ADVANTAGE OIL & GAS LTD.

2016 Annual Report

Financial and Operating Highlights	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Financial ($000, except as otherwise indicated)				
Sales including realized hedging	**$ 71,090**	$ 42,654	**$ 215,027**	$ 165,054
Funds from operations	**$ 54,610**	$ 31,656	**$ 166,861**	$ 123,630
per share (1)	**$ 0.30**	$ 0.19	**$ 0.92**	$ 0.72
Total capital expenditures	**$ 30,043**	$ 27,604	**$ 128,014**	$ 164,983
Working capital deficit (2)	**$ 6,167**	$ 7,196	**$ 6,167**	$ 7,196
Bank indebtedness	**$ 153,102**	$ 286,519	**$ 153,102**	$ 286,519
Basic weighted average shares (000)	**184,641**	170,742	**182,056**	170,608
Operating				
Daily Production				
Natural gas (mcf/d)	**215,369**	154,241	**197,852**	139,927
Liquids (bbls/d)	**949**	179	**915**	154
Total mcfe/d (3)	**221,063**	155,315	**203,342**	140,851
Total boe/d (3)	**36,844**	25,886	**33,890**	23,475
Average prices (including hedging)				
Natural gas ($/mcf)	**$ 3.35**	$ 2.96	**$ 2.75**	$ 3.18
Liquids ($/bbl)	**$ 53.01**	$ 43.24	**$ 47.97**	$ 44.60
Cash netbacks ($/mcfe) (3)				
Natural gas and liquids sales	**$ 3.17**	$ 2.37	**$ 2.18**	$ 2.57
Realized gains on derivatives	**0.32**	0.61	**0.71**	0.64
Royalties	**(0.18)**	(0.10)	**(0.07)**	(0.11)
Operating expense	**(0.22)**	(0.35)	**(0.27)**	(0.36)
Transportation expense (4)	**(0.26)**	-	**(0.09)**	-
Operating netback	**2.83**	2.53	**2.46**	2.74
General and administrative	**(0.08)**	(0.11)	**(0.10)**	(0.14)
Finance expense	**(0.09)**	(0.21)	**(0.13)**	(0.21)
Other income (expense)	**0.02**	(0.01)	**0.01**	0.01
Cash netbacks	**$ 2.68**	$ 2.20	**$ 2.24**	$ 2.40

(1) **Based on basic weighted average shares outstanding.**

(2) **Working capital deficit includes trade and other receivables, prepaid expenses and deposits, and trade and other accrued liabilities.**

(3) **A boe and mcfe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas equivalent to one barrel of liquids.**

(4) **Please note that commencing on November 1, 2016, Advantage requested that its gas marketing contract be modified to reflect natural gas transportation as a cost. Prior to November 1, 2016, Advantage's realized natural gas prices were reduced for natural gas transportation from the sales points to AECO. This change has no effect on funds from operations, cash netbacks, or net income (loss), however, Advantage believes this is more instructive for our investors to compare cost structures going forward.**

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MESSAGE TO SHAREHOLDERS

Record Results and Outperformance Underscores Low Cost Glacier Montney Natural Gas Supply & Continuing Growth

Advantage Oil & Gas Ltd. is pleased to report the Corporation outperformed its 2014 through 2016 Glacier Montney development plan objectives and achieved record operating and financial results in 2016. During the last three years, Advantage transformed into a North American leading low cost Montney natural gas and liquids producer with strong investment returns despite extended periods of historically low commodity prices. As we embark on our 2017 through 2019 development plan and beyond, our achievements have further strengthened the Corporation's capacity to continue delivering profitable and sustainable growth based on a disciplined strategy supported by a strong hedging program, market diversification and firm transportation service. As we continue growth from our fourth quarter 2016 production rate of 221 mmcfe/d (36,844 boe/d) to a target of 316 mmcfe/d (52,670 boe/d) in 2019, we are excited to continue development of our vast Montney natural gas and liquids resource contained within the Corporation's land holdings.

We sincerely thank Advantage's Board of Directors and our shareholders for their guidance and ongoing support. We especially wish to thank our staff for their dedication and extra-efforts who have contributed to the Corporation's success in achieving stellar 2016 results and for their accomplishments in the last three years which are summarized below.

Resource Delineation and Capture

During the last three years, the Corporation grew its Montney land holdings by 30% through the acquisition of 36 net sections (23,040 net acres) of targeted high quality lands through Alberta government land sales and producer transactions for a total cost of $13 million. These sections were high graded based on Advantage's geo-technical interpretations and complement the Corporation's existing Montney land holdings. Since 2008, a total of 181 Montney horizontal wells have been drilled at Glacier leading to commercialization of five development layers which are estimated to contain approximately 1,100 future drilling locations. At our Valhalla land block, we have drilled three initial evaluation wells which confirmed natural gas liquids and an additional four wells are planned to be drilled in 2017. At our Wembley and Progress land blocks, industry drilling, in close proximity to our lands, have demonstrated encouraging results and Advantage plans to drill initial evaluation wells within the next 12 to 18 months. Advantage currently has a total of 157 net sections (100,480 net acres) of Montney lands which is 100% operated and controlled.

Operational Excellence

Over the last three years, Advantage increased annual production by 74% (61% per share) to 203 mmcfe/d (33,890 boe/d) and reduced operating costs per mcfe by 44% to $0.27/mcfe ($1.62/boe) in 2016. Through the application of new technologies in conjunction with Advantage's Montney expertise, significant improvements in well performance combined with lower well and facilities costs contributed to improving all-in capital efficiencies to $7,330/boe/d in 2016. Reserves additions have been achieved at an average three year proved plus probable finding and development ("F&D") cost of $0.46/mcfe ($2.76/boe) and proved F&D cost of $0.75/mcfe ($4.53/boe) including the change in future development capital. Advantage's 100% owned Glacier gas plant was expanded from 160 mmcf/d in 2014 to 250 mmcf/d in 2016 with a current expansion underway to further increase raw processing capacity to 400 mmcf/d by the second quarter of 2018. These achievements have created a solid foundation for a continued industry leading low cost structure and targeted production growth to 316 mmcfe/d (52,670 boe/d) in 2019.

Financial Strength

Advantage reduced its year-end total debt from $289 million in 2013 to $159 million in 2016 including reductions in its total capital program requirements by $177 million, growing its cash flow by 96% (81% per share) and achieving hedging gains of $73 million during the last three years. Total corporate cash costs were reduced by 53% to $0.66/mcfe ($3.96/boe) in 2016 resulting in strong operating netbacks of $2.83/mcfe ($16.98/boe) in the fourth quarter of 2016. Advantage generated $39 million of surplus cash (funds from operations less capital) in 2016 which contributed to a strong balance sheet with a 2016 year-end total debt to trailing cash flow ratio of 1.0 and an undrawn credit facility of $247 million to provide significant financial flexibility. Additionally, a commodity risk management and market diversification program is in place through 2019 to provide downside commodity price protection. As a result, Advantage's 2017 through 2019 development plan is highly resilient and estimated to result in a total 2019 year-end debt to trailing cash flow ratio of 0.2 assuming a three year AECO natural gas price assumption of Cdn $2.95/mcf. Assuming an average three year AECO natural gas price assumption of Cdn $2.00/mcf or $3.50/mcf, total 2019 year-end debt to trailing cash flow ratios are estimated to be 1.4 or 0.0, including the Corporation's current hedging positions, respectively.

Commodity Risk Management, Transportation and Market Diversification

Advantage has continued with a multi-year commodity risk management program in conjunction with its Montney development which began in 2008. The volume and price targets related to our hedging positions have and will continue to vary based on future capital program content. Since we have significantly reduced our corporate cash costs and improved capital efficiencies, a smaller volume of hedging, even at lower commodity prices than historical levels, can generate strong returns. Advantage has also proactively secured increasing levels of firm sales gas transportation service of up to 308 mmcf/d which will satisfy 100% of the Corporation's annual production targets (natural gas and liquids) of 236 mmcfe/d, 272 mmcfe/d and 316 mmcfe/d for 2017, 2018 and 2019, respectively. We have diversified our end-markets by securing Henry Hub to AECO basis differentials of US$0.85/mcf on 25,000 mcf/d for calendar 2018 and US$0.88/mcf on 50,000 mcf/d for calendar 2019. Our exposure to AECO prices are estimated to be approximately 57% in 2017.

The Corporation's achievements and strategic positioning further bolsters our confidence in the future development of Advantage's Montney assets to continue generating attractive investment returns and to compete as an industry leading North American natural gas and liquids supply source. We look forward to reporting on our development plan execution over the next three years.

Note:

Please refer to Advantage's Year-end 2016 Reserves press release dated February 7, 2017 for additional details.

2016 Operating and Financial Highlights

Fourth quarter 2016 production was up 42% to a record 221 mmcfe/d (36,844 boe/d) and up 44% to average 203 mmcfe/d (33,890 boe/d) in 2016 representing a 36% increase on a per share basis. Liquids production was up 494% on an annual basis to 915 bbls/d as compared to 2015. The Corporation's strategy to maintain excess Montney well productivity and to retain available processing capacity at its 100% owned Glacier gas plant provided operational flexibility to capitalize on strengthening gas prices and to offset TransCanada Pipeline Limited's ("TCPL") sales gas transportation restrictions during 2016 and particularly in the fourth quarter of 2016.

Operating costs in the fourth quarter of 2016 were reduced by 37% to a record low of $0.22/mcfe ($1.32/boe) and reduced on an annual basis by 25% to $0.27/mcfe ($1.62/boe) compared to the same periods of 2015. This outstanding achievement was made possible by Advantage's continued focus on operational excellence and through the dedicated efforts of our Montney team.

Strong cash flow growth resulted in $39 million of surplus cash (funds from operations less capital expenditures) during 2016. **Annual cash flow was up 35% to $167 million and up 28% on a per share basis to $0.92** which included hedging gains of $53 million. Advantage's cash netback for 2016 was $2.24/mcfe ($13.44/boe) which represents 78% of the realized sales price, including hedging.

Total debt (including working capital deficit) was reduced by $134 million to $159 million during 2016 resulting in a year-end 2016 total debt to trailing cash flow of approximately 1.0x. These achievements were attained despite an average daily AECO natural gas price of $2.16/mcf during 2016. Capital spending during the fourth quarter of 2016 was $30 million and $128 million for 2016.

Current Activity Update and Looking Forward

Advantage currently has 13 completed, standing wells which are expected to provide sufficient field production capability to increase annual production by 16% to our 2017 production target of 236 mmcfe/d (39,337 boe/d). The average drill, complete, equipping and tie-in costs for the 13 wells based on actual costs to date and Management estimates are $4.4 million/well which reflects Advantage's structural cost reductions as well as the continuation of lower service costs in 2016. A new 16 well pad will be rig released in the first quarter of 2017 and will be completed during the latter part of this year to support production growth through 2018.

The Corporation's Glacier gas plant expansion to increase raw processing capacity from 250 mmcf/d to 400 mmcf/d, including increasing propane plus ("C3+") liquids extraction capacity to 6,800 bbls/d, is progressing on-track. Approval has been received from the Alberta Energy Regulator ("AER") and engineering design and equipment orders have been completed. Construction is expected to commence during the second half of 2017 with completion targeted by the second quarter of 2018.

To achieve our 2017 through 2019 production growth, a total of approximately 83 new Montney wells will be required to be drilled out of our estimated drilling inventory of 1,100 future locations at Glacier. This is targeted to drive annual production growth by 53% to 316 mmcfe/d (52,670 boe/d) in 2019. Operational flexibility to allow for increasing growth targets and varying the number of dry gas wells versus liquids rich wells have been included in our development plan.

Commodity Risk Management Program & Market Diversification

Advantage has hedged 45% of its 2017 targeted natural gas production at an average AECO price of Cdn $3.19/mcf, 22% of 2018 targeted natural gas production at an average AECO price of Cdn $3.02/mcf and 18% of Q1 2019 targeted natural gas production at an average AECO price of Cdn $3.00/mcf (% hedged is net of royalties). Additionally, we have secured Henry Hub to AECO basis differentials of US$0.85/mcf on 25,000 mcf/d for calendar 2018 and US$0.88/mcf on 50,000 mcf/d for calendar 2019 to diversify our natural gas markets.

We believe taking a disciplined approach to managing commodity price risk for 2018 and beyond will be prudent as supply and demand fundamentals are expected to remain volatile.

Reserves

Advantage engaged our independent qualified reserves evaluator Sproule Associates Ltd. ("Sproule") to update the reserves analysis for the Company (the "Sproule Report") in accordance with National Instrument 51-101 ("NI 51-101") and the COGE Handbook.

Reserves and production information included herein is stated on a Gross Working Interest basis (before royalty burdens and excluding royalty interests) unless noted otherwise. This summary contains several cautionary statements that are specifically required by NI 51-101. In addition to the detailed information disclosed in this annual report more detailed information on a net interest basis (after royalty burdens and including royalty interests) is included in Advantage's Annual Information Form ("AIF") and is available at www.advantageog.com and www.sedar.com.

