandemic led to reduce sales and adjusted funds flow in the first quarter of 2020. From early 2018 to 2020, 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. The Corporation incurred a large net loss in the first quarter of 2020 due to an impairment charge which was triggered by the COVID-19 pandemic and accompanying reduction in commodity prices.

Critical Accounting Estimates

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

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

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

Management's process of determining the provision for deferred income taxes and the provision for decommissioning liability costs and related accretion expense are based on estimates. Estimates used in the determination of deferred income taxes provisions are significant and can include expected future tax rates, expectations regarding the realization or settlement of the carrying amount of assets and liabilities and other relevant assumptions. Estimates used in the determination of decommissioning liability cost provisions and accretion expense are significant and can include proved and probable reserves, future production rates, future commodity prices, future costs, future interest rates and other relevant assumptions. Revisions or changes in any of these estimates can have either a positive or a negative impact on asset and liability values, net income (loss) and comprehensive income (loss).

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

Critical Accounting Estimates (continued)

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

Changes in Accounting Policies

There have been no changes in accounting policies during the three months ended March 31, 2020.

Accounting Pronouncements not yet Adopted

There have been no changes to accounting pronouncements not yet adopted during the three months ended March 31, 2020.

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, evaluate the effectiveness of the Corporation's DC&P annually.

Evaluation of Internal Controls over Financial Reporting

Advantage's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR"). They have designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Advantage's officers used to design the Corporation's ICFR is the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations. Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, evaluate the effectiveness of the Corporation's ICFR annually.

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 March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our ICFR.

It should be noted that while the Chief Executive Officer and Chief Financial Officer believe that the Corporation's design of DC&P and ICFR provide a reasonable level of assurance that they are effective, they do not expect that the control system will prevent all errors and fraud. A control system, no matter how well conceived or operated, does not provide absolute, but rather is designed to provide reasonable assurance that the objective of the control system is met. The Corporation's ICFR may not prevent or detect all misstatements because of inherent limitations. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Corporation's policies and procedures.

Non-GAAP Measures

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

Net Capital Expenditures

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

Working Capital

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

Net Debt

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

Adjusted Funds Flow

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

Net Debt to Adjusted Funds Flow

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

Non-GAAP Measures (continued)

Operating Netback

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

Net Sales of Natural Gas Purchased from Third Parties

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

Conversion Ratio

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

Abbreviations

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

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

Forward-Looking Information and Other Advisories

This MD&A contains certain forward-looking statements and forward-looking information (collectively, "forward-looking statements"), which are based on our current internal expectations, estimates, projections, assumptions and beliefs. These forward-looking statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar or related expressions. These statements are not guarantees of future performance.

In particular, forward-looking statements in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; terms of the volume commitment agreement to be entered into by the Corporation; the closing date of the asset sale; the benefits to be derived from the asset sale; the Corporation's revised 2020 guidance, including cash used in investing activities, average production, royalty rate, operating expense, transportation expense and G&A/finance expense; key goals of the revised 2020 guidance, including, but not limited to the estimated total debt to adjusted funds flow ratio through 2021; the Corporation's hedging activities and the benefits to be derived therefrom; the expectation that the low crude oil environment will continue into the second quarter of 2020 and the reasons therefor; the benefits to be derived from the oil battery and liquids hub commission in April 2020; estimated tax pools; impact of further reduction in future commodity prices; impact of improved commodity prices in North America; terms of the Corporation's derivative contracts, including their purposes, the timing of settlement of such contracts and the expected realization of fixed market prices and variable market exposures for 2020; future commitments and contractual obligations; the Corporation's strategy for managing its capital structure, including 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 Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; 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; timing of construction of the land block at Progress; the anticipation that the compressor and liquids hub will be full for the balance of 2020; the importance of Glacier; 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 conditions (including as a result of demand and supply effects resulting from the COVID-19 pandemic and the actions of OPEC and non-OPEC countries) which will, among other things, impact demand for and market prices of the Corporation's products, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, regulatory approvals, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; lack of available capacity on pipelines; delays in timing of facility installation; potential disruption of the Corporation's operations as a result of the COVID-19 pandemic through potential loss of manpower and labour pools resulting from quarantines in the Corporation's operating areas, risk on the financial capacity of the Corporation's contract counterparties and potentially their ability to perform contractual obligations, delays in obtaining stakeholder and regulatory approvals; the asset sale may not be completed on the anticipated time frames or

