Q1

2019 First Quarter Report

Financial and Operating Highlights

($000, except as otherwise indicated)	Three months ended March 31 2019	2018
Financial Statement Highlights		
Sales including realized hedging [3]	**$ 81,372**	$ 73,378
Net income and comprehensive income	**$ 681**	$ 10,103
per basic share [2]	**$ 0.00**	$ 0.05
Cash provided by operating activities	**$ 44,483**	$ 58,654
Cash provided by financing activities	**$ 19,501**	$ 28,341
Cash used in investing activities	**$ 59,714**	$ 85,225
Basic weighted average shares (000)	**185,942**	185,963
Other Financial Highlights		
Adjusted funds flow [1]	**$ 50,023**	$ 48,882
per boe [1]	**$ 12.38**	$ 13.63
per basic share [2]	**$ 0.27**	$ 0.26
Net capital expenditures [1]	**$ 57,422**	$ 77,073
Working capital (surplus) deficit [1]	**$ (9,325)**	$ 13,779
Bank indebtedness	**$ 290,612**	$ 237,319
Total debt [1]	**$ 281,287**	$ 251,098
Operating		
Daily Production		
Natural gas (mcf/d)	**257,219**	232,456
Liquids (bbls/d)	**2,030**	1,105
Total production (mcfe/d)	**269,401**	239,086
Total production (boe/d)	**44,900**	39,848
Average prices (including realized hedging)		
Natural gas ($/mcf) [3]	**$ 3.11**	$ 3.19
Liquids ($/bbl)	**$ 51.93**	$ 66.11
Operating Netback ($/boe)		
Sales of natural gas and liquids from production	**$ 18.90**	$ 16.19
Net sales of natural gas purchased from third parties [1]	**(0.35)**	-
Realized gains on derivatives	**1.23**	4.27
Royalty expense	**(0.57)**	(0.34)
Operating expense	**(2.02)**	(1.94)
Transportation expense	**(3.40)**	(3.44)
Operating netback [1]	**$ 13.79**	$ 14.74

(1) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Based on basic weighted average shares outstanding.
(3) Excludes net sales of natural gas purchased from third parties.

MESSAGE TO SHAREHOLDERS

2019 Liquids Production Growth On-Track with Lower Capital

Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce continued advancement of our liquids development plan as demonstrated by our first quarter 2019 results. Advantage's achievements include:

- 13% increase in production to 44,900 boe/d, including an 84% increase in liquids production to 2,030 bbls/d during the quarter, on plan to exceed 2,300 bbls/d in the second quarter
- Generated adjusted funds flow [a] of $50 million ($0.27/share) and net capital expenditures[a] of $57 million
- Achieved a $5.8 million gain through gas marketing and hedging initiatives resulting in an average realized natural gas price of Cdn $3.11/mcf
- Increased hedging to 47% of estimated 2019 total gas sales at an average Cdn price of $2.50/mcf with only 20% of gas production exposed to AECO pricing between April and October 2019
- Maintained low corporate costs including royalty costs of $0.57/boe, operating costs of $2.02/boe, transportation costs of $3.40/boe and G&A costs of $0.61/boe
- Renewal of our $400 million credit facility with over $100 million undrawn
- Retained strong financial flexibility with a total debt to adjusted funds flow [a] of 1.9x
- At Glacier, a new 10 well liquids-rich Middle Montney pad is exceeding expectations
- Successfully commissioned our new Valhalla liquids handling facility, in preparation for 7 standing Middle Montney wells to be brought on-production through the remainder of 2019

Advantage's 2019 capital development program has been reduced by $10 million with no impact to the Corporation's annual production guidance. Annual 2019 capital expenditures are anticipated to range from $180 to $200 million with annual liquids production increasing 100% year-on-year to average between 2,900 to 3,200 bbls/d, and total production between 43,500 and 46,500 boe/d. The 2019 program is expected to reduce year-end total debt to adjusted funds flow (a) to approximately 1.7x based on current strip prices. The $10 million reduction was accomplished primarily by deferring lean gas well drilling.

Advantage's 2019 to 2021 liquids development plan increases liquids production to over 11,000 bbls/d in 2021. The plan results in more than 50% of revenue from high value liquids while targeting a total debt to adjusted funds flow below 2.0 times based on current strip prices. Advantage's extensive infrastructure ownership and minimal external commitments provides the Corporation with the flexibility to allocate capital between our four project areas over the plan period as we refine and optimize our plan to enhance investment returns. This will be accomplished through allocating capital to the highest return projects and managing the pace of development which may vary the total plan capital required.

Operations Update

During the first quarter, Advantage drilled 5 gross wells (4.7 net) at Valhalla, completed 2 gross wells (2 net) at Valhalla, completed 10 gross wells (10 net) at east Glacier, and commissioned the new Valhalla liquids hub. Production was significantly reduced in February 2019 for 10 days due to 76% firm service restrictions on TransCanada Pipelines Ltd's NGTL system; conversely Advantage increased production in March to capture higher prices during a prolonged period of cold weather.

Glacier

During the first quarter of 2019, Advantage completed and tested a 10 well Middle Montney pad located in east Glacier. These Middle Montney wells demonstrated an average liquids yield of 73 bbls/mmcf. Gas production rates from these wells exceeded the Corporation's average well type curves by 20%. Two of the 10 wells are currently on-production with the remaining eight to be tied-in following spring breakup.

Valhalla

During the first quarter of 2019, 5 gross (4.7 net) wells were drilled across three different liquids-rich Montney horizons with completions and tie-ins planned for the third quarter 2019. Two additional wells (drilled in late 2018) were completed in the Middle Montney; flow back and tie-ins will occur following spring breakup.

Advantage commissioned a 100% owned Valhalla compression and liquids facility during the first quarter. This facility is designed to accommodate 40 mmcf/d of raw gas and 2,000 bbls/d of free liquids and is expandable to accommodate future liquids-rich production growth at Valhalla.

Pipestone/Wembley

At Wembley, Advantage continues to progress engineering, procurement and regulatory work on a liquids hub (capacity of 36 mmcf/d of raw gas and 5,000 bbls/d of oil), along with the associated gathering and sales pipelines. Long lead-time items have been ordered and regulatory approval has been obtained for the portion of gathering and sales pipelines necessary to deliver the first tranche of production from Wembley to a third party processor in the area. Production is expected to commence during the third quarter of 2019.

Progress

At Progress, Advantage is preparing to construct a pipeline to tie-in two previously drilled wells to our Glacier gas plant through the Valhalla liquids hub. This new pipeline, expected to be complete by the fourth quarter of 2019, further expands Advantage's infrastructure network, and will serve as a trunk line as Advantage continues to delineate the Progress Montney oil asset.