Highlights – Gross Working Interest Reserves

	December 31, 2016	December 31, 2015
Proved plus probable reserves (mboe)	366,106	325,347
Present Value of 2P reserves discounted at 10%, before tax ($000)(1)	$2,213,743	$2,035,424
Net Asset Value per Share discounted at 10%, before tax(2)	$11.09	$10.51
Reserve Life Index (proved plus probable - years)(3)	27.2	34.4
Reserves per Share (proved plus probable - boe)(2)	1.98	1.90
Bank debt per boe of reserves (proved plus probable)(4)	$0.42	$0.88

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

(2) Based on 184.654 million Shares outstanding at December 31, 2016, and 170.827 million at December 31, 2015.

(3) Based on Q4 average production and company interest reserves.

(4) Using boe's may be misleading, particularly if used in isolation. In accordance with NI 51-101, a boe conversion ratio for natural gas of 6 mcf: 1 bbl has been used which is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Gross Working Interest Reserves

Summary as at December 31, 2016

	Light & Medium Oil (mbbl)	Natural Gas Liquids (mbbl)	Conventional Natural Gas (mmcf)	Total Oil Equivalent (mboe)
Proved				
Developed Producing	8	3,645	358,980	63,484
Developed Non-producing	-	597	50,736	9,053
Undeveloped	-	11,281	1,027,433	182,520
Total Proved	**8**	**15,524**	**1,437,149**	**255,057**
Probable	3	8,005	618,249	111,049
Total Proved Plus Probable	**11**	**23,529**	**2,055,398**	**366,106**

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

	Before Income Taxes Discounted at		
	0%	10%	15%
Proved			
Developed Producing	$1,084,909	$720,793	$616,180
Developed Non-producing	186,551	90,765	72,810
Undeveloped	2,587,841	614,694	298,395
Total Proved	**3,859,301**	**1,426,251**	**987,386**
Probable	2,384,445	787,492	546,369
Total Proved Plus Probable	**$6,243,745**	**$2,213,743**	**$1,533,754**

(1) Advantage's light crude oil and medium crude oil, conventional natural gas and natural gas liquid reserves were evaluated using Sproule's product price forecast effective December 31, 2016 prior to the provision for income taxes, interests, debt services charges and general and administrative expenses. It should not be assumed that the discounted future net revenue estimated by Sproule represents the fair market value of the reserves.

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

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

Sproule Price Forecasts

The present value of future net revenue at December 31, 2016 was based upon natural gas and natural gas liquids pricing assumptions prepared by Sproule effective December 31, 2016. These forecasts are adjusted for reserve quality, transportation charges and the provision of any applicable sales contracts. The price assumptions used over the next seven years are summarized in the table below:

Year	Alberta AECO-C Natural Gas ($Cdn/mmbtu)	Henry Hub Natural Gas ($US/mmbtu)	Edmonton Propane ($Cdn/bbl)	Edmonton Butane ($Cdn/bbl)	Edmonton Pentanes Plus ($Cdn/bbl)	Exchange Rate ($US/$Cdn)
2017	3.44	3.50	22.74	47.60	67.95	0.78
2018	3.27	3.50	28.04	55.49	75.61	0.82
2019	3.22	3.50	30.64	57.65	78.82	0.85
2020	3.91	4.00	32.27	58.80	80.47	0.85
2021	4.00	4.08	33.95	59.98	82.15	0.85
2022	4.10	4.16	35.68	61.18	83.86	0.85
2023	4.19	4.24	37.46	62.40	85.61	0.85

Net Asset Value using Sproule price and cost forecasts (Before Income Taxes)

The following net asset value ("NAV") table shows what is normally referred to as a "produce-out" NAV calculation under which the current value of the Company's reserves would be produced at forecast future prices and costs. The value is a snapshot in time and is based on various assumptions including commodity prices and foreign exchange rates that vary over time.

	Before Income Taxes Discounted at		
($000, except per Share amounts)	0%	10%	15%
Net asset value per Share [(1)] - December 31, 2015	$31.67	$10.51	$6.83
Present value proved and probable reserves	$6,243,745	$2,213,743	$1,533,754
Undeveloped land[(2)]	16,012	16,012	16,012
Working capital (deficit) and other[(3)]	(28,713)	(28,713)	(28,713)
Bank debt	(153,102)	(153,102)	(153,102)
Net asset value - December 31, 2016	$6,077,942	$2,047,940	$1,367,951
Net asset value per Share [(1)] - December 31, 2016	$32.92	$11.09	$7.41

[(1)] Based on 184.654 million Shares outstanding at December 31, 2016 and 170.827 million Shares outstanding at December 31, 2015.
[(2)] The value of undeveloped land is based on internal estimates.
[(3)] Other is calculated as current and non-current derivative asset less current and non-current derivative liability.

Gross Working Interest Reserves Reconciliation

Proved	Light & Medium Oil (mbbl)	Natural Gas Liquids (mbbl)	Conventional Natural Gas (mmcf)	Total Oil Equivalent (mboe)
Opening balance December 31, 2015	9.4	12,097	1,206,484	213,187
Extensions	-	3,166	142,211	26,868
Infill drilling	-	-	-	-
Improved recovery	-	-	-	-
Technical revisions[(1)]	0.5	846	190,852	32,655
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Royalty changes[(2)]	-	(166)	(20,901)	(3,650)
Economic factors	(0.1)	(86)	(9,087)	(1,600)
Production	(1.4)	(334)	(72,410)	(12,404)
Closing balance at December 31, 2016	8.4	15,524	1,437,149	255,057

Gross Working Interest Reserves Reconciliation (continued)

Proved Plus Probable	Light & Medium Oil (mbbl)	Natural Gas Liquids (mbbl)	Conventional Natural Gas (mmcf)	Total Oil Equivalent (mboe)
Opening balance Dec. 31, 2015	12.2	20,121	1,831,284	325,347
Extensions	-	3,966	174,684	33,080
Infill drilling	-	-	-	-
Improved recovery	-	-	-	-
Technical revisions[(1)]	0.5	(225)	149,264	24,653
Discoveries	-	-	-	-
Acquisitions	-	-	-	-
Royalty changes[(2)]	-	106	(15,929)	(2,549)
Economic factors	(0.2)	(106)	(11,495)	(2,022)
Production	(1.4)	(334)	(72,410)	(12,404)
Closing balance at Dec. 31, 2016	11.1	23,529	2,055,398	366,106

(1) Technical revisions accounted for 60% of the total proved additions and 46% of the total proved plus probable additions. The percentage of each category was calculated by dividing the technical revisions in the category by the total reserve additions in the same category before production.

(2) Royalty changes reflect the adjustment from the Alberta Royalty Framework to the Modernized Royalty Framework.

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

2016 F&D Costs – Gross Working Interest Reserves Excluding Future Development Capital – NI 51-101

	Proved	Proved Plus Probable
Capital expenditures ($000)	$128,014	$128,014
Total mboe, end of year	255,057	366,106
Total mboe, beginning of year	213,187	325,347
Production, mboe	12,404	12,404
Reserve additions, mboe	54,274	53,163
2016 F&D costs ($/boe)	$2.36	$2.41
2015 F&D costs ($/boe)	$5.56	$4.95
Three-year average F&D costs ($/boe)	$4.75	$4.72

2016 F&D Costs – Gross Working Interest Reserves Including Future Development Capital – NI 51-101

	Proved	Proved Plus Probable
Capital expenditures ($000)	$128,014	$128,014
Net change in Future Development Capital ($000)	(47,091)	(131,400)
Total capital ($000)	80,923	(3,386)
Total mboe, end of year	255,057	366,106
Total mboe, beginning of year	213,187	325,347
Production, mboe	12,404	12,404
Reserve additions, mboe	54,274	53,163
2016 F&D costs ($/boe)	$1.49	$(0.06)
2015 F&D costs ($/boe)	$5.22	$4.65
Three-year average F&D costs ($/boe)	$4.53	$2.76

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

(2) The aggregate of the exploration and development costs incurred in the most recent financial year and the change during that year in estimated FDC generally will not reflect total finding and development costs related to reserves additions for that year. Changes in forecast FDC occur annually as a result of development activities, acquisition and disposition activities and capital cost estimates that reflect Sproule's best estimate of what it will cost to bring the proved undeveloped and probable reserves on production.

(3) The change in FDC is primarily from lower future well costs which were partly offset by increases in facilities costs to include an upsized Glacier gas plant expansion to 400 mmcf/d and future infrastructure costs such as a frac water supply system, gas gathering system expansions and additional utilities.

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of March 2, 2017, provides a detailed explanation of the consolidated financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three months and year ended December 31, 2016 and should be read in conjunction with the December 31, 2016 audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated. The term "boe" or barrels of oil equivalent and "mcfe" or thousand cubic feet equivalent may be misleading, particularly if used in isolation. A boe or mcfe conversion ratio of six thousand cubic feet of natural gas equivalent to one barrel of oil (6 mcf: 1 bbl) is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. As the value ratio between natural gas and crude oil based on the current prices of natural gas and crude oil is significantly different from the energy equivalency of 6:1, utilizing a conversion on a 6:1 basis may be misleading as an indication of value.

Forward-Looking Information 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 statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar or related expressions. These statements are not guarantees of future performance.

In particular, forward-looking statements included in this MD&A include, but are not limited to, the Corporation's hedging activities; terms of the Corporation's derivative contracts, including the timing of settlement of such contracts; effect of fluctuations in commodity prices as compared to valuation assumptions on actual gains or losses realized on cash settlement of derivatives; effect of commodity prices on the Corporation's financial results, condition and performance; industry conditions, including effect of changes in commodity prices, weather and general economic conditions on the crude oil and natural gas industry and demand for crude oil and natural gas; average royalty rates and the impact of well depths, well production rates, commodity prices and gas cost allowance on average corporate royalty rates; future anticipated royalty rates; terms of the MRF and the estimated impact on economic returns for the Corporation's average Upper, Middle and Lower Montney wells; Advantages plans to continue to evaluate and optimize the impact of drilling and completion design changes on royalties and economics in respect of the MRF; terms of the Corporation's equity compensation plans; the Corporation's expectation that it will realize lower cash finance expense in future periods of 2017; estimated tax pools as at December 31, 2016; future commitments and contractual obligations; terms of the Corporation's credit facilities, including timing of the next review of the credit facilities, effect of revisions or changes in reserve estimates and commodity prices on the borrowing base, and limitations on the utilization of hedging contracts; the Corporation's expectations regarding extension of Advantage's credit facilities at each annual review; the Corporation's strategy for managing its capital structure, including the use of equity financing arrangements, share repurchases, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the timing of reviews of capital structure and forecast information by management and the Board of Directors; effect of the Corporation's continual financial assessment processes on the Corporation's ability to mitigate risks; the Corporation's ability to satisfy all liabilities and commitments, including a working capital deficit, and meet future obligations as they become due; the Corporation's belief that it is well positioned to successfully execute its multi-year development plan at Glacier, Alberta; Advantage's estimated funds from operations and total debt to trailing cash flow ratio for 2017; expected timing of completion of expansion of the Corporation's Glacier gas plant; the Corporation's drilling and completion plans, including the anticipated timing of certain well completions; the Corporation's expectation that certain wells will meet Advantage's production targets until the second quarter of 2017; the Corporation's plans to put additional wells on-stream and the expected timing thereof; the focus of the Corporation's capital expenditures and operations, including the Corporation's drilling plans; the Corporation's intentions to monitor debt levels to ensure an optimal mix of financing and cost of capital to provide a maximum return to the Corporation's shareholders; and the statements under "critical accounting estimates" in this MD&A.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, risks related to changes in general economic, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; lack of available capacity on pipelines; delays in timing of completion of the expansion of the Corporation's Glacier gas plant; the failure to extend our credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; and the risks and uncertainties described in the Corporation's Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: current and future prices of oil and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's crude oil and natural gas properties in the manner currently contemplated; 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 and, in particular the information in respect of the Corporation's prospective funds from operations and debt to trailing cash flow for 2017, may contain future oriented financial information ("FOFI") within the meaning of applicable securities laws. The FOFI has been prepared by management to provide an outlook of the Corporation's activities and results and may not be appropriate for other purposes. The FOFI has been prepared based on a number of assumptions, including the assumptions discussed above. The actual results of operations of the Corporation and the resulting financial results may vary from the amounts set forth herein, and such variations may be material. The Corporation and management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments. FOFI contained in this MD&A was made as of the date of this MD&A and the Corporation disclaims any intention or obligations to update or revise any FOFI contained in this MD&A, whether as a result of new information, future events or otherwise, unless required pursuant to applicable law.

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

Non-GAAP Measures

The Corporation discloses several financial measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial measures include funds from operations and cash netbacks. Management believes that these financial measures are useful supplemental information to analyze operating performance and provide an indication of the results generated by the Corporation's principal business activities. Investors should be cautioned that these measures should not be construed as an alternative to net income, comprehensive income, and cash provided by operating activities or other measures of financial performance as determined in accordance with GAAP. Advantage's method of calculating these measures may differ from other companies, and accordingly, they may not be comparable to similar measures used by other companies.