Forward-Looking Information and Other Advisories (continued)

at all and the Corporation's actual results, performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information; 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; the impact (and the duration thereof) that the COVID-19 pandemic will have on (i) the demand for crude oil, NGLs and natural gas, (ii) the supply chain, including the Corporation's ability to obtain the equipment and services it requires, and (iii) the Corporation's ability to product, transport and/or sell its crude oil, NGLs 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 ability to efficiently integrate assets acquired through acquisitions, satisfaction of conditions to closing of the asset sale and on the timeframes contemplated; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's crude oil and natural gas properties in the manner currently contemplated; availability of pipeline capacity; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and that the estimates of the Corporation's production, reserves and resources volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders with a more complete perspective on Advantage's future operations and such information may not be appropriate for other purposes. Advantage's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits that Advantage will derive there from. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this MD&A and Advantage disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

This MD&A contains future-oriented financial information and financial outlook information (collectively, "**FOFI**") about the Corporation's prospective capital, operating, royalties, transportation and G&A costs, all of which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. The actual results of operations of the Corporation and the resulting financial results will likely vary from the amounts set forth in this presentation and such variation may be material. The Corporation and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments. However, because this information is subjective and subject to numerous risks, it should not be relied on as necessarily indicative of future results. Except as required by applicable securities laws, the Corporation undertakes no obligation to update such FOFI. FOFI contained in this MD&A was made as of the date of this MD&A and was provided for the purpose of providing further information about the Corporation's anticipated future business operations. Readers are cautioned that the FOFI contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Forward-Looking Information and Other Advisories (continued)

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

References to natural gas, crude oil and condensate and NGLs production in the MD&A refer to conventional natural gas, light crude oil and medium crude oil and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

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

Additional Information

Additional information relating to Advantage can be found on SEDAR at www.sedar.com and the Corporation’s website at www.advantageog.com. Such other information includes the annual information form, the management information circular, press releases, material change reports, material contracts and agreements, and other financial reports. The annual information form will be of particular interest for current and potential shareholders as it discusses a variety of subject matter including the nature of the business, description of our operations, general and recent business developments, risk factors, reserves data and other oil and gas information.

May 6, 2020

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2020 and 2019

Advantage Oil & Gas Ltd.
Consolidated Statements of Financial Position
(unaudited, expressed in thousands of Canadian dollars)

	Notes	March 31 2020	December 31 2019
ASSETS			
Current assets			
Cash and cash equivalents	3	\$ 3,664	\$ 13,099
Trade and other receivables		22,844	29,318
Prepaid expenses and deposits		1,214	1,487
Derivative asset	7	18,863	2,025
Total current assets		46,585	45,929
Non-current assets			
Derivative asset	7	72	-
Exploration and evaluation assets	4	21,443	20,703
Right-of-use assets	5	2,275	2,354
Property, plant and equipment	6	1,458,276	1,749,468
Deferred income tax asset		21,284	-
Total non-current assets		1,503,350	1,772,525
Total assets		\$ 1,549,935	\$ 1,818,454
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		\$ 62,006	\$ 51,900
Derivative liability	7	11,206	11,173
Current portion of non-current liabilities	9,10	1,695	1,550
Total current liabilities		74,907	64,623
Non-current liabilities			
Derivative liability	7	25,101	23,136
Bank indebtedness	8	330,644	295,624
Other long-term liabilities	13	1,720	1,252
Lease liability	9	2,211	2,271
Decommissioning liability	10	63,391	56,989
Deferred income tax liability		-	58,462
Total non-current liabilities		423,067	437,734
Total liabilities		497,974	502,357
SHAREHOLDERS' EQUITY			
Share capital	12	2,349,703	2,349,703
Contributed surplus		119,499	117,116
Deficit		(1,417,241)	(1,150,722)
Total shareholders' equity		1,051,961	1,316,097
Total liabilities and shareholders' equity		\$ 1,549,935	\$ 1,818,454

Commitments (note 17)

Subsequent events (note 18)

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Oil & Gas Ltd.**Consolidated Statements of Comprehensive Income (Loss)**