Looking Forward

The Corporation's 2019 net capital expenditures(a) guidance range is $180 to $200 million. Our 2019 production guidance range of between 43,500 and 46,500 boe/d (261 and 279 mmcfe/d) remains unchanged. Liquids production is expected to average between 2,900 and 3,200 bbls/d. Advantage believes that AECO gas prices may remain volatile through the summer due in part to the receipt and delivery balancing procedure on the NGTL pipeline system. In the event of periods of very low prices, Advantage has the flexibility to appropriately manage production on unhedged AECO sales, with minimal impact on adjusted funds flow due to Advantage's existing market diversification positions.

Advantage is planning to invest approximately $15 million in the second quarter of 2019. Liquids production is forecast to continue increasing through the remainder of 2019 as we tie-in new wells at east Glacier and Valhalla. Additionally, production from our Pipestone/Wembley asset is targeted to be brought on-stream during the third quarter when third party processing capacity is available.

(a) Non-GAAP Measures which may not be comparable to similar non-GAAP measures by other entities. Please see "Non-GAAP Measures" section in the Management Discussion & Analysis for the reconciliations to the nearest measure calculated in accordance with GAAP.

Advisory

The information in this report contains certain forward-looking statements, including within the meaning of applicable securities laws. These statements relate to future events or our future intentions or performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "demonstrate", "expect", "may", "can", "will", "project", "predict", "potential", "target", "intend", "could", "might", "should", "guidance", "believe", "would" and similar expressions and include statements relating to, among other things, Advantage's strategy and plans, expectations generally; expectation that liquids production will exceed 2,300 bbls/d in the second quarter of 2019; the anticipated number of wells to be brought on production for the remainder of 2019; the expected components and benefits to be derived from Advantage's 2019 to 2021 liquids development plan and how such plan will be accomplished; the anticipated timing of when wells will be tied-in and that production will increase at east Glacier and Valhalla and the timing of when production from our Pipestone/Wembley assets is to be brought on-stream; expected timing to complete the new pipeline at Progress and the benefits to be derived therefrom; Advantage's 2019 net capital expenditures guidance range, 2019 production guidance range and 2019 average liquids production guidance range; Advantage's anticipated amount of investment in the first half of 2019. Advantage's actual decisions, activities, results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits that Advantage will derive from them.

These statements involve substantial known and unknown risks and uncertainties, certain of which are beyond Advantage's control, including, but not limited to: changes in general economic, market and business conditions; industry conditions; actions by governmental or regulatory authorities including increasing taxes and changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; Advantage's success at acquisition, exploitation and development of reserves; unexpected drilling results; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties, including hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; delays in anticipated timing of drilling and completion of wells; individual well productivity; competition from other producers; the lack of availability of qualified personnel or management; credit risk; changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; stock market volatility and market valuations; liabilities inherent in oil and natural gas operations; competition for, among other things, capital, acquisitions of reserves, undeveloped lands and skilled personnel; incorrect assessments of the value of acquisitions; geological, technical, drilling and processing problems and other difficulties in producing petroleum reserves; ability to obtain required approvals of regulatory authorities; and ability to access sufficient capital from internal and external sources. Many of these risks and uncertainties and additional risk factors are described in the Corporation's Annual Information Form which is available at www.sedar.com ("SEDAR") and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

With respect to forward-looking statements contained in this report, Advantage has made assumptions regarding, but not limited to: conditions in general economic and financial markets; effects of regulation by governmental agencies; current and future commodity prices and royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labor; availability of drilling and related equipment; timing and amount of net capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's properties in the manner currently contemplated; current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated; and the estimates of the Corporation's production and reserves volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

Management has included the above summary of assumptions and risks related to forward-looking information above and in its continuous disclosure filings on SEDAR 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 news release and Advantage disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, other than as required by applicable securities laws.

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

This report contains a number of oil and gas metrics, including operating netback, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Corporation's performance; however, such measures are not reliable indicators of the future performance of the Corporation and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide securityholders with measures to compare Advantage's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this news release, should not be relied upon for investment or other purposes. See below under the heading "Non-GAPP Measures" for how operating netback is calculated.

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of May 2, 2019, provides a detailed explanation of the consolidated financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three months ended March 31, 2019 and should be read in conjunction with the unaudited condensed consolidated financial statements for the three months ended March 31, 2019 and the audited consolidated financial statements for the year ended December 31, 2018 (together, the "consolidated financial statements"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

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

Financial Highlights

($000, except as otherwise indicated)	Three months ended March 31 2019	2018
Financial Statement Highlights		
Sales including realized hedging [3]	**$ 81,372**	$ 73,378
Net income and comprehensive income	**$ 681**	$ 10,103
per basic share [2]	**$ 0.00**	$ 0.05
Cash provided by operating activities	**$ 44,483**	$ 58,654
Cash provided by financing activities	**$ 19,501**	$ 28,341
Cash used in investing activities	**$ 59,714**	$ 85,225
Basic weighted average shares (000)	**185,942**	185,963
Other Financial Highlights		
Adjusted funds flow [1]	**$ 50,023**	$ 48,882
per boe [1]	**$ 12.38**	$ 13.63
per basic share [2]	**$ 0.27**	$ 0.26
Net capital expenditures [1]	**$ 57,422**	$ 77,073
Working capital (surplus) deficit [1]	**$ (9,325)**	$ 13,779
Bank indebtedness	**$ 290,612**	$ 237,319
Total debt [1]	**$ 281,287**	$ 251,098

(4) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(5) Based on basic weighted average shares outstanding.
(6) Excludes net sales of natural gas purchased from third parties.

Operating Highlights

	Three months ended March 31	
	2019	**2018**
Operating		
Daily Production		
Natural gas (mcf/d)	**257,219**	232,456
Liquids (bbls/d)	**2,030**	1,105
Total production (mcfe/d)	**269,401**	239,086
Total production (boe/d)	**44,900**	39,848
Average prices (including realized hedging)		
Natural gas ($/mcf) (2)	**$ 3.11**	$ 3.19
Liquids ($/bbl)	**$ 51.93**	$ 66.11
Operating Netback ($/boe)		
Sales of natural gas and liquids from production	**$ 18.90**	$ 16.19
Net sales of natural gas purchased from third parties (1)	**(0.35)**	-
Realized gains on derivatives	**1.23**	4.27
Royalty expense	**(0.57)**	(0.34)
Operating expense	**(2.02)**	(1.94)
Transportation expense	**(3.40)**	(3.44)
Operating netback (1)	**$ 13.79**	$ 14.74

(1) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Excludes net sales of natural gas purchased from third parties.

Natural Gas and Liquids Sales

($000)		Three months ended March 31 2019		2018	% change
Natural gas sales (1)	$	66,904	$	51,481	30 %
Realized gains on derivatives		4,979		15,322	(68) %
Natural gas sales including derivatives		71,883		66,803	8 %
Liquids sales		9,489		6,575	44 %
Total (1)	**$**	**81,372**	**$**	**73,378**	**11 %**

(1) Excludes net sales of natural gas purchased from third parties and unrealized derivative gains and losses.