Funds from operations, as presented, is based on cash provided by operating activities, before expenditures on decommissioning liability and changes in non-cash working capital, reduced for finance expense excluding accretion. Management believes these adjustments to cash provided by operating activities increase comparability between reporting periods. Cash netbacks are dependent on the determination of funds from operations and include the primary cash sales and expenses on a per mcfe basis that comprise funds from operations. Funds from operations reconciled to cash provided by operating activities is as follows:

	Three months ended December 31			Year ended December 31		
($000)	**2016**	**2015**	**% change**	**2016**	**2015**	**% change**
Cash provided by operating activities	$ 57,099	$ 29,772	92 %	$ 174,906	$ 113,364	54 %
Expenditures on decommissioning liability	491	552	(11) %	1,857	1,262	47 %
Changes in non-cash working capital	(1,067)	4,297	(125) %	(567)	19,376	(103) %
Finance expense [(1)]	(1,913)	(2,965)	(35) %	(9,335)	(10,372)	(10) %
Funds from operations	**$ 54,610**	**$ 31,656**	**73 %**	**$ 166,861**	**$ 123,630**	**35 %**

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

Overview

	Three months ended December 31				Year ended December 31			
	2016		2015		2016		2015	
	$000	per mcfe	$000	per mcfe	$000	per mcfe	$000	per mcfe
Natural gas and liquids sales	$ 64,556	$ 3.17	$ 33,867	$ 2.37	$ 161,933	$ 2.18	$ 132,311	$ 2.57
Realized gains on derivatives	6,534	0.32	8,787	0.61	53,094	0.71	32,743	0.64
Royalties	(3,637)	(0.18)	(1,379)	(0.10)	(4,900)	(0.07)	(5,837)	(0.11)
Operating expense	(4,490)	(0.22)	(4,998)	(0.35)	(20,358)	(0.27)	(18,357)	(0.36)
Transportation expense	(5,223)	(0.26)	-	-	(6,982)	(0.09)	-	-
Operating income and operating netbacks	**57,740**	**2.83**	**36,277**	**2.53**	**182,787**	**2.46**	**140,860**	**2.74**
General and administrative expense (1)	(1,680)	(0.08)	(1,581)	(0.11)	(7,469)	(0.10)	(7,222)	(0.14)
Finance expense (2)	(1,913)	(0.09)	(2,965)	(0.21)	(9,335)	(0.13)	(10,372)	(0.21)
Other income (3)	463	0.02	(75)	(0.01)	878	0.01	364	0.01
Funds from operations and cash netbacks	**$ 54,610**	**$ 2.68**	**$ 31,656**	**$ 2.20**	**$ 166,861**	**$ 2.24**	**$ 123,630**	**$ 2.40**
Per basic weighted average share	**$ 0.30**		**$ 0.19**		**$ 0.92**		**$ 0.72**	

(1) General and administrative expense excludes non-cash share based compensation.

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

(3) Other income excludes non-cash other income.

For the three months and year ended December 31, 2016, Advantage realized funds from operations of $54.6 million and $166.9 million with cash netbacks of $2.68/mcfe and $2.24/mcfe, respectively. On a per share basis, funds from operations was $0.30 and $0.92 per share for the three months and year ended December 31, 2016, respectively. In the fourth quarter of 2016, we achieved total funds from operations that was $23.0 million higher than for the same period of 2015, we generated free cash flow of $24.6 million (funds from operations exceeding net capital expenditures) and reduced bank indebtedness by $25.9 million. These accomplishments have been due to a 42% increase in production, a 26% increase in the AECO daily price (see "Commodity Prices and Marketing"), realized derivative gains of $6.5 million from our disciplined commodity risk management program (see "Commodity Price Risk and Market Diversification") and low total corporate cash costs from ongoing successes at our Montney resource development located at Glacier, Alberta. It is also significant to note that excluding realized gains on derivatives, Advantage would still have generated a cash netback of $2.36/mcfe for the fourth quarter of 2016. For 2016, we achieved total funds from operations that was $43.2 million higher than 2015 generating free cash flow of $39 million that was used to reduce bank indebtedness.

Natural Gas and Liquids Sales

($000)	Three months ended December 31 2016	Three months ended December 31 2015	% change	Year ended December 31 2016	Year ended December 31 2015	% change
Natural gas sales	$ 59,925	$ 33,155	81 %	$ 145,878	$ 129,802	12 %
Realized gains on derivatives	6,534	8,787	(26) %	53,094	32,743	62 %
Natural gas sales including derivatives	66,459	41,942	58 %	198,972	162,545	22 %
Liquids sales	4,631	712	550 %	16,055	2,509	540 %
Total (1)	**$ 71,090**	**$ 42,654**	**67 %**	**$ 215,027**	**$ 165,054**	**30 %**

(1) Total excludes unrealized derivative gains and losses.

Total sales including realized derivatives for the three months ended December 31, 2016 increased $28.4 million or 67% to $71.1 million as compared to the fourth quarter of 2015, and increased $14.4 million or 25% as compared to the third quarter of 2016. Total sales have increased as a result of a 26% increase in AECO daily natural gas prices, higher production and a disciplined commodity risk management program. We significantly increased our liquids sales through additional Middle Montney natural gas liquids production from our refrigeration facilities at the Glacier gas plant. Our liquids production is comprised of approximately 75% condensate and with the increased production in 2016, became a larger proportion of our total sales.

Production

	Three months ended December 31 2016	Three months ended December 31 2015	% change	Year ended December 31 2016	Year ended December 31 2015	% change
Natural gas (mcf/d)	215,369	154,241	40 %	197,852	139,927	41 %
Liquids (bbls/d)	949	179	430 %	915	154	494 %
Total - mcfe/d	**221,063**	**155,315**	**42 %**	**203,342**	**140,851**	**44 %**
- boe/d	**36,844**	**25,886**	**42 %**	**33,890**	**23,475**	**44 %**
Natural gas (%)	97%	99%		97%	99%	
Liquids (%)	3%	1%		3%	1%	

Average production during the fourth quarter of 2016 increased 42% to 221 mmcfe/d and increased 44% for 2016 to 203 mmcfe/d, as compared to the respective periods of 2015. Production increased consistent with our multi-year development plan and incremental firm transportation service contracts that became effective in April 2016 to support the higher production level. Available processing capacity at our 100% owned Glacier gas plant was successfully utilized throughout 2016 to offset TransCanada Pipelines Ltd. ("TCPL") sales gas pipeline restrictions and particularly during the fourth quarter when firm service restrictions were more pronounced.

Commodity Prices and Marketing

	Three months ended December 31					Year ended December 31				
		2016		2015	% change		2016		2015	% change
Average Realized Pricing										
Natural gas, excluding hedging ($/mcf)	$	3.02	$	2.34	29 %	$	2.01	$	2.54	(21) %
Natural gas, including hedging ($/mcf)	$	3.35	$	2.96	13 %	$	2.75	$	3.18	(14) %
Liquids, excluding and including hedging ($/bbl)	$	53.01	$	43.24	23 %	$	47.97	$	44.60	8 %
Benchmark Prices										
AECO daily ($/mcf)	$	3.09	$	2.46	26 %	$	2.16	$	2.70	(20) %
AECO monthly ($/mcf)	$	2.81	$	2.65	6 %	$	2.09	$	2.77	(25) %
NYMEX ($US/mmbtu)	$	2.95	$	2.28	29 %	$	2.43	$	2.67	(9) %
Edmonton Light ($/bbl)	$	60.76	$	51.99	17 %	$	52.27	$	56.74	(8) %

Advantage's natural gas production at Glacier is delivered and sold directly into TCPL. Advantage sells production at the AECO monthly price equal to our AECO fixed price contracted volumes (see "Commodity Price Risk and Market Diversification"). The remainder of our natural gas production is sold at the AECO daily price. Realized natural gas prices, excluding hedging, were higher than the three months ended December 31, 2015 primarily as a result of the increase in AECO prices. Natural gas prices began to decline in late 2014 due to the continued strong U.S. domestic natural gas production relative to demand that had resulted in high natural gas inventory. This situation placed additional pressure on Canadian natural gas prices that experienced a more significant relative decline. The supply and demand imbalance continued throughout 2015 and worsened through the first half of 2016. However, in the second half of 2016 natural gas prices began to improve as the typical build in gas storage in advance of winter had decreased due to a strong increase in power generation and exports accompanied by lower production, thereby leading to a reduced storage surplus and more balanced market.

Prior to November 1, 2016, the natural gas prices we realized were reduced for transportation from the sales points to AECO. Commencing on November 1, 2016, gas transportation is no longer deducted from realized natural gas prices, but rather presented as Transportation Expense (see "Transportation Expense").

Commodity Price Risk and Market Diversification

The Corporation's financial results and condition will be dependent on the prices received for natural gas production. Natural gas prices have fluctuated widely and are determined by supply and demand factors, including weather, and general economic conditions in natural gas consuming and producing regions throughout North America. Management has been proactive in entering into derivative contracts for the purposes of reducing cash flow volatility and diversifying price realization to multiple markets in support of our Glacier multi-year development plan. Our Credit Facilities allow Advantage to enter derivative contracts up to 75% of total estimated natural gas and liquids production over the first three years and 50% over the fourth year.

Our natural gas production and corresponding derivative contracts are expected to result in the realization of the following fixed and variable market prices for 2017 to 2019:

	2017			2018			2019		
	Volumes Contracted (1)	Average minimum price	Estimated % of Production Target	Volumes Contracted (1)	Average minimum price	Estimated % of Production Target	Volumes Contracted (1)	Average minimum price	Estimated % of Production Target
Fixed Price									
AECO fixed price swaps	96.8 mmcf/d	$3.19/mcf	43%	53.3 mmcf/d	$3.02/mcf	20%	11.9 mmcf/d	$3.00/mcf	4%
Variable Price									
AECO daily price	129.2 mmcf/d	AECO	57%	181.7 mmcf/d	AECO	70%	235.1 mmcf/d	AECO	79%
Henry Hub through basis swaps	-	-	-	25.0 mmcf/d	Henry Hub less US$0.85/mcf	10%	50.0 mmcf/d	Henry Hub less US$0.88/mcf	17%
	129.2 mmcf/d		57%	206.7 mmcf/d		80%	285.1 mmcf/d		96%
Total (2)	226.0 mmcf/d		100%	260.0 mmcf/d		100%	297.0 mmcf/d		100%

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

(2) Represents the midpoint of our Guidance for 2017 to 2019 gas volumes (see News Release dated November 28, 2016)

A summary of realized and unrealized derivative gains and losses for the three months and years ended December 31, 2016 and 2015 are as follows:

	Three months ended December 31			Year ended December 31		
($000)	**2016**	**2015**	**% change**	**2016**	**2015**	**% change**
Realized gains on derivatives	$ 6,534	$ 8,787	(26) %	$ 53,094	$ 32,743	62 %
Unrealized gains (losses) on derivatives	(36,587)	6,374	(674) %	(66,781)	(2,321)	2,777 %
Total gains (losses) on derivatives	**$ (30,053)**	**$ 15,161**	**(298) %**	**$ (13,687)**	**$ 30,422**	**(145) %**

For the three months and year ended December 31, 2016, we realized derivative gains as a result of the decline in natural gas prices as compared to our average derivative contract prices. For the year ended December 31, 2016, an unrealized derivative loss of $66.8 million was recognized, being the decrease in fair value of our derivative contracts to a net liability of $22.6 million at December 31, 2016 as compared to a net asset of $44.2 million at December 31, 2015. The fair value of the net derivative asset or liability is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses are not cash and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. The decrease in the fair value of our outstanding derivative contracts was primarily due to $53.1 million actual cash received from derivative settlements in 2016 combined with an improvement in natural gas prices as at December 31, 2016. Remaining derivative contracts will settle between January 1, 2017 and December 31, 2019 corresponding to when the Corporation will recognize sales from production.

Royalty Expense

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
Royalty expense ($000)	$ 3,637	$ 1,379	164 %	$ 4,900	$ 5,837	(16) %
per mcfe	$ 0.18	$ 0.10	80 %	$ 0.07	$ 0.11	(36) %
Royalty Rate (percentage of natural gas and liquids sales)	5.6 %	4.1 %	1.5 %	3.0 %	4.4 %	(1.4) %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation has mineral leases with provincial governments, individuals and other companies. Our current average royalty rates are determined by various royalty regimes that incorporate factors including well depths, well production rates, and commodity prices. Royalties also include the impact of gas cost allowance ("GCA") which is a reduction of royalties payable to the Alberta Provincial Government (the "Crown") to recognize capital and operating expenditures incurred by Advantage in the gathering and processing of the Crown's share of our natural gas production. The Corporation recovered $2.1 million of GCA in the second quarter of 2016 in relation to 2015 capital expenditures, resulting in a royalty expense and rate for the year ended December 31, 2016 that are low. Royalty expense for the three months ended December 31, 2016 is higher than the same period of 2015 owing to higher production and commodity prices realized in the fourth quarter of 2016 (see "Commodity Prices and Marketing"). The royalty rate for the three months ended December 31, 2016 is modestly higher than the same period of 2015 due to higher commodity prices and a higher proportion of liquids production to which higher royalty rates are applied than to natural gas. In 2017, we anticipate royalty rates of between 4.0% and 6.0%.

