CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

Independent auditor's report

To the Shareholders of Advantage Oil & Gas Ltd.

Our opinion

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

What we have audited
The Company's consolidated financial statements comprise:

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

Basis for opinion

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

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

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

Other information

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 27, 2020

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

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

Commitments (note 23)
See accompanying Notes to the Consolidated Financial Statements

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

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

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

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

See accompanying Notes to the Consolidated Financial Statements

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

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

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

See accompanying Notes to the Consolidated Financial Statements

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

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

See accompanying Notes to the Consolidated Financial Statements

For the years ended December 31, 2019 and 2018
All tabular amounts expressed in thousands of Canadian dollars, except as otherwise indicated.

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

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) Basis of consolidation

(i) Subsidiaries

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

3. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

(ii) Joint arrangements

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

(c) Financial instruments

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

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

<u>Derivative assets and liabilities</u>

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

<u>Impairment of Financial Assets</u>

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

3. Significant accounting policies (continued)

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

(i) Recognition and measurement

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 property, plant and equipment, net of any impairment loss.

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

Property, plant and equipment

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

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

(ii) Subsequent costs

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

3. Significant accounting policies (continued)

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

(iii) Depreciation

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

(iv) Dispositions

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

(v) Impairment

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

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

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

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

3. Significant accounting policies (continued)

(e) Decommissioning liability

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

(f) Leases

<u>Accounting policy prior the adoption of IFRS 16 – Leases</u>

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

<u>Accounting policy after the adoption of IFRS 16 – Leases</u>

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

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

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

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

3. Significant accounting policies (continued)

(g) Share-based compensation

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

Advantage's Stock Option Plan ("Stock Option Plan") authorizes the Board of Directors to grant Stock Options to service providers, including directors, officers, employees and consultants of Advantage. Compensation costs related to the Stock Options are recognized as share-based compensation expense over the vesting period at fair value.

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

As compensation expense is recognized, contributed surplus is recorded until the Performance Share Units vest or Stock Options are exercised, at which time the appropriate common shares are then issued to the service providers and the contributed surplus is transferred to share capital.

(h) Long-term compensation

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

(i) Revenue

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

3. Significant accounting policies (continued)

(j) Income tax

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

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

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

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

(k) Net income (loss) per share

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

(l) Investment tax credits

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

(m) Newly adopted accounting policies

IFRS 16 – Leases ("IFRS 16")

<u>Adoption</u>

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

3. Significant accounting policies (continued)

(n) Newly adopted accounting policies (continued)

Transition

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

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

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

(n) Accounting pronouncements not yet adopted

(i) IFRS 3

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

(ii) IAS 1 and IAS 8

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

4. Significant accounting judgments, estimates and assumptions

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

(a) Reserves base

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

(b) Determination of cash generating unit

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

(c) Impairment indicators and calculation of impairment

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

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

(d) Derivative assets and liabilities

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

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

(e) Share-based compensation

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

(f) Decommissioning liability

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

(g) Leases

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

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

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

(h) Income taxes

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

5. Cash and cash equivalents

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

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

6. Trade and other receivables

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

7. Exploration and evaluation assets

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

8. Right-of-use assets

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

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

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

9. Property, plant and equipment

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

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

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

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

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

9. Property, plant and equipment (continued)

Impairment assessment

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

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

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

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

10. Financial risk management

As at December 31, 2019, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of the Corporation's financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

Fair value is determined following a three-level hierarchy:

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

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

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

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

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

10. Financial risk management (continued)

(a) Credit risk

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

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

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

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

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

10. Financial risk management (continued)

(b) Liquidity risk

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

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

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

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

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

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

10. Financial risk management (continued)

(b) Liquidity risk (continued)

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

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

The Corporation's bank indebtedness does not have specific maturity dates. It is governed by credit facility agreements with a syndicate of financial institutions (note 12). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in April 2020. The facilities are revolving and are extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one-year term facilities, with the principal payable at the end of such one-year terms. Management fully expects that the facilities will be extended at each annual review.

(c) Price risk

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

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

10. Financial risk management (continued)

(c) Price risk (continued)

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

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

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

10. Financial risk management (continued)

(c) Price risk (continued)

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

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

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

(d) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank indebtedness fluctuates with the interest rates posted by the lenders. The Corporation is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been different by 100 basis points throughout the year ended December 31, 2019, net income (loss) and comprehensive income (loss) would have changed by $2.1 million (December 31, 2018 – $1.8 million) based on the average debt balance outstanding during the year.