Higher natural gas production and realized prices resulted in an increase of $15.4 million or 30% to natural gas sales between the three months ended March 31, 2019 and 2018.

Liquids sales increased by $2.9 million or 44% over the same period as a result of an 84% increase in production, offset by weaker realized prices.

During the first quarter 2019, realized gains on derivatives resulted in an increase of $5.0 million or 7% to total sales. For the three months ended March 31, 2019 approximately 8% of our natural gas production volumes were sold at Chicago Citygate price, which realized higher average prices than AECO (see "Commodity Prices and Marketing").

Production

	Three months ended March 31 2019	2018	% change
Natural gas (mcf/d)	257,219	232,456	11 %
Liquids (bbls/d)	2,030	1,105	84 %
Total production - mcfe/d	**269,401**	**239,086**	**13 %**
- boe/d	**44,900**	**39,848**	**13 %**
Natural gas (%)	95%	97%	
Liquids (%)	5%	3%	

Total production for the three months ended March 31, 2019 averaged 44,900 boe/d, a 13% increase from total average production of 39,848 boe/d for the same period of 2018. Advantage's total production increased due to an 84% growth in liquids production as planned and 11% higher natural gas production capturing stronger natural gas prices, including AECO, through the winter months. These production gains were achieved from successful well results at Glacier and Valhalla and the commencement of our new compressor and liquids handling facility at Valhalla during the quarter.

Commodity Prices and Marketing

	Three months ended March 31 2019			2018	% change
Average Realized Prices					
Natural gas, excluding hedging ($/mcf)[1]	$	2.89	$	2.46	17 %
Natural gas, including hedging ($/mcf)[1]	$	3.11	$	3.19	(3) %
Liquids, excluding and including hedging ($/bbl)	$	51.93	$	66.11	(21) %
Benchmark Prices					
AECO daily ($/mcf)	$	2.62	$	2.08	26 %
AECO monthly ($/mcf)	$	1.94	$	1.85	5 %
Dawn daily ($US/mmbtu)	$	2.92	$	3.04	(4) %
Chicago Citygate ($US/mmbtu)	$	3.33	$	3.24	3 %
Henry Hub ($US/mmbtu)	$	2.88	$	2.98	(3) %
WTI ($US/bbl)	$	54.83	$	62.91	(13) %
Exchange rate (US$/CDN$)		0.7511		0.7907	(5) %

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

For the three months ended March 31, 2019, Advantage's realized natural gas price excluding hedging was $2.89/mcf, a 17% increase compared to the same period of 2018. The increase in realized natural gas price excluding hedging was primarily due to the increase in AECO prices and the increase in production sold at Chicago Citygate prices. To mitigate our exposure to AECO natural gas pricing, Advantage maintains a strategy of physical and financial natural gas price diversification.

For the three months ended March 31, 2019 Advantage continued to sell natural gas into the Dawn, Ontario market and the Chicago market, both of which generated higher realized prices as compared to AECO. Advantage's firm transportation service to Dawn of 52,700 mcf/d is a ten-year commitment that began November 1, 2017 and represents approximately 21% of our natural gas production. The Dawn market has provided the Corporation with physical market diversification and exposure to higher prices net of transportation costs since this commitment began. Starting November 1, 2018, Advantage entered into sales arrangements for 20,000 mcf/d at Chicago Citygate prices, net of a fixed differential. Beginning April 2019, Chicago Citygate based sales will increase to 40,000 mcf/d.

While Advantage's realized liquids prices normally trend with fluctuations in WTI oil prices, realized liquids prices during the first quarter of 2019 were additionally impacted by large variations in differentials that were experienced by the Canadian industry. These large variations in price differentials have since narrowed which benefits Advantage's current liquids mix comprised of 69% pentanes and condensate, which attract higher market prices than other natural gas liquids.

Commodity Price Risk Management and Market Diversification

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

Commodity Price Risk Management and Market Diversification (continued)

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

	January 1 to December 31, 2019		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	93.7	$2.11/mcf	37 %
Dawn fixed price swaps	24.6	US$2.96/mcf [2]	10 %
	118.3		47 %
Variable Price			
AECO physical	70.6	AECO	28 %
Dawn physical	28.1	Dawn [2]	11 %
Chicago physical	35.0	Chicago less US$1.19/mcf	14 %
	133.7		53 %
Total Natural Gas [3]	252.0		100 %

(1) All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu.
(2) Transportation under our firm commitment from AECO to Dawn is approximately $1.10/mcf.
(3) Represents the midpoint of our Guidance for 2019 natural gas volumes (see News Release dated November 1, 2018).

A summary of realized and unrealized derivative gains and losses for the three months ended March 31, 2019 and 2018 are as follows:

	Three months ended March 31		%
($000)	**2019**	**2018**	**change**
Realized gains on derivatives	$ 4,979	$ 15,322	(68) %
Unrealized losses on derivatives	(15,287)	(5,725)	167 %
Gains (losses) on derivatives	**$ (10,308)**	**$ 9,597**	**(207) %**

For the three months ended March 31, 2019 and 2018, Advantage recognized realized gains on derivatives due to the settlement of contracts with average derivative contract prices that were above average market prices during the periods. For the three months ended March 31, 2019, Advantage recognized unrealized losses on derivative of $15.3 million resulting from a decrease in the fair value of our future derivative contracts to a net asset of $26.4 million, compared to a net asset of $41.6 million at December 31, 2018. The fair value of the net derivative asset or liability is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses do not impact adjusted funds flow and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. The decrease in the fair value of our outstanding derivative contracts over the three months ended March 31, 2019 was attributable to the change in valuation of the derivative contracts and $5.0 million of actual cash received from derivative settlements during the period. Remaining derivative contracts will settle between April 1, 2019 and December 31, 2024.

Sales of Natural Gas Purchased from Third Parties

	Three months ended March 31 2019	Three months ended March 31 2018	% change
Sales of natural gas purchased from third parties ($000)	$ 637	$ -	100 %
Natural gas purchased from third parties ($000)	(2,037)	-	(100) %
Net sales of natural gas purchased from third parties ($000)	$ (1,400)	$ -	(100) %
per boe	$ (0.35)	$ -	(100) %

For the three months ended March 31, 2019 Advantage purchased natural gas volumes from third parties to satisfy physical delivery commitments during a two-day plant outage. Advantage realized $0.6 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of $2.0 million.

Royalty Expense

	Three months ended March 31 2019	Three months ended March 31 2018	% change
Royalty expense ($000)	$ 2,302	$ 1,212	90 %
per boe	$ 0.57	$ 0.34	68 %
Royalty rate (percentage of natural gas and liquids sales)	3.0 %	2.1 %	0.9 %

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. Royalty expense for the three months ended March 31, 2019 was higher than the comparative period of 2018, due to higher realized natural gas prices and increased production.