On January 29, 2016, the Alberta government released its new Modernized Royalty Framework ("MRF"). The new royalty framework partially emulates a revenue minus cost royalty structure and will be effective for wells spud on or after January 1, 2017 with existing wells continuing to operate under the previous royalty framework for a ten-year period. A new well's early production will be subject to a flat 5% royalty until the well's total revenue equals the Drilling and Completion Cost Allowance, which is a proxy for the well cost based on average industry drilling and completion costs. Afterwards, the company will pay higher royalty rates that vary depending on the resource and market prices. Royalty rates will drop to match declining production rates when the well reaches a Maturity Threshold. The new royalty framework is expected to incentivize low cost producers with higher productivity wells which will continue to benefit Advantage. We have reviewed the new framework formulas and estimate that at natural gas prices up to AECO $4.00/mcf, the impact on the economic returns for our average Upper and Lower Montney wells are insignificant while the economic returns for our average Middle Montney wells are slightly improved. Advantage will continue to evaluate and optimize the impact of drilling and completion design changes on royalties and economics in respect of the MRF.

Operating Expense

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
Operating expense ($000)	$ 4,490	$ 4,998	(10) %	$ 20,358	$ 18,357	11 %
per mcfe	$ 0.22	$ 0.35	(37) %	$ 0.27	$ 0.36	(25) %

Operating expense per mcfe for the fourth quarter of 2016 decreased 37% to $0.22/mcfe from $0.35/mcfe in the fourth quarter of 2015 and from $0.25/mcfe in the third quarter of 2016. The lower fourth quarter 2016 per mcfe operating costs resulted from reduced water disposal costs, continued efficiency improvement with equipment maintenance procedures and higher plant throughput.

Total operating expense for the year ended December 31, 2016 was 11% higher than for the same period of 2015 due to production that increased by 44%, significantly offset by operating efficiency.

Transportation Expense

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
Transportation expense						
Natural gas ($000)	$ 4,217	$ -	100 %	$ 4,217	$ -	100 %
per mcfe	$ 0.21	$ -	100 %	$ 0.06	$ -	100 %
Liquids ($000)	$ 1,006	$ -	100 %	$ 2,765	$ -	100 %
per mcfe	$ 0.05	$ -	100 %	$ 0.03	$ -	100 %
Total transportation expense ($000)	$ 5,223	$ -	100 %	$ 6,982	$ -	100 %
per mcfe	$ 0.26	$ -	100 %	$ 0.09	$ -	100 %

Transportation expense represents the cost of transporting our liquids and natural gas to the sales points.

The first quarter of 2016 was the first reporting period in which we have presented liquids transportation expense due to higher liquids recoveries at our Glacier gas plant.

Natural gas production at Glacier is delivered and sold directly into TCPL. Prior to November 1, 2016, natural gas transportation was presented as a reduction against realized natural gas prices (see "Commodity Prices and Marketing") as our transportation contracts were permanently assigned to our third party marketer. As the magnitude of the transportation commitments have significantly increased for the third party marketer with our continued growth, commencing November 1, 2016 Advantage chose to have these contracts permanently assigned back to Advantage and natural gas transportation expense is now presented separately. This change has no effect on funds from operations, cash netbacks, or net income (loss).

General and Administrative Expense

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
General and administrative expense						
Cash expense ($000)	$ 1,680	$ 1,581	6 %	$ 7,469	$ 7,222	3 %
per mcfe	$ 0.08	$ 0.11	(27) %	$ 0.10	$ 0.14	(29) %
Share based compensation ($000)	$ 916	$ 1,078	(15) %	$ 3,281	$ 3,347	(2) %
per mcfe	$ 0.05	$ 0.08	(38) %	$ 0.04	$ 0.07	(43) %
Total general and administrative expense ($000)	$ 2,596	$ 2,659	(2) %	$ 10,750	$ 10,569	2 %
per mcfe	$ 0.13	$ 0.19	(32) %	$ 0.14	$ 0.21	(33) %
Employees at December 31				27	26	4 %

Cash general and administrative ("G&A") expense for the year ended December 31, 2016 is comparable to the same period of 2015. On a per mcfe basis, a 27% reduction was realized in the fourth quarter of 2016 compared to the same period of 2015, as a result of higher production.

Share based compensation represents non-cash G&A expense associated with Advantage's stock option plan and restricted and performance award plan that are designed to provide for long-term compensation to service providers and to align the interests of service providers with that of shareholders. As at December 31, 2016, a total of 3.1 million stock options and 1.3 million performance awards are unexercised which represents 2.4% of Advantage's total outstanding common shares.

Depreciation Expense

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
Depreciation expense ($000)	$ 28,382	$ 23,247	22 %	$ 116,232	$ 87,391	33 %
per mcfe	$ 1.40	$ 1.63	(14) %	$ 1.56	$ 1.70	(8) %

Depreciation of natural gas and liquids properties is provided on the units-of–production method based on total proved and probable reserves, including future development costs, on a component basis. The rate of depreciation expense per mcfe was lower as total costs, including future development costs, as a proportion of total proved and probable reserves declined due to the continued efficiency of reserve additions. Depreciation expense was higher for the three months and year ended December 31, 2016 than the same periods of 2015, due to the continued production increase at Glacier.

Finance Expense

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
Finance expense						
Cash expense ($000)	$ 1,913	$ 2,965	(35) %	$ 9,335	$ 10,372	(10) %
per mcfe	$ 0.09	$ 0.21	(57) %	$ 0.13	$ 0.21	(38) %
Accretion expense ($000)	$ 291	$ 286	2 %	$ 915	$ 1,440	(36) %
per mcfe	$ 0.01	$ 0.02	(50) %	$ 0.01	$ 0.03	(67) %
Total finance expense ($000)	$ 2,204	$ 3,251	(32) %	$ 10,250	$ 11,812	(13) %
per mcfe	$ 0.10	$ 0.23	(57) %	$ 0.14	$ 0.24	(42) %

Cash finance expense for the three months ended December 31, 2016 decreased by 35% compared to the same period of 2015. Bank indebtedness reached its lowest average level for the year in the fourth quarter of 2016 due to funds from operations that exceeded net capital expenditures. Interest rates are primarily based on short term bankers' acceptance rates plus a stamping fee and determined by total debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities. In 2017, we expect lower cash finance expense as a result of our lower bank indebtedness, and lower interest rates as determined by our total debt to EBITDA ratio.

Accretion expense represents non-cash charges that increase the carrying value of convertible debentures and decommissioning liability to their maturity values as a result of the passage of time. Since our remaining convertible debentures matured on January 30, 2015, accretion expense for the year ended December 31, 2016 was lower than the same period of 2015.

Taxes

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2016, the Corporation recognized a deferred income tax recovery of $4.6 million as a result of the $20.3 million loss before taxes and credited $1.3 million to share capital related to tax deductions available from share issue costs. As at December 31, 2016, the Corporation had a deferred income tax liability of $35.2 million.

Estimated tax pools at December 31, 2016, are as follows:

	($ millions)
Canadian Development Expenses	$ 171
Canadian Exploration Expenses	66
Canadian Oil and Gas Property Expenses	9
Non-capital losses	710
Undepreciated Capital Cost	212
Capital losses	158
Scientific Research and Experimental Development Expenditures	33
Other	12
	$ 1,371

Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended December 31			Year ended December 31		
	2016	2015	% change	2016	2015	% change
Net income (loss) and comprehensive income (loss) ($000)	$ (8,845)	$ 12,408	(171) %	$ (15,734)	$ 21,378	(174) %
per share - basic	$ (0.05)	$ 0.08	(163) %	$ (0.09)	$ 0.13	(169) %
per share - diluted	$ (0.05)	$ 0.07	(171) %	$ (0.09)	$ 0.12	(175) %

Advantage has reported a net loss of $8.8 million and $15.7 million, respectively for the three months and year ended December 31, 2016. Our net losses for the three months and year ended December 31, 2016 were most significantly impacted by unrealized losses on derivatives of $36.6 and $66.8 million. Unrealized gains and losses on derivatives are non-cash, can fluctuate greatly between periods and normally result from changes to the estimated value to settle outstanding contracts (see "Commodity Price Risk and Market Diversification"). Compared to the respective periods in 2015, net losses were positively impacted by increased revenue due to higher commodity prices and production volumes, partially offset by higher depreciation expenses which also resulted from higher production volumes.

Contractual Obligations and Commitments

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

		Payments due by period							
($ millions)		**Total**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**After 2022**
Building leases		$ 3.0	$ 1.1	$ 1.2	$ 0.7	$ -	$ -	$ -	$ -
Transportation		180.2	24.9	26.2	27.8	21.9	17.9	17.6	43.9
Bank indebtedness (1)	- principal	153.1	-	153.1	-	-	-	-	-
	- interest	10.2	6.9	3.3	-	-	-	-	-
Total contractual obligations		**$ 346.5**	**$ 32.9**	**$ 183.8**	**$ 28.5**	**$ 21.9**	**$ 17.9**	**$ 17.6**	**$ 43.9**

(1) As at December 31, 2016, the Corporation's bank indebtedness was governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed annually, with the next review scheduled in June 2017. The facility is revolving and extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

Liquidity and Capital Resources

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

($000, except as otherwise indicated)		**December 31, 2016**
Bank indebtedness (non-current)	$	153,102
Working capital deficit (1)		6,167
Total debt (2)	**$**	**159,269**
Shares outstanding		184,654,333
Shares closing market price ($/share)	$	9.12
Market capitalization (3)	**$**	**1,684,048**
Total capitalization	**$**	**1,843,317**
Total debt to funds from operations (4)		**1.0**

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

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

(3) Market capitalization is a non-GAAP measure calculated by multiplying shares outstanding by the closing market share price on the applicable date.

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

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital, 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.

On March 8, 2016, Advantage's 13,427,075 common share equity financing closed with net proceeds of $95.1 million raised and used initially to reduce bank indebtedness. In the second quarter of 2016, Advantage renewed its Credit Facilities at $400 million, and $247 million or 62% was available at December 31, 2016 (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's annual funds from operations of $167 million exceeded 2016 net capital expenditures by $39 million with the surplus cash flow used to reduce bank indebtedness, resulting in a year-end 2016 total debt to trailing funds from operations of 1.0 times. Advantage has a strong balance sheet, a disciplined commodity risk management program, an industry leading low cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing its multi-year development plan at Glacier, Alberta. Advantage's guidance for 2017 estimates that funds from operations will grow to $210 million, and is expected to reduce total debt to trailing cash flow to 0.7 times at year-end 2017.

Shareholders' Equity

As at December 31, 2016, Advantage had 184.7 million common shares outstanding. During the year ended December 31, 2016, Advantage issued 0.4 million common shares to service providers in exchange for the exercise of 0.9 million stock options. As at December 31, 2016, a total of 3.1 million stock options and 1.3 million performance awards are unexercised which represents 2.4% of Advantage's total outstanding common shares. On March 8, 2016, Advantage closed the equity financing of 13,427,075 common shares issued for net proceeds of $95.1 million which was used initially to reduce bank indebtedness. As at March 2, 2017, Advantage had 184.9 million common shares outstanding.

Bank Indebtedness, Credit Facilities and Other Obligations

At December 31, 2016, Advantage had bank indebtedness outstanding of $153.1 million, a decrease of $133.4 million since December 31, 2015. The change in bank indebtedness was consistent with planned capital expenditure activity in our approved 2016 budget and the equity financing that closed on March 8, 2016 in which net proceeds of $95.1 million was raised. Advantage's credit facilities have a borrowing base of $400 million and is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation (the "Credit Facilities"). The borrowing base for the Credit Facilities is determined by the banking syndicate through a thorough evaluation of our reserve estimates based upon their own commodity price expectations. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In the second quarter of 2016, the Credit Facilities borrowing base was renewed at $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. Advantage requested a reduction from the prior $450 million borrowing base as its strong balance sheet and estimated capital requirements for future growth provides ample flexibility and we expect to save interest costs of $0.4 million per year. The only prior financial covenant to maintain a minimum cash flow to interest expense ratio of 3.5:1 was removed on June 10, 2016. The next annual review is scheduled to occur in June 2017. 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 $6.2 million as at December 31, 2016 and is comparable to the $7.2 million at December 31, 2015 due to a combination of higher trade receivables attributable to increasing revenues, offset by slightly higher trade payables from increased capital activity at December 31, 2016 as compared to December 31, 2015. Our working capital includes items expected for normal operations such as trade receivables, prepaid expenses, deposits, and trade payables and accruals. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. Our working capital is normally in a deficit position due to our capital development activities. We do not anticipate any problems in meeting future obligations as they become due as they can be satisfied with funds from operations and our available Credit Facilities.

Capital Expenditures

	Three months ended December 31		Year ended December 31	
($000)	**2016**	**2015**	**2016**	**2015**
Drilling, completions and workovers	$ 21,188	$ 16,915	$ 56,189	$ 74,519
Well equipping and facilities	8,537	10,289	65,657	88,580
Other	167	400	167	692
Expenditures on property, plant and equipment	29,892	27,604	122,013	163,791
Expenditures on exploration and evaluation assets	151	-	6,001	1,192
Net capital expenditures (1)	**$ 30,043**	**$ 27,604**	**$ 128,014**	**$ 164,983**

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

Advantage invested $128 million on property, plant, equipment and land purchases for the year ended December 31, 2016 with $30 million invested in the fourth quarter of 2016.