(unaudited, expressed in thousands of Canadian dollars, except per share amounts)

		Three months ended	
	Notes	March 31	
		2020	2019
Revenues			
Petroleum and natural gas sales from production	15	\$ 64,185	\$ 76,393
Sales of natural gas purchased from third parties	15	-	637
Royalty expense		(3,755)	(2,302)
Petroleum and natural gas revenue		60,430	74,728
Gains (losses) on derivatives	7	16,499	(10,308)
Other income		-	8
Total revenues and other income		76,929	64,428
Expenses			
Operating expense		9,647	8,157
Transportation expense		14,804	13,750
Natural gas purchased from third parties	15	-	2,037
General and administrative expense		1,975	2,481
Share-based compensation expense	13	1,551	1,076
Depreciation expense	5,6	30,331	32,001
Impairment expense	6	361,000	-
Exploration and evaluation expense		190	-
Finance expense		3,696	3,526
Total expenses		423,194	63,028
Income (loss) before taxes		(346,265)	1,400
Income tax recovery (expense)	11	79,746	(719)
Net income (loss) and comprehensive income (loss)		\$ (266,519)	\$ 681
Net income (loss) per share	14		
Basic		\$ (1.43)	\$ 0.00
Diluted		\$ (1.43)	\$ 0.00

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Oil & Gas Ltd.**Consolidated Statements of Changes in Shareholders' Equity**

(unaudited, expressed in thousands of Canadian dollars)

	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2019		\$ 2,349,703	\$ 117,116	\$ (1,150,722)	\$ 1,316,097
Net loss and comprehensive loss		-	-	(266,519)	(266,519)
Share-based compensation	13	-	2,383	-	2,383
Balance, March 31, 2020		\$ 2,349,703	119,499	(1,417,241)	1,051,961

	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2018		\$ 2,342,689	\$ 115,574	\$ (1,126,068)	\$ 1,332,195
Net income and comprehensive income		-	-	681	681
Share-based compensation	13	-	1,705	-	1,705
Balance, March 31, 2019		\$ 2,342,689	\$ 117,279	\$ (1,125,387)	\$ 1,334,581

See accompanying Notes to the Condensed Consolidated Financial Statements

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

		Three months ended	
		March 31	
	Notes	2020	2019
Operating Activities			
Income (loss) before taxes		\$ (346,265)	\$ 1,400
Add (deduct) items not requiring cash:			
Unrealized (gains) losses on derivatives	7	(14,912)	15,287
Share-based compensation expense	13	1,551	1,076
Depreciation expense	5,6	30,331	32,001
Impairment expense	6	361,000	-
Exploration and evaluation expense	4	190	-
Accretion of decommissioning liability	10	198	259
Expenditures on decommissioning liability	10	(179)	(865)
Changes in non-cash working capital	16	(11,088)	(4,675)
Cash provided by operating activities		20,826	44,483
Financing Activities			
Increase in bank indebtedness	8	35,020	19,694
Principal repayment of leases	9	(60)	(193)
Cash provided by financing activities		34,960	19,501
Investing Activities			
Payments on property, plant and equipment	6,16	(64,291)	(59,122)
Payments on exploration and evaluation assets	4	(930)	(592)
Cash used in investing activities		(65,221)	(59,714)
(Decrease) increase in cash and cash equivalents		(9,435)	4,270
Cash and cash equivalents, beginning of period		13,099	6,359
Cash and cash equivalents, end of period		\$ 3,664	\$ 10,629

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Oil & Gas Ltd.

Notes to the Condensed Consolidated Financial Statements

March 31, 2020 (unaudited)

All tabular amounts expressed in thousands of Canadian dollars, except as otherwise indicated.

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

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

Advantage is domiciled and incorporated in Canada under the *Business Corporations Act* (Alberta). Advantage’s head office address is 2200, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation’s common shares are listed on the Toronto Stock Exchange under the symbol “AAV”.

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”) as defined in the Chartered Professional Accountants Canada Handbook (the “CPA Canada Handbook”). The CPA Canada Handbook incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), including IAS 34, Interim Financial Reporting. The Corporation has consistently applied the same accounting policies as those set out in the audited consolidated financial statements for the year ended December 31, 2019, except as noted below. Certain disclosures included in the notes to the annual consolidated financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019, which have been prepared in accordance with IFRS as issued by the IASB.