Operating Expense

	Three months ended March 31 2019	Three months ended March 31 2018	% change
Operating expense ($000)	$ 8,157	$ 6,960	17 %
per boe	$ 2.02	$ 1.94	4 %

Operating expense for the three months ended March 31, 2019 was $8.2 million, an increase of 17% compared to the same period of 2018. However, the increase in operating expense was generally consistent with the increased natural gas and liquids production thereby maintaining our low costs (see "Production").

Transportation Expense

	Three months ended March 31		%
	2019	2018	change
Natural gas ($000)	$ 12,395	$ 11,408	9 %
Liquids ($000)	1,355	919	47 %
Total transportation expense ($000)	$ 13,750	$ 12,327	12 %
per boe	$ 3.40	$ 3.44	(1) %

Transportation expense represents the cost of transporting our natural gas and liquids to the sales points, including associated fuel costs. For the three months ended March 31, 2019, transportation expense increased 12% due to the increase in natural gas and liquids production (see "Production"). Transportation expense per boe was comparable to the same period in 2018.

Operating Netback

	Three months ended March 31			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 76,393	$ 18.90	$ 58,056	$ 16.19
Net sales of natural gas purchased from third parties [1]	(1,400)	(0.35)	-	-
Realized gains on derivatives	4,979	1.23	15,322	4.27
Royalty expense	(2,302)	(0.57)	(1,212)	(0.34)
Operating expense	(8,157)	(2.02)	(6,960)	(1.94)
Transportation expense	(13,750)	(3.40)	(12,327)	(3.44)
Operating netback [1]	**$ 55,763**	**$ 13.79**	**$ 52,879**	**$ 14.74**

[1] Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

Advantage's operating netback for the three months ended March 31, 2019 was $55.8 million or $13.79 per boe, a decrease of $0.95 per boe compared to the same period of 2018. Advantage recognized a significant increase in sales of natural gas and liquids from production due to increased production, stronger natural gas prices, and market diversification; however, this was more than offset by lower realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification"). Advantage's operating netback for the three months ended March 31, 2019 was not impacted as result of adopting IFRS 16 – leases on January 1, 2019.

General and Administrative Expense

	Three months ended March 31		%
	2019	**2018**	**change**
General and administrative expense ($000)	$ 2,481	$ 1,746	42 %
per boe	$ 0.61	$ 0.49	24 %
Employees at March 31	32	29	10 %

General and administrative ("G&A") expense for the three months ended March 31, 2019 in total and on a boe basis increased from the comparative period in 2018. The increase in 2019 was due to an increased number of staff and higher consulting costs.

Share-based Compensation

	Three months ended March 31		%
	2019	**2018**	**change**
Share-based compensation ($000)	$ 1,705	$ 1,307	30 %
Capitalized ($000)	(629)	(563)	12 %
Share-based compensation expense ($000)	$ 1,076	$ 744	45 %
per boe	$ 0.27	$ 0.21	29 %

Share-based compensation represents expenses associated with Advantage's stock option plan and restricted and performance award plan that are designed to provide for long-term compensation to employees and contractors and to align the interests of these individuals with those of shareholders. For the three months ended March 31, 2019, share-based compensation increased by $0.4 million compared to the same period of 2018, primarily due to actual payout multipliers associated with outstanding Performance Awards that can result in expense variability. As at March 31, 2019, a total of 2.0 million Stock Options and 2.9 million Performance Awards are unexercised which represents 2.6% of Advantage's total outstanding common shares.

Finance Expense

	Three months ended March 31		%
	2019	**2018**	**change**
Cash expense ($000)	$ 3,267	$ 2,251	45 %
per boe	$ 0.81	$ 0.63	29 %
Non-cash finance expense ($000)	259	264	(2) %
Total finance expense ($000)	$ 3,526	$ 2,515	40 %
per boe	$ 0.87	$ 0.70	24 %

Advantage realized higher cash finance expense during the three months ended March 31, 2019 compared to the same period of 2018 primarily due to higher average outstanding bank indebtedness. As anticipated, bank debt was higher during the first quarter of 2019 due to lower cash provided by operating activities compared to net capital expenditures. Advantage's interest rates are primarily based on short term bankers' acceptance rates plus a stamping fee and determined by total debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities. During 2019, we expect higher cash finance expense resulting from the higher average bank indebtedness and interest rates as determined by our total debt to EBITDA ratio.

Depreciation Expense

	Three months ended March 31 2019	2018	% change
Depreciation expense ($000)	$ 32,001	$ 28,033	14 %
per boe	$ 7.92	$ 7.82	1 %

Depreciation expense includes depreciation of property, plant and equipment and depreciation of right-of-use assets. 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 boe was comparable to the same period in 2018.

Taxes

	Three months ended March 31 2019	2018	% change
Deferred income tax expense ($000)	$ 719	$ 4,013	(82) %
per boe	$ 0.18	$ 1.12	(84) %

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the three months ended March 31, 2019, the Corporation recognized a deferred income tax expense of $0.7 million as a result of $1.4 million income before taxes. As at March 31, 2019, the Corporation had a deferred income tax liability of $79.1 million.

Net Income and Comprehensive Income

	Three months ended March 31 2019	2018	% change
Net income and comprehensive income ($000)	$ 681	$ 10,103	(93) %
per share - basic	$ 0.00	$ 0.05	(100) %
per share - diluted	$ 0.00	$ 0.05	(100) %

Advantage recognized net income of $0.7 million for the three months ended March 31, 2019, a reduction as compared to the same period of 2018. Advantage recognized a lower operating netback for the three months ended March 31, 2019 compared to the same period in 2018 due to lower realized gains on derivatives (see "Operating Netback"), offset by an increase in production. The primary contributor to the lower net income was $15.3 million recognized as unrealized losses on derivatives for the first quarter of 2019, compared to $5.7 million in the same period of 2018. Unrealized gains and losses on derivatives are non-cash and can fluctuate greatly between periods from changes to the estimated value to settle outstanding contracts (see "Commodity Price Risk Management and Market Diversification").

Cash Provided by Operating Activities and Adjusted Funds Flow

($000, except as otherwise indicated)	Three months ended March 31 2019	2018
Cash provided by operating activities	$ 44,483	$ 58,654
Expenditures on decommissioning liability	865	121
Changes in non-cash working capital	4,675	(9,893)
Adjusted funds flow (1)	**$ 50,023**	**$ 48,882**
Adjusted funds flow per share (1)	$ 0.27	$ 0.26

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

For the three months ended March 31, 2019, cash provided by operating activities was $44.5 million, a decrease as compared to the same 2018 period due to an increase in the change in non-cash operating working capital. Advantage's non-cash working capital can vary significantly depending on the timing and amount of trade receivables and trade payable settlements.