During the fourth quarter of 2016, design work continued on the announced expansion of our 100% owned Glacier gas plant to 400 mmcf/d raw gas capability and 6,800 bbls/d of liquids capability. Plant licensing and engineering design were progressed while procurement of major pieces of equipment was initiated. Subsequent to December 31, 2016, Advantage received license approval from the Alberta Energy Regulator ("AER") for the expansion. We expect that construction of the expanded plant to 400 mmcf/d will be finished early in the second quarter of 2018. During 2016, a significant portion of our capital expenditures were directed to gas plant and pipeline infrastructure. In total $66 million, or 51% was spent on infrastructure and well tie-in projects. Advantage's strategy of owning and operating our own infrastructure has helped us achieve an industry leading cost structure.

Throughout 2016, Advantage drilled 13 Montney gas wells. Due to strong well performance and an inventory of available production, only one well was drilled during the first half of 2016. In the second half of 2016, Advantage began drilling on a six-well pad and then moved to a sixteen-well pad with two rigs running concurrently. The sixteen-well pad is expected to be finished drilling by March 2017 with the completion of this pad scheduled for the summer of 2017.

An eight-well pad drilled during the prior winter season was completed in the third quarter of 2016. The pad consisted of six Lower Montney wells, one Middle Montney well and one Upper Montney well. Each of the eight wells was flowed in-line to our Glacier plant for an average of 48 hours and resulted in a combined production rate of 120 mmcfe/d based on an average flowing pressure of 11,182 kPa (1,623 psi). Production from this pad began in December 2016 when the first well was placed on-stream at restricted rates to control the amount of frac sand flow-back. Due to the significant productivity, the remaining wells on this pad are expected to meet production targets announced in our 2017 Budget and Development Plan (news release November 28, 2016) until the second quarter of 2017. In December, completion operations commenced on two six-well pads with operations expected to be complete by the end of the first quarter of 2017. During 2016, Advantage finished completion operations on fifteen wells.

Advantage's Upper, Middle and Lower Montney wells are continuing to demonstrate strong production performance. Advantage's current standing well inventory consists of twenty-nine total wells of which thirteen are completed and sixteen remain uncompleted providing more than sufficient productive capacity to attain our 2017 annual production target with the wells that are currently completed leaving the sixteen uncompleted wells for 2018 growth.

In 2016, Advantage acquired 16 additional sections of Doig/Montney land rights in the Glacier, Valhalla and Wembley areas proximal to our existing land holdings. Subsequent to year end, Advantage acquired an additional 3.5 net sections of Doig/Montney rights near Glacier and Valhalla. Advantage now holds a total of 157 net sections (100,480 net acres) of either Doig or Montney rights.

Sources and Uses of Funds

The following table summarizes the various funding requirements during the years ended December 31, 2016 and 2015 and the sources of funding to meet those requirements:

	Year ended December 31	
($000)	**2016**	**2015**
Sources of funds		
Funds from operations	$ 166,861	$ 123,630
Net proceeds of equity financing	95,130	-
Increase in bank indebtedness	-	177,197
Change in non-cash working capital and other	1,598	-
	$ 263,589	**$ 300,827**
Uses of funds		
Decrease in bank indebtedness	$ 133,718	$ -
Net capital expenditures	128,014	164,983
Maturity of convertible debenture	-	86,240
Change in non-cash working capital and other	-	48,342
Expenditures on decommissioning liability	1,857	1,262
	$ 263,589	**$ 300,827**

Bank indebtedness decreased during the year ended December 31, 2016 as a result of the $95.1 million net proceeds raised in the equity financing that closed on March 8, 2016, and funds from operations that exceeded net capital expenditures. We monitor the debt level to ensure an optimal mix of financing and cost of capital that will provide a maximum return to our shareholders.

Annual Financial Information

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

	Year ended Dec. 31, 2016	Year ended Dec. 31, 2015	Year ended Dec. 31, 2014
Continuing Operations - Advantage			
Total sales (before royalties) ($000)	$ 161,933	$ 132,311	$ 215,653
Net income (loss) ($000)	$ (15,734)	$ 21,378	$ 74,597
per share - basic	$ (0.09)	$ 0.13	$ 0.44
per share - diluted	$ (0.09)	$ 0.12	$ 0.44
Total assets ($000)	$ 1,496,459	$ 1,517,443	$ 1,454,767
Long term financial liabilities ($000) [1]	$ 153,102	$ 286,519	$ 110,482
Discontinued Operations - Longview			
Total sales (before royalties) ($000)	$ -	$ -	$ 24,715
Net income (loss) ($000)	$ -	$ -	$ (58,894)
per share - basic and diluted	$ -	$ -	$ (0.35)

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

Quarterly Performance

($000, except as otherwise indicated)	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Daily production								
Natural gas (mcf/d)	215,369	207,332	203,791	164,618	154,241	147,574	124,299	133,281
Liquids (bbls/d)	949	1,205	1,083	418	179	212	112	112
Total (mcfe/d)	221,063	214,562	210,289	167,126	155,315	148,846	124,971	133,953
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 3.02	$ 2.08	$ 1.10	$ 1.72	$ 2.34	$ 2.66	$ 2.50	$ 2.68
Including hedging	$ 3.35	$ 2.71	$ 2.18	$ 2.70	$ 2.96	$ 3.25	$ 3.27	$ 3.30
AECO daily	$ 3.09	$ 2.32	$ 1.40	$ 1.84	$ 2.46	$ 2.90	$ 2.66	$ 2.76
AECO monthly	$ 2.81	$ 2.20	$ 1.25	$ 2.11	$ 2.65	$ 2.80	$ 2.67	$ 2.96
Liquids ($/bbl)								
Including hedging	$ 53.01	$ 45.58	$ 52.67	$ 31.21	$ 43.24	$ 45.43	$ 47.91	$ 41.86
Edmonton Light ($/bbl)	$ 60.76	$ 54.34	$ 55.02	$ 38.85	$ 51.99	$ 55.58	$ 67.68	$ 51.73
Total sales including realized hedging	$ 71,090	$ 56,697	$ 45,615	$ 41,625	$ 42,654	$ 44,980	$ 37,429	$ 39,991
Net income (loss)	$ (8,845)	$ 8,185	$ (29,765)	$ 14,691	$ 12,408	$ 6,959	$ (2,060)	$ 4,071
per share - basic	$ (0.05)	$ 0.04	$ (0.16)	$ 0.08	$ 0.08	$ 0.04	$ (0.01)	$ 0.02
per share - diluted	$ (0.05)	$ 0.04	$ (0.16)	$ 0.08	$ 0.07	$ 0.04	$ (0.01)	$ 0.02
Funds from operations	$ 54,610	$ 45,132	$ 36,883	$ 30,236	$ 31,656	$ 34,474	$ 27,571	$ 29,929

The table above highlights the Corporation's performance for the fourth quarter of 2016 and also for the preceding seven quarters. A production level of 135 mmcfe/d was reached in early 2014 and maintained as we drilled the required well inventory and completed the first phase of commissioning operations at our expanded Glacier gas plant in July 2015 at which time production capability reached 183 mmcfe/d. The Corporation's production for the second half of 2015 and first quarter of 2016 was negatively impacted by TCPL unplanned firm and interruptible service restrictions in addition to Advantage's planned outages required to install new equipment for the Glacier gas plant expansion to 250 mmcfe/d. In the second half of 2016, we were less affected by TCPL restrictions and we attained production levels in excess of 220 mmcfe/d, consistent with our multi-year development plan. In the second half of 2016, we reduced operating costs through reduced water disposal, more efficient equipment maintenance procedures and higher plant throughput. Annual production for 2016 was 203 mmcfe/d, which was within our previously announced Budget production guidance range of 190 to 210 mmcfe/d.

Sales and funds from operations did not increase as rapidly as production through 2015 and early 2016 due to an offsetting decline in natural gas prices. This decrease has been partially offset by continued production growth through the quarters and gains realized from our commodity risk management program. Although Advantage has generally reported net income, we reported a small net loss in the second quarter of 2015 when gas prices weakened and when we had significantly less gains on derivative contracts. The net loss reported in the second quarter of 2016 and fourth quarter of 2016 were due primarily to the recognition of unrealized derivative losses attributable to the decrease in the fair value of our outstanding derivative contracts (see "Commodity Price Risk and Market Diversification"). Advantage's production growth, industry leading low cost structure, strong capital efficiencies and commodity risk management program have achieved long-term profitability despite the current challenging low natural gas price environment.

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. The reserve estimates are also used to assess the borrowing base for the Corporation's Credit Facilities. Revision or changes in the reserve estimates can have either a positive or a negative impact on asset values, net income (loss), comprehensive income (loss) and the borrowing base of the Corporation.

Management's process of determining the provision for deferred income taxes and the provision for decommissioning liability costs and related accretion expense are based on estimates. These estimates are significant and can include proved and probable reserves, future production rates, future commodity prices, future costs, future interest rates, future tax rates and other relevant assumptions. Revisions or changes in any of these estimates can have either a positive or a negative impact on asset and liability values, net income (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.

Changes in Accounting Policies

There have been no changes in accounting policies during the year ended December 31, 2016.

Accounting Pronouncements not yet Adopted

IFRS 9 *Financial Instruments* introduces a new classification and measurement requirements, impairment model and hedge accounting model. IFRS 9 is effective for annual periods on or after January 1, 2018. Advantage does not anticipate any material changes or effects to our current accounting.

IFRS 15 *Revenue from Contracts with Customers* requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The standard is to be adopted beginning on or after January 1, 2018, either retrospectively or using a modified retrospective approach. Advantage is currently reviewing our contractual agreements to evaluate the impact of this standard on our financial statements.

IFRS 16 *Leases* requires the recognition of assets and liabilities for most leases. The standard applies to annual reports beginning on or after January 1, 2019. Advantage is currently reviewing the impact of IFRS 16 on our financial statements.

Evaluation of Disclosure Controls and Procedures

Advantage's Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures ("DC&P"), or caused it to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation is made known to them by others, particularly during the period in which the annual filings are being prepared, and information required to be disclosed by the Corporation in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's DC&P as at December 31, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of the end of the year, in all material respects.

Evaluation of Internal Controls over Financial Reporting

Advantage's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal control over financial reporting ("ICFR"). They have as at the financial year end December 31, 2016, designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The control framework Advantage's officers used to design the Corporation's ICFR is the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations.

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's ICFR as at December 31, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the ICFR are effective as of the end of the year, in all material respects.

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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

Corporate Governance

The Corporation's corporate governance practices can be found in the Management Information Circular.

As a foreign private issuer listed on the New York Stock Exchange (the "NYSE"), Advantage is not required to comply with most of the NYSE rules and listing standards and instead may comply with domestic Canadian requirements. Advantage is, however, required to comply with the following NYSE Rules: (i) Advantage must have an audit committee that satisfies the requirements of Rule 10A-3 under the United States Securities Exchange Act of 1934, as amended; (ii) the Chief Executive Officer must promptly notify the NYSE in writing after an executive officer becomes aware of any non-compliance with the applicable NYSE Rules; (iii) Advantage must submit an executed section 303A annual written affirmation to the NYSE, as well as a Section 303A interim affirmation each time certain changes occurs to the audit committee; and (iv) Advantage must annually provide a brief description of any significant differences between its corporate governance practices and those followed by U.S. domestic issuers under NYSE listing standards. Advantage has reviewed the NYSE listing standards followed by U.S. domestic issuers listed on the NYSE and confirms that its corporate governance practices do not differ significantly from such standards.

Additional Information

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

March 2, 2017

Management's Responsibility for Financial Statements

The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for the preparation and presentation of the consolidated financial statements together with all operational and other financial information contained in the annual report. The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and utilize the best estimates and careful judgments of Management, where appropriate. Operational and other financial information contained throughout the annual report is consistent with that provided in the consolidated financial statements.

Management has developed and maintains a system of internal controls designed to provide reasonable assurance that all transactions are accurately and reliably recorded, that the consolidated financial statements accurately report the Corporation's operating and financial results within acceptable limits of materiality, that all other operational and financial information presented is accurate, and that the Corporation's assets are properly safeguarded.

The Audit Committee, comprised of non-management directors, acts on behalf of the Board of Directors to ensure that Management fulfills its financial reporting and internal control responsibilities. The Audit Committee is responsible for meeting regularly with Management, the external auditors, and the internal auditors to discuss internal controls over financial reporting processes, auditing matters and various aspects of financial reporting. The Audit Committee reviewed the consolidated financial statements with Management and the external auditors, and recommended approval to the Board of Directors. The Board of Directors has approved these consolidated financial statements.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, appointed by the shareholders as the external auditor of the Corporation, has audited the consolidated statement of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended December 31, 2016 and 2015. The external auditors conducted their audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and have unlimited and unrestricted access to the Audit Committee.

Andy J. Mah
President and Chief Executive Officer
March 2, 2017

Craig Blackwood
Vice President Finance and Chief Financial Officer

Management's Report on Internal Control over Financial Reporting

The Management of Advantage Oil & Gas Ltd. (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. Under the supervision of our Chief Executive Officer and Chief Financial Officer, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, we have concluded that as of December 31, 2016, our internal control over financial reporting was effective.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements and even those systems determined to be effective can provide only reasonable assurance with respect to the financial statement preparation and presentation. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP, the Corporation's independent firm of Chartered Professional Accountants, was appointed by the shareholders to audit and provide an independent opinion on both the consolidated financial statements and the Corporation's internal control over financial reporting as at December 31, 2016, as stated in their Auditor's Report. PricewaterhouseCoopers LLP has provided such opinion.