The accounting policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of May 6, 2020, the date the Board of Directors approved the statements.

(b) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis, except as detailed in the Corporation’s accounting policies in the audited consolidated financial statements for the year ended December 31, 2019.

The methods used to measure fair values of derivative instruments are discussed in note 7.

(c) Functional and presentation currency

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

3. Cash and cash equivalents

	March 31 2020	December 31 2019
Cash at financial institutions	\$ 3,664	\$ 13,099

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at March 31, 2020 cash at financial institutions included US\$0.6 million (December 31, 2019 - US\$0.9 million). The Corporation only deposits cash with major financial institutions of high-quality credit ratings.

4. Exploration and evaluation assets

Balance at December 31, 2018	\$ 22,613
Additions	3,517
Transferred to property, plant and equipment (note 6)	(5,427)
Balance at December 31, 2019	\$ 20,703
Additions	930
Lease expiries	(190)
Balance at March 31, 2020	\$ 21,443

5. Right-of-use assets

Cost	Buildings	Other	Total
Balance at January 1, 2019	\$ 2,458	\$ 186	\$ 2,644
Additions	282	-	282
Expired leases	(422)	-	(422)
Balance at December 31, 2019 and March 31, 2020	\$ 2,318	\$ 186	\$ 2,504

Accumulated depreciation	Buildings	Other	Total
Balance at January 1, 2019	\$ -	\$ -	\$ -
Depreciation	534	38	572
Expired leases	(422)	-	(422)
Balance at December 31, 2019	\$ 112	\$ 38	\$ 150
Depreciation	71	8	79
Balance at March 31, 2020	\$ 183	\$ 46	\$ 229

Net book value	Buildings	Other	Total
At December 31, 2019	\$ 2,206	\$ 148	\$ 2,354
At March 31, 2020	\$ 2,135	\$ 140	\$ 2,275

6. Property, plant and equipment

Cost	Petroleum & Natural Gas Properties	Furniture & Equipment	Total
Balance at December 31, 2018	\$ 2,449,272	\$ 5,925	\$ 2,455,197
Additions	180,888	517	181,405
Capitalized share-based compensation (note 13)	3,157	-	3,157
Changes in decommissioning liability (note 10)	9,220	-	9,220
Transferred from exploration and evaluation assets (note 5)	5,427	-	5,427
Balance at December 31, 2019	\$ 2,647,964	\$ 6,442	\$ 2,654,406
Additions	92,603	97	92,700
Capitalized share-based compensation (note 13)	832	-	832
Changes in decommissioning liability (note 10)	6,528	-	6,528
Balance at March 31, 2020	\$ 2,747,927	\$ 6,539	\$ 2,754,466

Accumulated depreciation	Petroleum & Natural Gas Properties	Furniture & Equipment	Total
Balance at December 31, 2018	\$ 781,234	\$ 4,802	\$ 786,036
Depreciation	118,634	268	118,902
Balance at December 31, 2019	\$ 899,868	\$ 5,070	\$ 904,938
Depreciation	30,200	52	30,252
Impairment	361,000	-	361,000
Balance at March 31, 2020	\$ 1,291,068	\$ 5,122	\$ 1,296,190

Net book value	Petroleum & Natural Gas Properties	Furniture & Equipment	Total
At December 31, 2019	\$ 1,748,096	\$ 1,372	\$ 1,749,468
At March 31, 2020	\$ 1,456,859	\$ 1,417	\$ 1,458,276

During the three months ended March 31, 2020, Advantage capitalized general and administrative expenditures directly related to development activities of \$1.2 million included in additions (year ended December 31, 2019 - \$5.0 million).

Advantage included future development costs of \$1.7 billion (December 31, 2019 - \$1.8 billion) in property, plant and equipment costs subject to depreciation.