For the three months ended March 31, 2019, Advantage realized adjusted funds flow of $50.0 million or $0.27/share. Advantage realized slightly higher adjusted funds flow for the three months ended March 31, 2019 as compared to the same 2018 period due to increased production while stronger realized natural gas prices were predominately offset by a reduction in realized gains on derivatives. During 2019, adjusted funds flow has also been positively impacted by our increased focus on liquids-rich development that has increased liquids sales from higher liquids production, offset by a slight decrease of realized liquids prices.

Contractual Obligations and Commitments

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

	Payments due by period						
($ millions)	Total	2019	2020	2021	2022	2023	Beyond 5 Years
Building operating cost (1)	$ 3.4	$ 0.3	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.5
Transportation and processing	358.1	36.6	49.3	48.2	46.9	40.4	136.7
Bank indebtedness (2)							
- principle	293.0	-	293.0	-	-	-	-
- interest	15.0	9.1	5.9	-	-	-	-
Total contractual obligations	**$ 669.5**	**$ 46.0**	**$ 348.6**	**$ 48.6**	**$ 47.3**	**$ 40.8**	**$ 138.2**

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

(2) As at March 31, 2019 the Corporation's bank indebtedness was governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed semi-annually, with the next review scheduled in June 2020. The facility is revolving and extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

Liquidity and Capital Resources

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

($000, except as otherwise indicated)	March 31 2019	December 31 2018
Bank indebtedness (non-current)	$ 290,612	$ 270,918
Working capital (surplus) deficit	(9,325)	1,912
Total debt (1)	**$ 281,287**	**$ 272,830**
Shares outstanding	185,942,141	185,942,141
Shares closing market price ($/share)	$ 2.20	$ 1.98
Market capitalization	**$ 409,073**	**$ 368,165**
Total capitalization	**$ 690,360**	**$ 640,995**
Total debt to adjusted funds flow (1)	**1.9**	**1.8**

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

Advantage has a $400 million credit facility of which $100.3 million or 25% was available at March 31, 2019 after deducting letters of credit of US$5 million outstanding at March 31, 2019 (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's adjusted funds flow and bank indebtedness was utilized to fund our highly active capital expenditure program of $57.4 million for the three months ended March 31, 2019. This resulted in a total debt to adjusted funds flow ratio of 1.9 times as at March 31, 2019, as expected. Advantage anticipates its total debt to adjusted funds flow to decrease through the remainder of 2019. Advantage continues to be focused on maintaining a strong balance sheet, a disciplined commodity risk management program, a low-cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing our multi-year development plan.

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

Shareholders' Equity

As at March 31, 2019, a total of 2.0 million stock options and 2.9 million performance awards were outstanding, which represents 2.6% of Advantage's 185.9 total common shares outstanding. No Stock Options were exercised, and no performance awards were settled during the three months ended March 31, 2019. As at May 2, 2019, Advantage had 186.9 million common shares outstanding.

Bank Indebtedness, Credit Facilities and Other Obligations

At March 31, 2019, Advantage had bank indebtedness outstanding of $290.6 million, an increase of $19.7 million since December 31, 2018. The planned increase in bank indebtedness was consistent with the timing and execution of Advantage's capital expenditure program. Advantage's credit facilities have a borrowing base of $400 million that is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). The borrowing base for the Credit Facilities is determined by the banking syndicate through an evaluation of our reserve estimates based upon their own commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In April 2019, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base of $400 million, comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $380 million extendible revolving loan facility from a syndicate of financial institutions. The next annual review is scheduled to occur in June 2020. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage's had a working capital surplus of $9.3 million as at March 31, 2019, an increase of $11.2 million compared to the working capital deficit at December 31, 2018. Our working capital includes items expected for normal operations such as cash and cash equivalents, trade receivables, prepaid expenses, deposits, and trade payables and accruals. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations.

Cash Used in Investing Activities and Net Capital Expenditures

($000)	Three months ended March 31 2019	2018
Drilling, completion and workovers	$ 43,740	$ 34,245
Well equipping and facilities	13,090	42,325
Expenditures on property, plant and equipment	56,830	76,570
Expenditures on exploration and evaluation assets	592	503
Net capital expenditures [(1)(2)]	**$ 57,422**	**$ 77,073**
Changes in non-cash working capital	2,292	8,152
Cash used in investing activities	**$ 59,714**	**$ 85,225**

(1) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Net capital expenditures excludes capitalized share-based compensation and changes in decommissioning liability.

Advantage invested $57.4 million on property, plant, equipment and exploration and evaluation assets during the three months ended March 31, 2019. During the quarter, Advantage drilled 4.7 net wells focusing on liquid-rich Montney opportunities across our acreage position.

Glacier

During the first quarter of 2019, Advantage completed a ten well Middle Montney pad located on the eastern side of Glacier where initial liquid yields have been historically as high as 80 bbl/mmcf. The ten wells delineated all three layers within the Middle Montney and had an average shallow cut recoverable liquid yield of 73 bbl/mmcf at the conclusion of on average 53 hours of inline testing. Gas rates from the wells met or exceeded our Middle Montney type curve.

Wembley

The Corporation's Pipestone/Wembley land block is located in a prolific condensate fairway where significant industry drilling successes in multiple layers has occurred. Industry drilling adjacent to our lands have targeted multiple Montney layers with results demonstrating liquids-rich gas accumulations in all layers to date. Advantage's first well in this land block was tested at an average flow rate of 1,312 boe/d consisting of 2.9 mmcf/d of gas and 819 bbls/d of condensate and NGLs. This well is expected to be on-production by the fourth quarter of 2019.

Cash Used in Investing Activities and Net Capital Expenditures (continued)

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

Valhalla

Our first quarter 2019 drilling program was focused at Valhalla where our new compressor station and liquids hub is located. The facility increases drawdown of existing wells and provides capacity for future liquids-rich wells including 4.7 net wells which were drilled during the first quarter. The facility is capable of handling 40 mmcf/d of raw gas and 2,000 bbls/d of free liquids and is expandable to accommodate future liquids-rich production growth at Valhalla. The wells drilled during the first quarter will be completed during the summer of 2019.

Corporate

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

During the first quarter, Advantage acquired three additional sections of Doig/Montney rights proximal to our existing land holdings. We now hold a total of 209 net sections (133,760 net acres) of Doig/Montney rights with 119 of those net sections outside of Glacier in the Valhalla/Progress/Wembley areas that have potential for liquids-rich and multi-layer development.