Andy J. Mah
President and Chief Executive Officer
March 2, 2017

Craig Blackwood
Vice President Finance and Chief Financial Officer

March 2, 2017

Independent Auditor's Report

To the Shareholders of Advantage Oil and Gas Ltd.

We have completed integrated audits of Advantage Oil & Gas Ltd.'s 2016 and 2015 consolidated financial statements and its internal control over financial reporting as at December 31, 2016. Our opinions, based on our audits are presented below.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Advantage Oil & Gas Ltd., which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Canadian generally accepted auditing standards also require that we comply with ethical requirements.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting principles and policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Advantage Oil & Gas Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

PricewaterhouseCoopers LLP
111 5 Avenue SW, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T: +1 403 509 7500, F: +1 403 781 1825, www.pwc.com/ca

Report on internal control over financial reporting
We have also audited Advantage Oil & Gas Ltd's internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibility for internal control over financial reporting
Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's responsibility
Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk, and performing such other procedures as we consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our audit opinion on the company's internal control over financial reporting.

Definition of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent limitations
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Opinion
In our opinion, Advantage Oil & Gas Ltd. maintained, in all material respects, effective internal control over financial reporting as at December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Calgary, Alberta

Consolidated Statement of Financial Position

(thousands of Canadian dollars)	Notes	December 31, 2016	December 31, 2015
ASSETS			
Current assets			
Trade and other receivables	5	$ 26,305	$ 13,888
Prepaid expenses and deposits		1,681	1,966
Derivative asset	9	730	37,009
Total current assets		**28,716**	**52,863**
Non-current assets			
Derivative asset	9	1,448	7,426
Exploration and evaluation assets	6	16,012	10,071
Property, plant and equipment	7	1,450,283	1,447,083
Total non-current assets		**1,467,743**	**1,464,580**
Total assets		**$ 1,496,459**	**$ 1,517,443**
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		$ 34,153	$ 23,050
Derivative liability	9	13,812	-
Total current liabilities		**47,965**	**23,050**
Non-current liabilities			
Derivative liability	9	10,912	200
Bank indebtedness	10	153,102	286,519
Decommissioning liability	12	40,992	44,575
Deferred income tax liability	13	35,215	41,152
Total non-current liabilities		**240,221**	**372,446**
Total liabilities		**288,186**	**395,496**
SHAREHOLDERS' EQUITY			
Share capital	14	2,334,199	2,236,728
Contributed surplus		108,315	103,726
Deficit		(1,234,241)	(1,218,507)
Total shareholders' equity		**1,208,273**	**1,121,947**
Total liabilities and shareholders' equity		**$ 1,496,459**	**$ 1,517,443**

Commitments (note 21)

See accompanying Notes to the Consolidated Financial Statements

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

Paul G. Haggis, Director

Andy J. Mah, Director

Consolidated Statement of Comprehensive Income (Loss)

(thousands of Canadian dollars, except for per share amounts)	Notes	Year ended December 31 2016	2015
Natural gas and liquids sales	17	$ 161,933	$ 132,311
Royalty expense		(4,900)	(5,837)
Natural gas and liquids revenue		157,033	126,474
Operating expense		(20,358)	(18,357)
Transportation expense		(6,982)	-
General and administrative expense	18	(10,750)	(10,569)
Depreciation expense	7	(116,232)	(87,391)
Finance expense	19	(10,250)	(11,812)
Gains (losses) on derivatives	9	(13,687)	30,422
Other income		878	364
Income (loss) before taxes		**(20,348)**	**29,131**
Income tax recovery (expense)	13	4,614	(7,753)
Net income (loss) and comprehensive income (loss)		**$ (15,734)**	**$ 21,378**
Net income (loss) per share	15		
Basic		**$ (0.09)**	**$ 0.13**
Diluted		**$ (0.09)**	**$ 0.12**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

(thousands of Canadian dollars) (unaudited)	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2015		$ 2,236,728	$ 103,726	$ (1,218,507)	**$ 1,121,947**
Net loss and comprehensive loss		-	-	(15,734)	**(15,734)**
Shares issued on equity financing	14(b)	96,453	-	-	**96,453**
Share based compensation	14, 16	1,018	4,589	-	**5,607**
Balance, December 31, 2016		**$ 2,334,199**	**$ 108,315**	**$ (1,234,241)**	**$ 1,208,273**

(thousands of Canadian dollars)	Notes	Share capital	Convertible debenture equity component	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2014		$ 2,234,959	$ 8,348	$ 90,904	$ (1,239,885)	**$ 1,094,326**
Net income and comprehensive income		-	-	-	21,378	**21,378**
Share based compensation	14, 16	1,759	-	4,474	-	**6,233**
Conversion of Convertible Debenture		10	-	-	-	**10**
Maturity of Convertible Debenture		-	(8,348)	8,348	-	**-**
Balance, December 31, 2015		**$ 2,236,728**	**$ -**	**$ 103,726**	**$ (1,218,507)**	**$ 1,121,947**

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Notes	Year ended December 31 2016	2015
Operating Activities			
Income (loss) before taxes		$ (20,348)	$ 29,131
Add items not requiring cash:			
Share based compensation	14, 16	3,281	3,347
Depreciation expense	7	116,232	87,391
Unrealized loss on derivatives	9	66,781	2,321
Finance expense	19	10,250	11,812
Expenditures on decommissioning liability	12	(1,857)	(1,262)
Changes in non-cash working capital	20	567	(19,376)
Cash provided by operating activities		**174,906**	**113,364**
Financing Activities			
Increase (decrease) in bank indebtedness	10	(133,718)	177,197
Net proceeds of equity financing		95,130	-
Maturity of convertible debenture	11	-	(86,240)
Interest paid		(9,034)	(12,828)
Cash provided by (used in) financing activities		**(47,622)**	**78,129**
Investing Activities			
Payments on property, plant and equipment	7, 20	(121,283)	(190,301)
Payments on exploration and evaluation assets	6	(6,001)	(1,192)
Cash used in investing activities		**(127,284)**	**(191,493)**
Net change in cash		-	-
Cash, beginning of year		-	-
Cash, end of year		$ -	$ -

See accompanying Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

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

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

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

Advantage is domiciled and incorporated in Canada under the Business Corporations Act (Alberta). Advantage's head office address is 300, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation's primary listing is on the Toronto Stock Exchange and is also traded on the New York Stock Exchange as a Foreign Private Issuer, under the symbol "AAV".

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). The CICA Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Publicly accountable enterprises, such as the Corporation, are required to apply these standards. Accordingly, these consolidated financial statements are prepared and issued under IFRS.

The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 2, 2017, the date the Board of Directors approved the statements.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Joint arrangements

A portion of the Corporation's natural gas and liquids activities involve joint operations. The consolidated financial statements include the Corporation's share of these joint operations and a proportionate share of the relevant revenue and related costs.

(c) Financial instruments

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

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

3. Significant accounting policies (continued)

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

(i) Recognition and measurement

Exploration and evaluation costs

Pre-license costs are recognized in the Consolidated Statement of Comprehensive Income (Loss) as incurred.

All exploratory costs incurred subsequent to acquiring the right to explore for natural gas and liquids before technical feasibility and commercial viability of the area have been established are capitalized. Such costs can typically include costs to acquire land rights, geological and geophysical costs and exploration well costs.

Exploration and evaluation costs are not depreciated and are accumulated in cost centers by well, field or exploration area and carried forward pending determination of technical feasibility and commercial viability.

The technical feasibility and commercial viability of extracting a mineral resource from exploration and evaluation assets is considered to be generally determinable when proved or probable reserves are determined to exist. Upon determination of proved or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to development and production assets, net of any impairment loss.

Management reviews and assesses exploration and evaluation assets to determine if technical feasibility and commercial viability exist. If Management decides not to continue the exploration and evaluation activity, the unrecoverable costs are charged to exploration and evaluation expense in the period in which the determination occurs.

Property, plant and equipment

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

When significant parts of an item of property, plant and equipment, including natural gas and liquids properties, have different useful lives, they are accounted for as separate items (major components).

(ii) Subsequent costs

Costs incurred subsequent to development and production that are significant are recognized as natural gas and liquids property only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in comprehensive income as incurred. Such capitalized natural gas and liquids costs generally represent costs incurred in developing proved and probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or area basis. The carrying amount of any replaced or sold component is derecognized in accordance with our policies. The costs of the day-to-day servicing of property, plant and equipment are recognized in the Consolidated Statement of Comprehensive Income (Loss) as incurred.

(iii) Depreciation

The net carrying value of natural gas and liquids properties is depreciated using the units-of-production ("UOP") method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

3. Significant accounting policies (continued)

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

(iv) Dispositions

Gains and losses on disposal of an item of property, plant and equipment, including natural gas and liquids properties, are determined by comparing the proceeds from disposition with the carrying amount of property, plant and equipment and are recognized net within other income (expenses) in the Consolidated Statement of Comprehensive Income (Loss).

(v) Impairment

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

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

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

Impairment losses on property, plant and equipment are recognized in the Consolidated Statement of Comprehensive Income (Loss) as impairment of natural gas and liquids properties and are separately disclosed. An impairment of exploration and evaluation assets is recognized as exploration and evaluation expense in the Consolidated Statement of Comprehensive Income (Loss).

(e) Decommissioning liability

A decommissioning liability is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Decommissioning liabilities are determined by discounting the expected future cash flows at a risk-free rate.

3. Significant accounting policies (continued)

(f) Share based compensation

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

Advantage's Stock Option Plan ("Stock Option Plan") authorizes the Board of Directors to grant stock options to service providers, including directors, officers, employees and consultants of Advantage. Compensation cost related to the Stock Option Plan is recognized as share based compensation expense within general and administrative expense over the vesting period at fair value.

On April 14, 2014, the Board of Directors approved a Restricted and Performance Award Incentive Plan to provide share based compensation for service providers. Awards granted under this plan were originally expected to be settled in cash, as the Corporation had not sought the approval of shareholders required to settle the awards in shares. In accordance with the requirements of IFRS 2, *Share Based Payments*, a liability was recorded as compensation expense was recognized. The liability was revalued at each reporting date and at the date of settlement. These changes in fair value were recognized in profit or loss for the period.

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

As compensation expense is recognized, contributed surplus is recorded until the restricted shares vest or stock options are exercised, at which time the appropriate common shares are then issued to the service providers and the contributed surplus is transferred to share capital.

(g) Revenue

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

(h) Finance expense

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

3. Significant accounting policies (continued)

(i) Income tax

Income tax expense or recovery comprises current and deferred income tax. Income tax expense or recovery is recognized in income or loss except to the extent that it relates to items recognized directly in shareholders' equity.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

Deferred income tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting income nor taxable income. Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred income tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred income tax assets and liabilities are only offset when they are within the same legal entity and same tax jurisdiction. Deferred income tax assets and liabilities are presented as non-current.

(j) Net income (loss) per share

Basic net income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is determined by adjusting the net income (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as performance awards and stock options granted to service providers and convertible debentures, using the treasury stock method.

(k) Investment tax credits

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

(l) Accounting Pronouncement no yet Adopted

IFRS 9 *Financial Instruments* introduces a new classification and measurement requirements, impairment model and hedge accounting model. IFRS 9 is effective for annual periods on or after January 1, 2018. Advantage does not anticipate any material changes or effects to our current accounting.

IFRS 15 *Revenue from Contracts with Customers* requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. The standard is to be adopted for annual periods beginning on or after January 1, 2018, either retrospectively or using a modified retrospective approach. Advantage is currently reviewing our contractual agreements to evaluate the impact of this standard on our financial statements.

IFRS 16 *Leases* requires the recognition of assets and liabilities for most leases. The standard applies to annual reports beginning on or after January 1, 2019. Advantage is currently reviewing the impact of IFRS 16 on our financial statements.

4. Significant accounting judgments, estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates, and differences could be material. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected. Significant estimates and judgments made in the preparation of the consolidated financial statements are outlined below.

(a) Reserves base

The natural gas and liquids properties are depreciated on a units-of-production ("UOP") basis at a rate calculated by reference to proved and probable reserves determined in accordance with National Instrument 51-101 "Standards of Disclosure for Oil and Gas Activities" and incorporating the estimated future cost of developing and extracting those reserves. Proved plus probable reserves are determined using estimates of natural gas and liquids in place, recovery factors and future natural gas and liquids prices. Future development costs are estimated using assumptions as to the number of wells required to produce the reserves, the cost of such wells and associated production facilities and other capital costs.

(b) Determination of cash generating unit

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

(c) Impairment indicators and calculation of impairment

At each reporting date, Advantage assesses whether or not there are circumstances that indicate a possibility that the carrying values of exploration and evaluation assets and property, plant and equipment are not recoverable, or impaired. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, or a reduction in estimates of proved and probable reserves.