6. Property, plant and equipment (continued)

Impairment assessment

For the period ended March 31, 2020, the Corporation identified an indicator of impairment following the decrease in demand for crude oil as a result of the COVID-19 pandemic, and the adequacy of supply management efforts by the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC partners to address such dramatic changes. These factors lead to a decrease in the outlook of commodity prices in the North American market. The Corporation performed an impairment test using after-tax discounted future cash flows of proved and probable reserves, utilizing an inflation rate of 2% and a discount rate of 10%. The following table summarizes the price forecast used in the Corporation’s discounted cash flow estimates:

Year	WTI (\$US/bbl)	Henry Hub (\$US/mmbtu)	AECO (\$Cdn/mmbtu)	Exchange Rate (\$US/\$Cdn)
2020 9 months	25.00	2.00	1.43	0.70
2021	37.00	2.50	2.05	0.73
2022	48.00	2.75	2.33	0.75
2023	48.96	2.81	2.41	0.75
2024	49.94	2.86	2.48	0.75
2025	50.94	2.92	2.56	0.75
2026	51.96	2.98	2.64	0.75
2027	53.00	3.04	2.71	0.75
2028	54.06	3.10	2.80	0.75
2029	55.14	3.16	2.88	0.75
2030	56.24	3.22	2.96	0.75
Thereafter	+2% per year	+2% per year	+2% per year	0.75

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

As a result of the impairment test performed during the period ended March 31, 2020, the Corporation recorded an impairment charge to the Greater Glacier Area CGU of \$361 million (\$277 million net of deferred tax). Our Wembley Area CGU was not impaired at March 31, 2020.

As at March 31, 2020, a 1% increase in the assumed discount rate, or a 5% decrease in the future cash flows of proved and probable reserves while holding all other assumptions constant, would result in the following additional pre-tax impairment expense being recognized:

	1% increase in discount rate	5% decrease in cash flows
Greater Glacier Area CGU	\$ 136,000	\$ 72,000
Wembley Area CGU	-	-
Total	\$ 136,000	\$ 72,000

7. Financial risk management

As at March 31, 2020, there were no significant differences between the carrying amounts reported on the consolidated statement of financial position and the estimated fair values of the Corporation's financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

Fair value is determined following a three-level hierarchy:

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

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

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

The Corporation enters into financial risk management derivative contracts to manage the Corporation's exposure to commodity price risk and interest rate risks. The table below summarizes the realized gains and unrealized gains (losses) on derivatives recognized in net income (loss).

	Three months ended	
	March 31	
	2020	2019
Realized gains on derivatives		
Natural gas	\$ 102	\$ 4,979
Crude oil	1,485	-
Interest rate	-	-
Total	\$ 1,587	\$ 4,979
Unrealized gains (losses) on derivatives		
Natural gas	\$ 3,245	\$ (15,287)
Crude oil	11,905	-
Interest rate	(238)	-
Total	\$ 14,912	\$ (15,287)
Gains (losses) on derivatives		
Natural gas	\$ 3,347	\$ (10,308)
Crude oil	13,390	-
Interest rate	(238)	-
Total	\$ 16,499	\$ (10,308)

7. Financial risk management (continued)

The fair value of financial risk management derivatives has been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements. The following table summarizes the estimated fair market value of the Corporation's outstanding financial risk management derivative contracts.

	March 31 2020	December 31 2019
Derivative type		
Natural gas derivative liability	\$ (27,761)	\$ (31,006)
Crude oil derivative asset (liability)	10,627	(1,278)
Interest rate derivative liability	(238)	-
Net derivative liability	\$ (17,372)	\$ (32,284)
Consolidated statement of financial position classification		
Current derivative asset	\$ 18,863	\$ 2,025
Non-current derivative asset	72	-
Current derivative liability	(11,206)	(11,173)
Non-current derivative liability	(25,101)	(23,136)
Net derivative liability	\$ (17,372)	\$ (32,284)