Quarterly Performance

($000, except as otherwise indicated)	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2
Daily production								
Natural gas (mcf/d)	257,219	262,269	262,841	205,712	232,456	237,780	219,812	225,844
Liquids (bbls/d)	2,030	1,974	1,804	1,067	1,105	1,227	1,395	1,098
Total (mcfe/d)	269,401	274,113	273,665	212,114	239,086	245,142	228,182	232,432
Total (boe/d)	44,900	45,686	45,611	35,352	39,848	40,857	38,030	38,739
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 2.89	$ 2.57	$ 1.85	$ 1.63	$ 2.46	$ 2.15	$ 1.84	$ 2.98
Including realized hedging (2)	$ 3.11	$ 2.70	$ 1.93	$ 2.05	$ 3.19	$ 2.69	$ 2.26	$ 3.09
AECO daily	$ 2.62	$ 1.56	$ 1.19	$ 1.18	$ 2.08	$ 1.69	$ 1.46	$ 2.79
AECO monthly	$ 1.94	$ 1.90	$ 1.55	$ 1.03	$ 1.85	$ 1.95	$ 2.04	$ 2.77
Liquids ($/bbl)								
Excluding and including hedging	$ 51.93	$ 49.23	$ 67.90	$ 72.32	$ 66.11	$ 60.48	$ 46.95	$ 57.27
WTI ($US/bbl)	$ 54.83	$ 59.10	$ 69.75	$ 68.05	$ 62.91	$ 55.35	$ 48.15	$ 48.24
Total sales including realized hedging (1)(2)	$ 81,372	$ 73,979	$ 57,928	$ 45,319	$ 73,378	$ 65,779	$ 51,706	$ 69,169
Net income (loss)	$ 681	$ 25,162	$ (8,852)	$ (15,294)	$ 10,103	$ 21,425	$ 13,026	$ 18,339
per share - basic	$ 0.00	$ 0.14	$ (0.05)	$ (0.08)	$ 0.05	$ 0.12	$ 0.07	$ 0.10
per share - diluted	$ 0.00	$ 0.14	$ (0.05)	$ (0.08)	$ 0.05	$ 0.11	$ 0.07	$ 0.10
Cash provided by operating activities(3)	$ 44,483	$ 41,627	$ 27,950	$ 21,009	$ 58,654	$ 27,880	$ 55,063	$ 42,807
Adjusted funds flow (4)	$ 50,023	$ 46,301	$ 32,035	$ 23,160	$ 48,882	$ 43,883	$ 36,722	$ 48,625

(1) Excludes net sales of natural gas purchased from third parties.
(2) Excludes unrealized hedging.
(3) Cash provided by operating activities has been adjusted to conform to the presentation adopted for the period ended March 31, 2019.
(4) Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".

The table above highlights the Corporation's performance for the first quarter of 2019 and also for the preceding seven quarters. Production for the third quarter of 2017 was slightly impacted by TCPL capacity restrictions and planned production decreases due to an expansion of the Glacier gas plant. Production increased during the fourth quarter of 2017, filling the Glacier gas plant capacity and achieving record production for Advantage at that time. Advantage's production volumes were reduced during the first and second quarter of 2018 as a result of Glacier gas plant expansion activities, with production increasing significantly afterwards following the completion of the expansion to 400 mmcf/d with Advantage achieving a new record production level.

Sales and adjusted funds flow were strong during early 2017 in conjunction with continued production growth, low cash costs and gains realized from our commodity risk management program. Sales and adjusted funds flow were weaker in the second half of 2017 as operational achievements were offset by a decline in natural gas prices. As commodity prices strengthened in the first quarter of 2018, both sales and adjusted funds flow recovered briefly but was subsequently followed by weak natural gas prices in the second quarter of 2018, associated with NGTL system maintenance, resulting in a considerable reduction in both sales and adjusted funds flow. Both sales and adjusted funds flow improved from the third quarter of 2018 to the first quarter of 2019 largely as a result of higher production, especially increased liquids production, with stronger realized prices. From early 2017 to the first quarter of 2019, cash provided by operating activities experienced greater fluctuations than adjusted funds flow due to changes in non-cash working capital, which primarily resulted from the amount and timing of trade payable settlements and accounts receivable collections.

Critical Accounting Estimates

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

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

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

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

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

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

Changes in Accounting Policies

During the three months ended March 31, 2019, the Corporation adopted IFRS 16 - Leases. Additional information regarding the adoption of the standard and the impact can be found in the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2019.

Accounting Pronouncements not yet Adopted

A description of additional accounting standards and interpretations that will be adopted in future periods can be found in the notes to the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2019.

Evaluation of Disclosure Controls and Procedures

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

Evaluation of Internal Controls over Financial Reporting

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

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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

Non-GAAP Measures

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

Net Capital Expenditures

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

Non-GAAP Measures (continued)

Working Capital

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

Total Debt

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

Adjusted Funds Flow

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

Total Debt to Adjusted Funds Flow

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

Operating Netback

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

Net Sales of Natural Gas Purchased from Third Parties

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

Conversion Ratio

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

Forward-Looking Information and Other Advisories

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

In particular, forward-looking statements included in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus; the Corporation's hedging activities; terms of the Corporation's derivative contracts, including the timing of settlement of such contracts; expectation that the Corporation will have a higher cash finance expense and the reasons there for; expectation that the Corporation’s total debt to adjusted funds flow will decrease through the remainder of 2019; estimated tax pools and liability; future commitments and contractual obligations; terms of the Corporation's credit facilities, including timing of the next review of the credit facilities, the Corporation's expectations regarding extension of Advantage's credit facilities at each annual review; the Corporation's 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 Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; timing of wells to be on production in the Corporation’s Pipestone/Wembley land block; timing of securing regulatory approvals and construction on a compressor/liquids handling hub and associated gathering system; timing for well completions at Valhalla; the statements under "critical accounting estimates" in this MD&A; and other matters.

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

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: current and future prices of oil and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required stakeholder and regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial

Forward-Looking Information and Other Advisories (continued)

resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's crude oil and natural gas properties in the manner currently contemplated; availability of pipeline capacity; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and that the estimates of the Corporation's production, reserves and resources volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

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

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

Additional Information

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

May 2, 2019

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Advantage Oil & Gas Ltd.
Consolidated Statements of Financial Position

(unaudited, expressed in thousands of Canadian dollars)

	Notes		March 31 2019		December 31 2018
ASSETS					
Current assets					
Cash and cash equivalents	3	$	10,629	$	6,359
Trade and other receivables			32,405		28,350
Prepaid expenses and deposits			1,976		2,178
Derivative asset	7		19,256		29,593
Total current assets			**64,266**		**66,480**
Non-current assets					
Derivative asset	7		8,917		12,943
Exploration and evaluation assets	4		23,205		22,613
Right-of-use assets	5		2,453		-
Property, plant and equipment	6		1,700,741		1,669,161
Total non-current assets			**1,735,316**		**1,704,717**
Total assets		**$**	**1,799,582**	**$**	**1,771,197**
LIABILITIES					
Current liabilities					
Trade and other accrued liabilities		$	35,685	$	38,799
Derivative liability	7		164		94
Lease liability	8		284		-
Total current liabilities			**36,133**		**38,893**
Non-current liabilities					
Derivative liability	7		1,676		822
Lease liability	8		2,195		-
Bank indebtedness	9		290,612		270,918
Decommissioning liability	10		55,325		50,028
Deferred income tax liability	11		79,060		78,341
Total non-current liabilities			**428,868**		**400,109**
Total liabilities			**465,001**		**439,002**
SHAREHOLDERS' EQUITY					
Share capital	12		2,342,689		2,342,689
Contributed surplus			117,279		115,574
Deficit			(1,125,387)		(1,126,068)
Total shareholders' equity			**1,334,581**		**1,332,195**
Total liabilities and shareholders' equity		**$**	**1,799,582**	**$**	**1,771,197**