When management judges that circumstances indicate potential impairment, property, plant and equipment are tested for impairment by comparing the carrying values to their recoverable amounts. The recoverable amounts of cash generating units are determined based on the higher of value-in-use calculations and fair values less costs of disposition. These calculations require the use of estimates and assumptions, that are subject to change as new information becomes available including information on future commodity prices, expected production volumes, quantities of reserves, discount rates, future development costs and operating costs.

(d) Decommissioning liability

Decommissioning costs will be incurred by the Corporation at the end of the operating life of the Corporation's facilities and properties. The ultimate decommissioning liability is uncertain and can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques, experience at other production sites, or changes in the risk-free discount rate. The expected timing and amount of expenditure can also change in response to changes in reserves or changes in laws and regulations or their interpretation. As a result, there could be significant adjustments to the provisions established which would affect future financial results.

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

(e) Income taxes

Income tax laws and regulations are subject to change. Deferred tax liabilities that arise from temporary differences between recorded amounts on the statement of financial position and their respective tax bases will be payable in future periods. The amount of a deferred tax liability is subject to management's best estimate of when a temporary difference will reverse and expected changes in income tax rates. These estimates by nature involve significant measurement uncertainty.

5. Trade and other receivables

		December 31, 2016		December 31, 2015
Trade receivables	$	25,087	$	12,544
Receivables from joint venture partners		581		716
Other		637		628
	$	**26,305**	**$**	**13,888**

6. Exploration and evaluation assets

Balance at December 31, 2014	**$**	**9,803**
Additions		1,192
Transferred to property, plant and equipment (note 7)		(924)
Balance at December 31, 2015	**$**	**10,071**
Additions		6,001
Transferred to property, plant and equipment (note 7)		(60)
Balance at December 31, 2016	**$**	**16,012**

7. Property, plant and equipment

Cost	Natural gas and liquids properties		Furniture and equipment		Total	
Balance at December 31, 2014	**$**	**1,714,117**	**$**	**5,240**	**$**	**1,719,357**
Additions		163,549		242		163,791
Change in decommissioning liability (note 12)		(4,172)		-		(4,172)
Transferred from exploration and evaluation assets (note 6)		924		-		924
Balance at December 31, 2015	**$**	**1,874,418**	**$**	**5,482**	**$**	**1,879,900**
Additions		121,847		166		122,013
Change in decommissioning liability (note 12)		(2,641)		-		(2,641)
Transferred from exploration and evaluation assets (note 6)		60		-		60
Balance at December 31, 2016	**$**	**1,993,684**	**$**	**5,648**	**$**	**1,999,332**

Accumulated depreciation	Natural gas and liquids properties		Furniture and equipment		Total	
Balance at December 31, 2014	**$**	**341,906**	**$**	**3,520**	**$**	**345,426**
Depreciation		86,999		392		87,391
Balance at December 31, 2015	**$**	**428,905**	**$**	**3,912**	**$**	**432,817**
Depreciation		**115,885**		**347**		**116,232**
Balance at December 31, 2016	**$**	**544,790**	**$**	**4,259**	**$**	**549,049**

Net book value	Natural gas and liquids properties		Furniture and equipment		Total	
At December 31, 2015	$	1,445,513	$	1,570	$	1,447,083
At December 31, 2016		1,448,894		1,389		1,450,283

During the year ended December 31, 2016, Advantage capitalized general and administrative expenditures directly related to development activities of $6.1 million (December 31, 2015 - $6.2 million).

Advantage included future development costs of $1.6 billion (December 31, 2015 – $1.7 billion) in property, plant and equipment costs subject to depreciation.

8. Related party transactions

Key management compensation

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

	December 31, 2016		December 31, 2015	
Salaries, director fees and short-term benefits	$	2,111	$	2,684
Share based compensation (1)		2,676		2,903
	$	4,787	$	5,587

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

As at December 31, 2016, there is a $2.2 million commitment (December 31, 2015 - $2.3 million) related to change of control or termination of employment of officers.

9. Financial risk management

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

Trade and other receivables and deposits are classified as loans and receivables and measured at amortized cost. Trade and other accrued liabilities and bank indebtedness are all classified as financial liabilities at amortized cost. As at December 31, 2016, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

Fair value is determined following a three level hierarchy:

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

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

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

9. Financial risk management (continued)

The Corporation's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as:

- credit risk;
- liquidity risk;
- price risk; and
- interest rate risk.

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables from natural gas and liquids marketers and companies with whom we enter into hedging contracts. The maximum exposure to credit risk is as follows:

	December 31, 2016	December 31, 2015
Trade and other receivables	$ 26,305	$ 13,888
Deposits	665	1,371
Derivative asset	2,178	44,435
	$ 29,148	**$ 59,694**

Trade and other receivables, deposits, and derivative assets are subject to credit risk exposure and the carrying values reflect Management's assessment of the associated maximum exposure to such credit risk. Advantage mitigates such credit risk by closely monitoring significant counterparties and dealing with a broad selection of counterparties that diversify risk within the sector. The Corporation's deposits are due from the Alberta Provincial government and are viewed by Management as having minimal associated credit risk. To the extent that Advantage enters derivatives to manage commodity price risk, it may be subject to credit risk associated with counterparties with which it contracts. Credit risk is mitigated by entering into contracts with only stable, creditworthy parties and through frequent reviews of exposures to individual entities. In addition, the Corporation only enters into derivative contracts with major banks and international energy firms to further mitigate associated credit risk.

Substantially all of the Corporation's trade and other receivables are due from customers concentrated in the Canadian oil and gas industry. As such, trade and other receivables are subject to normal industry credit risks. As at December 31, 2016, $0.4 million or 1.4% of trade and other receivables are outstanding for 90 days or more (December 31, 2015 - $0.3 million or 2.2% of trade and other receivables). The Corporation believes the entire balance is collectible, and in some instances has the ability to mitigate risk through withholding production or offsetting payables with the same parties. Management has not provided an allowance for doubtful accounts at December 31, 2016 or 2015.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for $22.2 million of the trade and other receivables at December 31, 2016 (December 31, 2015 - $11.9 million).

9. Financial risk management (continued)

(b) Liquidity risk

The Corporation is subject to liquidity risk attributed from trade and other accrued liabilities and bank indebtedness. Trade and other accrued liabilities are primarily due within one year of the Consolidated Statement of Financial Position date and Advantage does not anticipate any problems in satisfying the obligations from cash provided by operating activities and the existing credit facilities. The Corporation's bank indebtedness is subject to $400 million credit facility agreements. Although the credit facilities are a source of liquidity risk, the facilities also mitigate liquidity risk by enabling Advantage to manage interim cash flow fluctuations. The terms of the credit facilities are such that they provide Advantage adequate flexibility to evaluate and assess liquidity issues if and when they arise. Additionally, the Corporation regularly monitors liquidity related to obligations by evaluating forecasted cash flows, optimal debt levels, capital spending activity, working capital requirements, and other potential cash expenditures. This continual financial assessment process further enables the Corporation to mitigate liquidity risk.

To the extent that Advantage enters derivatives to manage commodity price risk, it may be subject to liquidity risk as derivative liabilities become due. While the Corporation has elected not to follow hedge accounting, derivative instruments are not entered for speculative purposes and Management closely monitors existing commodity risk exposures. As such, liquidity risk is mitigated since any losses actually realized are offset by increased cash flows realized from the higher commodity price environment.

The timing of cash outflows relating to financial liabilities as at December 31, 2016 and 2015 are as follows:

December 31, 2016		Less than one year	One to three years	Total
Trade and other accrued liabilities		$ 34,153	$ -	$ 34,153
Bank indebtedness	- principal	-	153,811	153,811
	- interest (1)	6,890	3,284	10,174
		$ 41,043	**$ 157,095**	**$ 198,138**

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

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

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

The Corporation's bank indebtedness does not have specific maturity dates. It is governed by credit facility agreements with a syndicate of financial institutions (note 10). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in June 2017. The facilities are revolving and are extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one year term facilities, with the principal payable at the end of such one year terms. Management fully expects that the facilities will be extended at each annual review.

9. Financial risk management (continued)

(c) Price risk

Advantage's derivative assets and liabilities are subject to price risk as their fair values are based on assumptions regarding forward commodity prices. The Corporation enters into non-financial derivatives to manage commodity price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. Changes in the price assumptions can have a significant effect on the fair value of the derivative assets and liabilities and thereby impact earnings. It is estimated that a 10% change in the forward AECO natural gas price used to calculate the fair value of the fixed price swap and sold call option natural gas derivatives at December 31, 2016 would result in a $14.6 million change in net income (loss) for the year ended December 31, 2016. It is estimated that a 10% change in the forward basis differential between Henry Hub and AECO natural gas prices would result in a $1.5 million change in net income (loss) for the year ended December 31, 2016.

As at December 31, 2016, the Corporation had the following derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas – AECO			
Fixed price swap	January 2016 to March 2017	2,370 mcf/d	Cdn $3.98/mcf
Fixed price swap	January 2016 to March 2017	16,587 mcf/d	Cdn $3.97/mcf
Fixed price swap	January 2016 to March 2017	4,739 mcf/d	Cdn $3.75/mcf
Fixed price swap	January 2016 to March 2017	9,478 mcf/d	Cdn $3.76/mcf
Fixed price swap	April 2016 to March 2017	14,217 mcf/d	Cdn $4.11/mcf
Fixed price swap	April 2016 to March 2017	14,217 mcf/d	Cdn $3.25/mcf
Fixed price swap	April 2016 to March 2017	18,956 mcf/d	Cdn $3.22/mcf
Fixed price swap	January 2017 to June 2017	14,217 mcf/d	Cdn $3.00/mcf
Fixed price swap	April 2017 to June 2017	28,434 mcf/d	Cdn $3.00/mcf
Fixed price swap	April 2017 to March 2018	4,739 mcf/d	Cdn $3.27/mcf
Fixed price swap	April 2017 to March 2018	14,217 mcf/d	Cdn $3.27/mcf
Fixed price swap	November 2017 to March 2018	18,956 mcf/d	Cdn $3.22/mcf
Fixed price swap	July 2017 to March 2018	4,739 mcf/d	Cdn $3.02/mcf
Fixed price swap	July 2017 to March 2018	14,217 mcf/d	Cdn $3.01/mcf
Fixed price swap	July 2017 to March 2018	14,217 mcf/d	Cdn $3.00/mcf
Fixed price swap	July 2017 to June 2018	14,217 mcf/d	Cdn $3.00/mcf
Fixed price swap	April 2017 to March 2018	23,695 mcf/d	Cdn $3.01/mcf
Call option sold	April 2017 to December 2018	23,695 mcf/d	Cdn $3.17/mcf (1)
Fixed price swap	October 2017 to September 2018	4,739 mcf/d	Cdn $3.01/mcf
Call option sold	October 2017 to December 2018	4,739 mcf/d	Cdn $3.01/mcf (2)
Fixed price swap	October 2017 to September 2018	4,739 mcf/d	Cdn $3.01/mcf
Call option sold	October 2017 to December 2018	4,739 mcf/d	Cdn $3.06/mcf (3)
Fixed price swap	October 2017 to September 2018	4,739 mcf/d	Cdn $3.01/mcf
Call option sold	October 2017 to December 2018	4,739 mcf/d	Cdn $3.11/mcf (4)
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to March 2019	9,478 mcf/d	Cdn $3.00/mcf
Natural gas – AECO/Henry Hub Basis Differential			
Basis swap	January 2018 to December 2019	25,000 mcf/d	Henry Hub less US $0.85/mcf

(1) Call option sold is only exercisable by the counterparty if AECO exceeds Cdn $3.43/mcf.
(2) Call option sold is only exercisable by the counterparty if AECO exceeds Cdn $3.32/mcf.
(3) Call option sold is only exercisable by the counterparty if AECO exceeds Cdn $3.38/mcf.
(4) Call option sold is only exercisable by the counterparty if AECO exceeds Cdn $3.43/mcf.

9. Financial risk management (continued)

(c) Price risk

As at December 31, 2016, the fair value of the derivatives outstanding resulted in an asset of $2.2 million (December 31, 2015 – $44.5 million) and a liability of $24.7 million (December 31, 2015 – $0.2 million). The fair value of the commodity risk management derivatives have been allocated to current assets and liabilities on the basis of expected timing of cash settlement.

For the year ended December 31, 2016, $13.7 million was recognized in net income (loss) as a derivative loss (December 31, 2015 - $30.4 million gain). The table below summarizes the realized and unrealized gains (losses) on derivatives recognized in net income (loss).

	Year ended December 31, 2016	Year ended December 31, 2015
Realized gain on derivatives	$ 53,094	$ 32,743
Unrealized loss on derivatives	(66,781)	(2,321)
	$ (13,687)	**$ 30,422**

(d) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank indebtedness fluctuates with the interest rates posted by the lenders. The Corporation is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been different by 100 basis points throughout the year ended December 31, 2016, net income (loss) and comprehensive income (loss) would have changed by $1.5 million (December 31, 2015 - $1.9 million) based on the average debt balance outstanding during the year.