7. Financial risk management (continued)

(a) Commodity price risk

The Corporation's commodity derivative contracts are classified as Level 2 within the fair value hierarchy. As at March 31, 2020, the Corporation had the following commodity derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas - AECO			
Fixed price swap	April 2020 to October 2020	47,391 mcf/d	Cdn \$1.36/mcf
Fixed price swap	April 2020 to October 2020	9,478 mcf/d	Cdn \$1.82/mcf
Fixed price swap	April 2020 to October 2020	9,478 mcf/d	Cdn \$1.84/mcf
Natural gas - Dawn			
Fixed price swap	April 2020 to October 2020	10,000 mcf/d	US \$1.86/mcf
Fixed price swap	April 2020 to October 2020	10,000 mcf/d	US \$1.85/mcf
Fixed price swap	April 2020 to October 2020	5,000 mcf/d	US \$1.58/mcf
Fixed price swap	April 2020 to October 2020 ⁽¹⁾	5,000 mcf/d	US \$1.60/mcf
Fixed price swap	November 2020 to March 2021	10,000 mcf/d	US \$2.55/mcf
Natural gas - Henry Hub NYMEX			
Fixed price swap	January 2020 to December 2020	20,000 mcf/d	US \$2.31/mcf
Fixed price swap	February 2020 to December 2020	20,000 mcf/d	US \$2.28/mcf
Fixed price swap	January 2021 to March 2021	20,000 mcf/d	US \$2.57/mcf
Natural gas - Chicago Citygate			
Fixed price swap	November 2020 to March 2021	15,000 mcf/d	US \$2.51/mcf
Fixed price swap	April 2021 to October 2021	10,000 mcf/d	US \$2.09/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
Natural gas - Chicago Citygate/Henry Hub Basis Differential			
Basis swap	April 2020 to March 2021	20,000 mcf/d	Henry Hub less US \$0.13/mcf
Crude oil - WTI NYMEX			
Fixed price swap	April 2020 to June 2020	1,000 bbls/d	US \$56.53/bbl
Fixed price swap	July 2020 to December 2020	1,000 bbls/d	US \$55.44/bbl

⁽¹⁾ Contracts entered into subsequent to March 31, 2020.

7. Financial risk management (continued)

(b) Interest rate risk

The Corporation's interest rate derivative contracts are classified as Level 2 within the fair value hierarchy. As at March 31, 2020, the Corporation had the following interest rate derivative contracts in place:

Description of Derivative	Term	Notional Amount	Fixed Rate
One-month bankers' acceptance - CDOR			
Fixed interest rate swap	April 2020 to March 2022	\$ 100,000,000	0.83%
Fixed interest rate swap	April 2020 to March 2022 ⁽¹⁾	\$ 75,000,000	0.79%

⁽¹⁾ Contracts entered into subsequent to March 31, 2020.

(c) Capital management

Advantage's capital structure as at March 31, 2020 and December 31, 2019 is as follows:

	March 31 2020	December 31 2019
Bank indebtedness (non-current) (note 8)	\$ 330,644	\$ 295,624
Working capital deficit ⁽¹⁾	34,284	7,996
Net debt ⁽²⁾	\$ 364,928	\$ 303,620
Shares outstanding (note 12)	186,910,848	186,910,848
Share closing market price (\$/share)	\$ 1.43	\$ 2.75
Market Capitalization	267,283	514,005
Total Capitalization	\$ 632,211	\$ 817,625

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

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

8. Bank indebtedness

	March 31 2020	December 31 2019
Revolving credit facility	\$ 333,000	\$ 298,000
Discount on bankers' acceptance and other fees	(2,356)	(2,376)
Balance, end of period	\$ 330,644	\$ 295,624

The semi-annual redetermination of the Credit Facilities borrowing base was extended by Advantage and the banking syndicate until May 2020. The Credit Facilities have a 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 revolving period for the Credit Facilities will end in June 2020 unless extended at the option of the syndicate for a further 364-day period. If not extended, the credit facility will be converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. The Corporation had letters of credit of US\$6 million outstanding at March 31, 2020. The Corporation did not have any financial covenants at March 31, 2020 and December 31, 2019.

9. Lease liability

	Three months ended		Year ended	
	March 31, 2020		December 31, 2019	
Balance, beginning of the year	\$	2,537	\$	2,644
Additions		-		282
Interest expense		27		104
Lease payments		(87)		(493)
Balance, end of period	\$	2,477	\$	2,537
Current lease liability	\$	266	\$	266
Non-current lease liability	\$	2,211	\$	2,271

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

10. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2020 and 2079. A risk-free rate of 1.36% (December 31, 2019 - 1.67%) and an inflation factor of 2.0% (December 31, 2019 - 2.0%) were used to calculate the fair value of the decommissioning liability at March 31, 2020. A reconciliation of the decommissioning liability is provided below:

	Three months ended		Year ended	
	March 31, 2020		December 31, 2019	
Balance, beginning of the year	\$	58,273	\$	50,028
Accretion expense		198		936
Liabilities incurred		-		1,773
Change in estimates		(27)		(668)
Effect of change in risk-free rate and inflation rate factor		6,555		8,115
Liabilities settled		(179)		(1,911)
Balance, end of period	\$	64,820	\$	58,273
Current decommissioning liability	\$	1,429	\$	1,284
Non-current decommissioning liability	\$	63,391	\$	56,989

11. Income taxes

	Three months ended March 31	
	2020	2019
Income tax recovery (expense)	\$ 79,746	\$ (719)

Income tax recovery (expense) is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

12. 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, 2018	185,942,141	\$ 2,342,689
Shares issued on Performance Share Unit settlements (note 13 (b))	968,707	-
Contributed surplus transferred on Performance Share Unit settlements	-	7,014
Balance at December 31, 2019 and March 31, 2020	186,910,848	\$ 2,349,703

13. Long-term compensation plans

(a) Stock Option Plan

The following tables summarize information about changes in Stock Options outstanding at March 31, 2020:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2018	1,989,149	\$ 6.29
Forfeited	(38,691)	6.82
Expired	(1,110,009)	5.87
Balance at December 31, 2019	840,449	\$ 6.82
Forfeited	(13,190)	6.82
Balance at March 31, 2020	827,259	\$ 6.82

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
\$ 6.82	827,259	0.02	\$ 6.82	827,259	\$ 6.82

No Stock Options were exercised during the three months ended March 31, 2020. All Stock Options subsequently expired on April 6, 2020.

13. Long-term compensation plans (continued)

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

Under the Restricted and Performance Award Incentive Plan, service providers can be granted two types of equity incentive awards: Restricted Share Units and Performance Share Units. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. As at March 31, 2020, no Restricted Share Units have been granted.

The following table is a continuity of Performance Share Units:

	Performance Share Units
Balance at December 31, 2018	2,939,251
Granted	1,670,929
Settled	(598,069)
Forfeited	(64,535)
Balance at December 31, 2019	3,947,576
Forfeited	(7,106)
Balance at March 31, 2020	3,940,470

(c) Share-based compensation expense

Share-based compensation recognized by plan for the three months ended March 31, 2020 and 2019 is as follows:

	Three months ended	
	March 31	
	2020	2019
Stock Options	\$ -	\$ -
Performance Share Units	2,383	1,705
Total share-based compensation	2,383	1,705
Capitalized	(832)	(629)
Share-based compensation expense	\$ 1,551	\$ 1,076

13. Long-term compensation plans (continued)

(d) Performance Award Incentive Plan - Performance Awards

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

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

	Three months ended		Year ended	
	March 31, 2020		December 31, 2019	
Balance, beginning of the year	\$	1,252	\$	-
Amortization of Performance Awards		463		1,247
Interest expense		5		5
Balance, end of period	\$	1,720	\$	1,252

(e) Deferred Share Units

Deferred Share Units are issued to Directors of the Corporation. Each Deferred Share Unit entitles participants to receive cash equal to the share market price of the equivalent number of shares of the Corporation. All Deferred Share Units vest immediately upon grant and become payable upon retirement of the Director from the Board.

The following table is a continuity of Deferred Share Units:

	Deferred Share Units
Balance at December 31, 2018	281,406
Granted	160,457
Balance at December 31, 2019	441,863
Granted	43,913
Balance at March 31, 2020	485,776

The expense related to Deferred Share Units is calculated using the fair value method based on the Corporation's share market price at the end of each reporting period and is charged to general and administrative expense. The following table is a continuity of the Corporation's liability related to outstanding Deferred Share Units included in trade and other accrued liabilities:

	Three months ended		Year ended	
	March 31, 2020		December 31, 2019	
Balance, beginning of the year	\$	1,215	\$	557
Granted		80		320
Revaluation of outstanding Deferred Share Units		(600)		338
Balance, end of period	\$	695	\$	1,215

14. Net income (loss) per share

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

	Three months ended	
	March 31	
	2020	2019
Net income (loss)		
Basic and diluted	\$ (266,519)	\$ 681
Weighted average shares outstanding		
Basic	186,910,848	185,942,141
Performance Share Units	-	5,302,441
Diluted	186,910,848	191,244,582
Net income (loss) per share		
Basic	\$ (1.43)	\$ 0.00
Diluted	\$ (1.43)	\$ 0.00