Commitments (note 17)

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Notes		Three months ended March 31 2019		2018
Revenues					
Sales of natural gas and liquids from production	15	$	76,393	$	58,056
Sales of natural gas purchased from third parties	15		637		-
Royalty expense			(2,302)		(1,212)
Natural gas and liquids revenue			74,728		56,844
Gains (losses) on derivatives	7		(10,308)		9,597
Other income			8		-
Total revenues and other income			**64,428**		**66,441**
Expenses					
Operating expense			8,157		6,960
Transportation expense			13,750		12,327
Natural gas purchased from third parties	15		2,037		-
General and administrative expense			2,481		1,746
Share-based compensation expense	14		1,076		744
Depreciation expense	5,6		32,001		28,033
Finance expense			3,526		2,515
Total expenses			**63,028**		**52,325**
Income before taxes			**1,400**		**14,116**
Income tax expense	11		(719)		(4,013)
Net income and comprehensive income		**$**	**681**	**$**	**10,103**
Net income per share	13				
Basic		**$**	**0.00**	**$**	**0.05**
Diluted		**$**	**0.00**	**$**	**0.05**

See accompanying Notes to the Condensed Consolidated Financial Statements

Advantage Oil & Gas Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(unaudited, expressed in thousands of Canadian dollars)

	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2018		$ 2,342,689	$ 115,574	$ (1,126,068)	$ **1,332,195**
Net income and comprehensive income		-	-	681	**681**
Share-based compensation	14	-	1,705	-	**1,705**
Balance, March 31, 2019		**$ 2,342,689**	**$ 117,279**	**$ (1,125,387)**	**$ 1,334,581**

	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		-	-	10,103	**10,103**
Share-based compensation	14	-	1,307	-	**1,307**
Balance, March 31, 2018		**$ 2,340,801**	**$ 111,384**	**$ (1,129,099)**	**$ 1,323,086**

See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Notes	Three months ended March 31 2019	2018
Operating Activities			
Income before taxes		$ 1,400	$ 14,116
Add (deduct) items not requiring cash:			
Share-based compensation expense	14	1,076	744
Depreciation expense	5,6	32,001	28,033
Unrealized losses on derivatives	7	15,287	5,725
Non-cash finance expense	8,10	259	264
Expenditures on decommissioning liability	10	(865)	(121)
Changes in non-cash working capital	16	(4,675)	9,893
Cash provided by operating activities		**44,483**	**58,654**
Financing Activities			
Increase in bank indebtedness	9	19,694	28,341
Payment of lease liabilities	8	(193)	-
Cash provided by financing activities		**19,501**	**28,341**
Investing Activities			
Payments on property, plant and equipment	6,16	(59,122)	(84,722)
Payments on exploration and evaluation assets	4	(592)	(503)
Cash used in investing activities		**(59,714)**	**(85,225)**
Increase in cash and cash equivalents		4,270	1,770
Cash and cash equivalents, beginning of period		6,359	6,916
Cash and cash equivalents, end of period		**$ 10,629**	**$ 8,686**

The following are included in cash provided by operating activities:
Interest paid in cash $ 3,601 $ 3,909

See accompanying Notes to the Condensed Consolidated Financial Statements

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

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

Advantage is domiciled and incorporated in Canada under the Business Corporations Act (Alberta). Advantage's head office address is 300, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "AAV".

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Chartered Professional Accountants Canada Handbook (the "CPA Canada Handbook"). The CPA Canada Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including IAS 34, Interim Financial Reporting. The Corporation has consistently applied the same accounting policies as those set out in the audited consolidated financial statements for the year ended December 31, 2018, except as noted below. Certain disclosures included in the notes to the annual consolidated financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, which have been prepared in accordance with IFRS as issued by the IASB. Certain information provided for the prior period has been reclassified to conform to the presentation adopted for the period ended March 31, 2019.

The accounting policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of May 2, 2019, the date the Board of Directors approved the statements.

(b) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis, except as detailed in the Corporation's accounting policies in the audited consolidated financial statements for the year ended December 31, 2018.

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

(c) Functional and presentation currency

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

(d) Changes to significant accounting policies

IFRS 16 – Leases ("IFRS 16")

Adoption

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 condensed consolidated financial statements are not restated and continues to be reported under IAS 17.

Transition

On adoption of IFRS 16, the Corporation has recognized right-of-use ("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 December 31, 2018. 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**

There was no impact to lessor accounting from the adoption of IFRS 16.

Significant accounting policy:

The Corporation 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.

Leases are recognized as a 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 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. 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.

ROU assets are measured at cost comprising of the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date, any initial direct costs and restoration costs.

2. Basis of preparation (continued)

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in statement of comprehensive income. 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 net income and comprehensive income that reflects the proportionate decrease in scope.

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

(e) Significant accounting judgements, estimates and assumptions

Lease Term

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.

(f) Accounting pronouncements not yet adopted

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 is currently assessing the impact of this amendment.

IAS 1 – 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 is currently assessing the impact of this amendment.

3. Cash and cash equivalents

		March 31 2019		December 31 2018
Cash at financial institutions	$	10,629	$	6,359

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at March 31, 2019, cash at financial institutions included US$2.1 million (December 31, 2018 - US$1.9 million). The Corporation only deposits cash with major financial institutions of high-quality credit ratings.

4. Exploration and evaluation assets

Balance at December 31, 2017	$	**22,143**
Additions		2,097
Transferred to property, plant and equipment (note 6)		(1,627)
Balance at December 31, 2018	**$**	**22,613**
Additions		592
Balance at March 31, 2019	**$**	**23,205**

5. Right-of-use assets

Cost		**Buildings**		**Other**		**Total**
Balance at January 1, 2019 and March 31, 2019 (note 2)	**$**	**2,458**	**$**	**186**	**$**	**2,644**

Accumulated depreciation		**Buildings**		**Other**		**Total**
Balance at January 1, 2019	**$**	**-**	**$**	**-**	**$**	**-**
Depreciation		181		10		191
Balance at March 31, 2019	**$**	**181**	**$**	**10**	**$**	**191**

Net book value		**Buildings**		**Other**		**Total**
At January 1, 2019	$	2,458	$	186	$	2,644
At March 31, 2019	**$**	**2,277**	**$**	**176**	**$**	**2,453**