9. Financial risk management (continued)

(e) Capital management

The Corporation manages its capital with the following objectives:

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

Advantage monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The capital structure of the Corporation is composed of working capital (excluding derivative assets and liabilities), bank indebtedness, and share capital. Advantage may manage its capital structure by issuing new shares, repurchasing outstanding shares, obtaining additional financing either through bank indebtedness or convertible debenture issuances, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

Advantage's capital structure as at December 31, 2016 and December 31, 2015 is as follows:

		December 31, 2016		December 31, 2015
Bank indebtedness (non-current) (note 10)	$	153,102	$	286,519
Working capital deficit [(1)]		6,167		7,196
Total debt	**$**	**159,269**	**$**	**293,715**
Shares outstanding (note 14)		184,654,333		170,827,158
Share closing market price ($/share)	$	9.12	$	7.03
Market capitalization [(2)]		1,684,048		1,200,915
Total capitalization	**$**	**1,843,317**	**$**	**1,494,630**

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

(2) Market capitalization is a non-GAAP measure calculated by multiplying shares outstanding by the closing market share price on the applicable date.

10. Bank indebtedness

		December 31, 2016		December 31, 2015
Revolving credit facility	$	153,811	$	287,529
Discount on Bankers Acceptances and other fees		(709)		(1,010)
Balance, end of year	**$**	**153,102**	**$**	**286,519**

As at December 31, 2016, the Corporation had reserve-based credit facilities (the "Credit Facilities") with a borrowing base of $400 million. The Credit Facilities are comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $380 million extendible revolving credit facility from a syndicate of financial institutions. The revolving period of the Credit Facilities will end on June 10, 2017 unless extended at the option of the syndicate for a further 364 day period. If the Credit Facilities are not extended, they will convert to a non-revolving term credit facility due 365 days after the last day of the revolving period. The Credit Facilities are subject to re-determination of the borrowing base semi-annually in October and June of each year, with the next annual review scheduled to occur in June 2017. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time. The borrowing base is determined based on, among other things, a thorough evaluation of Advantage's reserve estimates based upon the lenders commodity price expectations. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Corporation has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base. Amounts borrowed under the Credit Facilities bear interest at rates ranging from LIBOR plus 2% to 3.25% per annum, and Canadian prime or US base rate plus 1% to 2.25% per annum, in each case, depending on the type of borrowing and the Corporation's debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Undrawn amounts under the Credit Facilities bear a standby fee ranging from 0.5% to 0.8125% per annum, dependent on the Corporation's debt to EBITDA ratio. Repayments of principal are not required prior to maturity provided that the borrowings under the Credit Facilities do not exceed the authorized borrowing amount and the Corporation is in compliance with all covenants, representations and warranties. The Credit Facilities prohibit the Corporation from entering into any derivative contract where the term of such contract exceeds four years. Further, the aggregate of such contracts cannot hedge greater than 75% of total estimated natural gas and liquids production over three years and 50% over the fourth year. The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The only financial covenant was a requirement for the Corporation to maintain a minimum cash flow to interest expense ratio of 3.5:1, determined on a rolling four-quarter basis. This covenant was removed on June 10, 2016. All applicable financial and non-financial covenants were met at December 31, 2016 and 2015. Breach of any covenant will result in an event of default in which case the Corporation has 30 days to remedy such default. If the default is not remedied or waived, and if required by the lenders, the administrative agent of the lenders has the option to declare all obligations under the credit facilities to be immediately due and payable without further demand, presentation, protest, days of grace, or notice of any kind. The Credit Facilities are collateralized by a $1 billion floating charge demand debenture covering all assets. For the year ended December 31, 2016, the average effective interest rate on the outstanding amounts under the facilities was approximately 3.5% (December 31, 2015 – 3.2%). Advantage has no letters of credit issued and outstanding at December 31, 2016 (December 31, 2015 - none).

11. Convertible debenture

On January 30, 2015, both the principal and final interest payment were settled with cash drawn from the credit facility, with the exception of ten thousand dollars, which was converted to 1,162 common shares.

12. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2017 and 2076. A risk-free rate of 2.34% (December 31, 2015 – 2.16%) and an inflation factor of 2.0% (December 31, 2015 – 1.5%) were used to calculate the fair value of the decommissioning liability at December 31, 2016. A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2016	Year ended December 31, 2015
Balance, beginning of year	$ 44,575	$ 48,878
Accretion expense	915	1,131
Liabilities incurred	2,193	1,767
Change in estimates	(1,165)	(2,011)
Effect of change in risk-free rate and inflation rate factor	(3,669)	(3,928)
Liabilities settled	(1,857)	(1,262)
Balance, end of year	**$ 40,992**	**$ 44,575**

13. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2016	Year ended December 31, 2015
Current income tax expense	$ -	$ -
Deferred income tax expense (recovery)	(4,614)	7,753
Income tax expense (recovery)	$ (4,614)	$ 7,753

The provision for income taxes varies from the amount that would be computed by applying the combined federal and provincial income tax rates for the following reasons:

	Year ended December 31, 2016	Year ended December 31, 2015
Income (loss) before taxes	$ (20,348)	$ 29,131
Combined federal and provincial income tax rates	27.00%	26.00%
Expected income tax expense (recovery)	(5,494)	7,574
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	1,515	1,487
Alberta tax rate increase	-	1,778
Scientific Research and Experimental Development claim	-	(3,688)
Difference between current and expected tax rates	(635)	602
	$ (4,614)	$ 7,753
Effective tax rate	22.68%	26.61%

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

Deferred income tax liability	Property, plant and equipment	Derivative asset/liability	Total
Balance at December 31, 2014	$ 229,025	$ 11,639	$ 240,664
Charged (credited) to income	33,972	304	34,276
Balance at December 31, 2015	$ 262,997	$ 11,943	$ 274,940
Charged (credited) to income	5,192	(18,031)	(12,839)
Balance at December 31, 2016	$ 268,189	$ (6,088)	$ 262,101

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
Balance at December 31, 2014	$ (12,303)	$ (183,613)	$ (11,349)	$ (207,265)
Charged (credited) to income	239	(15,036)	(11,726)	(26,523)
Balance at December 31, 2015	$ (12,064)	$ (198,649)	$ (23,075)	$ (233,788)
Charged (credited) to income	991	7,200	34	8,225
Credited to equity	-	(264)	(1,059)	(1,323)
Balance at December 31, 2016	$ (11,073)	$ (191,713)	$ (24,100)	$ (226,886)

Net deferred income tax liability (asset)	
Balance at December 31, 2014	$ 33,399
Charged (credited) to income	7,753
Balance at December 31, 2015	$ 41,152
Charged (credited) to income	(4,614)
Credited to equity	(1,323)
Balance at December 31, 2016	$ 35,215

13. Income taxes (continued)

The estimated tax pools available at December 31, 2016 are as follows:

Canadian development expenses	$	170,956
Canadian exploration expenses		65,994
Canadian oil and gas property expenses		9,045
Non-capital losses		710,050
Undepreciated capital cost		212,456
Capital losses		157,869
Scientific research and experimental development expenditures		32,506
Other		11,993
	$	1,370,869

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

No deferred tax asset has been recognized for capital losses of $158 million (December 31, 2015 – $158 million). Recognition is dependent on the realization of future taxable capital gains.

14. Share capital

(a) Authorized

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

(b) Issued

	Common Shares		Amount
Balance at December 31, 2014	170,067,650	$	2,234,959
Share based compensation (note 16)	758,346		1,759
Conversion of convertible debenture	1,162		10
Balance at December 31, 2015	170,827,158	$	2,236,728
Shares issued on equity financing, net of issue costs and deferred taxes	13,427,075		96,453
Share based compensation (note 16)	400,100		1,018
Balance at December 31, 2016	184,654,333	$	2,334,199

On March 8, 2016, the Corporation closed an equity financing whereby 13,427,075 common shares were issued at $7.45 per share, for gross proceeds of $100 million, less $3.6 million related to $4.9 million of issuance costs net of $1.3 million of deferred taxes.

15. Net income (loss) per share

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

	Year ended December 31	
	2016	**2015**
Net income (loss)		
Basic and diluted	$ (15,734)	$ 21,378
Weighted average shares outstanding		
Basic	182,056,120	170,607,873
Stock Option Plan	-	891,621
Performance Incentive Plan	-	211,926
Diluted	182,056,120	171,711,420

The calculation of diluted net income (loss) per share for the year ended December 31, 2016 excludes the effects of the Stock Option Plan and Performance Incentive Plan, as their impacts would be anti-dilutive. Total weighted average shares of 866,241 and 648,037 in respect of the Stock Option Plan and Performance Incentive Plan, respectively were excluded from the diluted net income (loss) per share calculation.

The calculation of diluted net income (loss) per share for the year ended December 31, 2015 excludes the convertible debenture, as its impact would be anti-dilutive. Total weighted average shares issuable in exchange for the convertible debenture excluded from the diluted net income (loss) per share calculation for the year ended December 31, 2015 was 796,830 shares. As the convertible debenture matured on January 30, 2015 (note 11), it had no dilutive effect on periods beginning on dates thereafter.

16. Share based compensation

(a) Stock Option Plan

Under the Stock Option Plan, service providers are granted options with exercise prices that approximate the market price of common shares at the date of grant. Share based compensation costs of the Stock Option Plan are determined using a Black-Scholes valuation model, using weighted average assumptions as follows:

Volatility	41%
Expected forfeiture rate	0.98%
Dividend rate	0%
Risk-free rate	1.05%

Volatility is based on historical stock prices at the close-of-trade-day over a historical time period.

The following tables summarize information about changes in stock options outstanding at December 31, 2016:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2014	5,144,676	$ 4.63
Exercised	(2,081,538)	4.00
Granted	987,928	6.82
Forfeited/cancelled	(19,764)	5.37
Balance at December 31, 2015	4,031,302	$ 5.49
Exercised	(921,387)	4.64
Balance at December 31, 2016	3,109,915	$ 5.75

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
$4.43 - $5.87	2,135,825	1.38	$ 5.26	1,653,817	$ 5.08
$5.88 - $6.82	974,090	3.26	6.81	310,931	6.81
$4.43 - $6.82	3,109,915	1.97	$ 5.75	1,964,748	$ 5.36

16. Share based compensation (continued)

(b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of Incentive Awards: Restricted Awards and Performance Awards. A Restricted Award is a grant denominated in a fixed number of common shares which generally vests 1/3 on the first anniversary of the grant date, 1/3 on the second anniversary, and 1/3 on the third anniversary. A Performance Award is a grant denominated in a fixed number of common shares which vests on the third anniversary of the grant date. Performance Award grants are multiplied by a Payout Multiplier, that is determined based on Corporate Performance Measures, as approved by the Board of Directors.
As at December 31, 2016, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

	Performance Awards
Balance at December 31, 2014	406,142
Granted	263,510
Forfeited	(3,560)
Balance at December 31, 2015	666,092
Granted	661,571
Balance at December 31, 2016	1,327,663

Share based compensation recognized by plan for the years ended December 31, 2016 and 2015 are as follows:

	Year ended December 31	
	2016	**2015**
Stock Option Plan	$ 784	$ 3,101
Performance Incentive Plan	4,823	2,620
Total share based compensation	5,607	5,721
Capitalized	(2,326)	(2,374)
Net share based compensation expense	**$ 3,281**	**$ 3,347**

17. Natural gas and liquids sales

	Year ended December 31	
	2016	2015
Natural gas sales	$ 145,878	$ 129,802
Natural gas liquids sales	16,055	2,509
Total natural gas and liquids sales	**$ 161,933**	**$ 132,311**

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

	Year ended December 31	
	2016	2015
Salaries and benefits	$ 7,332	$ 7,026
Share based compensation (note 16)	5,607	5,721
Office rent	989	1,146
Other	2,952	2,869
Total G&A	**16,880**	**16,762**
Capitalized (note 7)	(6,130)	(6,193)
Net G&A	**$ 10,750**	**$ 10,569**

19. Finance expense

	Year ended December 31	
	2016	2015
Interest on bank indebtedness (note 10)	$ 9,335	$ 10,035
Interest on convertible debenture (note 11)	-	337
Accretion on convertible debenture (note 11)	-	309
Accretion of decomissioning liability (note 12)	915	1,131
Total finance expense	**$ 10,250**	**$ 11,812**

20. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31	
	2016	2015
Source (use) of cash:		
Trade and other receivables	$ (12,417)	$ 8,086
Prepaid expenses and deposits	285	537
Trade and other accrued liabilities	11,103	(58,691)
	$ (1,029)	$ (50,068)
Related to operating activities	$ 567	$ (19,376)
Related to financing activities	-	(1,808)
Related to investing activities	(1,596)	(28,884)
	$ (1,029)	$ (50,068)

21. Commitments

Advantage has lease commitments relating to office buildings of $3.0 million (December 31, 2015 - $4.1 million) and transportation commitments of $180.2 million (December 31, 2015 - $168.1 million). The estimated remaining annual minimum operating lease payments are as follows:

	Year ended December 31	
	2016	**2015**
2016	$ -	$ 21,397
2017	26,067	21,174
2018	27,338	24,544
2019	28,519	24,602
2020	21,850	17,251
2021 and thereafter	79,438	63,249
Total commitments	**$ 183,212**	**$ 172,217**

Directors

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

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

Officers

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

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

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

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Abbreviations

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

Corporate Office

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

Contact Us

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

Stock Exchange Trading Symbol

(Toronto Stock Exchange and New York Stock Exchange)

Shares: AAV