15. Revenues

(a) Petroleum and natural gas sales from production

Advantage's revenue is comprised of natural gas, crude oil and condensate and NGLs sales to multiple customers. For the three months ended March 31, 2020 and 2019, petroleum and natural gas sales from production was as follows:

	Three months ended	
	March 31	
	2020	2019
Natural gas	\$ 49,109	\$ 66,904
Crude oil and condensate	10,385	4,157
NGLs	4,691	5,332
Petroleum and natural gas sales from production	\$ 64,185	\$ 76,393

At March 31, 2020, receivables from contracts with customers, which are included in trade and other receivables, were \$19.1 million (March 31, 2019 - \$29.8 million), of which 95% are held with counterparties that are investment grade.

(b) Sales of natural gas purchased from third parties

The Corporation did not incur purchases and sales of natural gas from third parties during the three months ended March 31, 2020. During the three months ended March 31, 2019, the Corporation purchased natural gas volumes from third parties to satisfy physical sales commitments. Purchases and sales of natural gas from third parties was as follows:

	Three months ended	
	March 31	
	2020	2019
Sales of natural gas purchased from third parties	\$ -	\$ 637
Natural gas purchased from third parties	\$ -	\$ 2,037

16. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Three months ended March 31	
	2020	2019
Source (use) of cash:		
Trade and other receivables	\$ 6,474	\$ (4,055)
Prepaid expense and deposits	273	202
Trade and other accrued liabilities	10,106	(3,114)
Other long-term liabilities	468	-
	\$ 17,321	\$ (6,967)
Related to operating activities	\$ (11,088)	\$ (4,675)
Related to financing activities	-	-
Related to investing activities	28,409	(2,292)
	\$ 17,321	\$ (6,967)
Cash interest paid	\$ 3,478	\$ 3,601
Cash income taxes paid	\$ -	\$ -

17. Commitments

At March 31, 2020 Advantage had commitments relating to building operating cost of \$2.9 million, processing commitments of \$64.4 million and transportation commitments of \$509.9 million. The estimated remaining payments are as follows:

(\$ millions)	Payments due by period						
	Total	2020	2021	2022	2023	2024	Beyond
Building operating cost ⁽¹⁾	\$ 2.9	\$ 0.3	\$ 0.3	\$ 0.4	\$ 0.4	\$ 0.4	\$ 1.1
Processing	64.4	0.9	3.9	8.5	8.5	8.5	34.1
Transportation	509.9	35.2	53.9	62.0	57.0	53.2	248.6
Total commitments	\$ 577.2	\$ 36.4	\$ 58.1	\$ 70.9	\$ 65.9	\$ 62.1	\$ 283.8

⁽³⁾ Excludes fixed lease payments which are included in the Corporation's lease liability.

18. Subsequent events

Subsequent to March 31, 2020, Advantage announced the sale of a 12.5% interest in the Corporation's 100% owned 400 mmcf/d Glacier Gas Plant for \$100 million, while retaining the remaining 87.5% interest. In conjunction with the transaction, Advantage will enter into a 15-year volume commitment agreement with the purchaser for 50 mmcf/d at a fee of \$0.66/mcf. The transaction is planned to close in July 2020, subject to customary closing conditions.

ABBREVIATIONS

Crude Oil and Natural Gas Liquids

bbl	barrel
bbls	barrels
Mbbls	thousand barrels
NGLs	natural gas liquids
BOE or boe	barrel of oil equivalent
Mboe	thousand barrels of oil equivalent
MMboe	million barrels of oil equivalent
boe/d	barrels of oil equivalent per day
bbls/d	barrels of oil per day

Natural Gas

Mcf	thousand cubic feet
MMcf	million cubic feet
bcf/d	billion cubic feet per day
Mcf/d	thousand cubic feet per day
MMcf/d	million cubic feet per day
Mcfe	thousand cubic feet of natural gas equivalent, using the ratio of 6 Mcf of natural gas being equivalent to one bbl of oil
MMcfe/d	million cubic feet of natural gas equivalent per day
MMbtu	million British Thermal Units
GJ/d	Gigajoules per day

Other

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

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National Bank of Canada
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
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