(e) Foreign exchange risk

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

10. Financial risk management (continued)

(f) Capital management

The Corporation manages its capital with the following objectives:

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

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

Advantage's capital structure as at December 31, 2019 and 2018 is as follows:

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

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

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

11. Lease liability

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

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

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

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

12. Bank indebtedness

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

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

In October 2019, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base. The revolving period for the Credit Facilities will end in April 2020 unless extended at the option of the syndicate for a further 364-day period. If not extended, the credit facility will be converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. The Credit Facilities are subject to re-determination of the borrowing base semi-annually in October and April of each year, with the next annual review scheduled to occur in April 2020. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time. The borrowing base is determined based on, among other things, a thorough evaluation of Advantage's reserve estimates based upon the lenders commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Corporation has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.

Amounts borrowed under the Credit Facilities bear interest at rates ranging from LIBOR plus 1.5% to 3.5% per annum, and Canadian prime or US base rate plus 0.5% to 2.5% per annum, in each case, depending on the type of borrowing and the Corporation's debt to Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio. Undrawn amounts under the Credit Facilities bear a standby fee ranging from 0.3375% to 0.7875% per annum, dependent on the Corporation's debt to EBITDA ratio. Repayments of principal are not required prior to maturity provided that the borrowings under the Credit Facilities do not exceed the authorized borrowing base and the Corporation is in compliance with all covenants, representations and warranties.

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

The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The Corporation did not have any financial covenants at December 31, 2019 and 2018. Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating ("LMR") is not less than 2.0. As at December 31, 2019 the Corporation had a 26.6 LMR (December 31, 2018 – 26.2 LMR). All other applicable non-financial covenants were met at December 31, 2019 and 2018. Breach of any covenant will result in an event of default in which case the Corporation has 30 days to remedy such default. If the default is not remedied or waived, and if required by the lenders, the administrative agent of the lenders has the option to declare all obligations under the credit facilities to be immediately due and payable without further demand, presentation, protest, days of grace, or notice of any kind. The Credit Facilities are collateralized by a $1 billion floating charge demand debenture covering all assets. For the year ended December 31, 2019, the average effective interest rate on the outstanding amounts under the facilities was approximately 4.2% (December 31, 2018 – 4.3%). The Corporation had letters of credit of US$6 million outstanding at December 31, 2019 (December 31, 2018 – US$5 million).

13. Decommissioning liability

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

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

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

14. Income taxes

The provision for income taxes is as follows:

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

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

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

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

14. Income taxes (continued)

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

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

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

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

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

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

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

No deferred tax asset has been recognized for capital losses of $158 million (December 31, 2018 – $158 million). Recognition is dependent on the realization of future taxable capital gains.

15. Share capital

(a) Authorized

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

(b) Issued

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

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

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

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

16. Long-term compensation plans

(a) Stock Option Plan

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

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

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

The following tables summarize information about changes in Stock Options outstanding at December 31, 2019:

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

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
$6.82	840,449	0.26	6.82	840,449	6.82

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

16. Long-term compensation plans (continued)

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

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

The following table is a continuity of Performance Share Units:

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

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

(c) Share-based compensation expense

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

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

16. Long-term compensation plans (continued)

(d) Performance Award Incentive Plan – Performance Awards

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

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

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

17. Net income (loss) per share

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

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

18. Revenues

(a) Sales of natural gas and liquids from production

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

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

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

(b) Sales of natural gas purchased from third parties

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

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

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

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

20. Finance expense

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

21. Related party transactions

Key management compensation:

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

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

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

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

22. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

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

23. Commitments

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

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

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

Directors

Jill T. Angevine (1)(3)(4)
Stephen E. Balog (1)(2)(3)(4)
Grant B. Fagerheim (2)(3)
Paul G. Haggis (1)(2)(3)(4)
Andy J. Mah
Ronald A. McIntosh (2)(4)

(1) Member of Audit Committee
(2) Member of Reserve Evaluation Committee
(3) Member of Compensation Committee
(4) Member of Governance Committee

Officers

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

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

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

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Abbreviations

bbl(s)	- barrel(s)
bbls/d	- barrels per day
boe	- barrels of oil equivalent (6 mcf = 1 bbl)
boe/d	- barrels of oil equivalent per day
mcf	- thousand cubic feet
mcf/d	- thousand cubic feet per day
mmbtu	- million British thermal units
mmbtu/d	- million British thermal units per day
mmcf	- million cubic feet
mmcf/d	- million cubic feet per day
mcfe	- thousand cubic feet equivalent (1 bbl = 6 mcf)
mcfe/d	- thousand cubic feet equivalent per day
gj	- gigajoules
"NGLs" or "Liquids"	- Natural Gas Liquids as defined in National Instrument 51-101
Natural gas	- Conventional Natural Gas as defined in National Instrument 51-101
AECO	- benchmark price for natural gas determined at the AECO 'C' hub in southeast Alberta
WTI	- West Texas Intermediate, price paid in U.S. dollars at Cushing, Oklahoma, for crude oil of standard grade

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