6. Property, plant and equipment

Cost		Natural gas and liquids properties		Furniture and equipment		Total
Balance at December 31, 2017	**$**	**2,242,201**	**$**	**5,766**	**$**	**2,247,967**
Additions		198,529		159		198,688
Capitalized share-based compensation (note 14)		3,048		-		3,048
Changes in decommissioning liability (note 10)		3,867		-		3,867
Transferred from exploration and evaluation assets (note 4)		1,627		-		1,627
Balance at December 31, 2018	**$**	**2,449,272**	**$**	**5,925**	**$**	**2,455,197**
Additions		56,830		-		56,830
Capitalized share-based compensation (note 14)		629		-		629
Changes in decommissioning liability (note 10)		5,931		-		5,931
Balance at March 31, 2019	**$**	**2,512,662**	**$**	**5,925**	**$**	**2,518,587**

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		31,762		48		31,810
Balance at March 31, 2019	**$**	**812,996**	**$**	**4,850**	**$**	**817,846**

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 March 31, 2019	**$**	**1,699,666**	**$**	**1,075**	**$**	**1,700,741**

During the three months ended March 31, 2019, Advantage capitalized general and administrative expenditures directly related to development activities of $1.7 million (year ended December 31, 2018 - $4.2 million).

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

7. Financial risk management

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

Trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities and bank indebtedness are classified as 'amortized cost'. As at March 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 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: Fair value is determined using inputs that are not observable. Advantage has no assets or liabilities that use level 3 inputs.

7. Financial risk management (continued)

(a) Price risk

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

Description of Derivative	Term	Volume	Price
Natural Gas - AECO			
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to March 2019	9,478 mcf/d	Cdn $3.00/mcf
Fixed price swap	October 2018 to December 2019	25,000 mcf/d	Cdn $2.58/mcf
Fixed price swap	November 2018 to March 2019	9,478 mcf/d	Cdn $2.64/mcf
Fixed price swap	April 2019 to October 2019	61,608 mcf/d	Cdn $1.77/mcf
Fixed price swap	April 2019 to October 2019	4,739 mcf/d	Cdn $1.28/mcf
Fixed price swap	April 2019 to October 2019	18,956 mcf/d	Cdn $1.27/mcf
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
Natural Gas - Dawn			
Fixed price swap	November 2018 to March 2019	25,000 mcf/d	US $3.13/mcf
Fixed price swap	November 2018 to October 2019	20,000 mcf/d	US $2.87/mcf
Fixed price swap	November 2019 to March 2020	10,000 mcf/d	US $3.16/mcf
Natural Gas - AECO/Henry Hub Basis Differential			
Basis swap	January 2020 to December 2020	5,000 mcf/d	Henry Hub less US 1.20/mcf
Basis swap	January 2020 to December 2024	15,000 mcf/d	Henry Hub less US 1.20/mcf
Basis swap	January 2021 to December 2024	5,000 mcf/d	Henry Hub less US $1.135/mcf
Basis swap	January 2021 to December 2024	2,500 mcf/d	Henry Hub less US $1.185/mcf
Basis swap	January 2021 to December 2024	17,500 mcf/d	Henry Hub less US $1.20/mcf

7. Financial risk management (continued)

(a) Price risk

As at March 31, 2019, the fair value of the derivatives outstanding resulted in an aggregate asset of $28.2 million (December 31, 2018 - $42.5 million) and an aggregate liability of $1.8 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.

For the three months ended March 31, 2019, $10.3 million was recognized in net income as a loss on derivatives (three months ended March 31, 2018 - $9.6 million gain). The table below summarizes the realized and unrealized gains (losses) on derivatives recognized in net income.

	Three months ended March 31	
	2019	**2018**
Realized gains on derivatives	$ 4,979	$ 15,322
Unrealized losses on derivatives	(15,287)	(5,725)
Gains (losses) on derivatives	**$ (10,308)**	**$ 9,597**

(b) Capital management

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

	March 31 2019	**December 31 2018**
Bank indebtedness (non-current) (note 9)	$ 290,612	$ 270,918
Working capital (surplus) deficit (1)	(9,325)	1,912
Total debt (2)	**$ 281,287**	**$ 272,830**
Shares outstanding (note 12)	185,942,141	185,942,141
Share closing market price ($/share)	$ 2.20	$ 1.98
Market Capitalization	409,073	368,165
Total Capitalization	**$ 690,360**	**$ 640,955**

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

8. Lease liability

		Three months ended March 31, 2019
Balance at January 1, 2019 (note 2)	$	2,644
Interest expense		28
Lease payments		(193)
Balance, end of period	**$**	**2,479**
Less: current portion		284
Balance, end of period - non-current portion	**$**	**2,195**

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%.

9. Bank indebtedness

		March 31 2019		December 31 2018
Revolving credit facility	$	293,000	$	273,000
Discount on bankers' acceptance and other fees		(2,388)		(2,082)
Balance, end of period	**$**	**290,612**	**$**	**270,918**

On April 30, 2019, the Credit Facilities were renewed with no changes to the borrowing base of $400 million, comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $380 million extendible revolving loan facility from a syndicate of financial institutions. The revolving period for the Credit Facilities will end in June 2020 unless extended at the option of the syndicate for a further 364-day period. If not extended, the credit facility will be converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. The Corporation had letters of credit of US$5 million outstanding at March 31, 2019. The Corporation did not have any financial covenants at March 31, 2019 and December 31, 2018.

10. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2019 and 2078. A risk-free rate of 1.84% (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 March 31, 2019. A reconciliation of the decommissioning liability is provided below:

		Three months ended March 31, 2019		Year ended December 31, 2018
Balance, beginning of the year	$	50,028	$	46,913
Accretion expense		231		1,030
Liabilities incurred		574		1,381
Change in estimates		140		(760)
Effect of change in risk-free rate and inflation rate factor		5,217		3,246
Liabilities settled		(865)		(1,782)
Balance, end of period	**$**	**55,325**	**$**	**50,028**

11. Income taxes

	Three months ended March 31			
		2019		2018
Income tax expense	$	719	$	4,013

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

12. Share capital

(a) Authorized

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

(b) Issued

	Common Shares		Amount
Balance at December 31, 2017	185,963,186	$	2,340,801
Shares issued on Performance Award settlements	239,791		-
Contributed surplus transferred on Performance Award settlements	-		1,906
Share cancellations	(256,387)		-
Share repurchases	(4,449)		(18)
Balance at December 31, 2018 and March 31, 2019	**185,942,141**	**$**	**2,342,689**

13. Net income per share

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

	Three months ended March 31 2019	Three months ended March 31 2018
Net income		
Basic and diluted	$ 681	$ 10,103
Weighted average shares outstanding		
Basic	185,942,141	185,963,186
Stock Options	-	-
Performance Awards	5,302,441	2,947,073
Diluted	191,244,582	188,910,259
Net income per share		
Basic	$ 0.00	$ 0.05
Diluted	$ 0.00	$ 0.05

14. Share-based compensation

(a) Stock Option Plan

The following tables summarize information about changes in Stock Options outstanding at March 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 and March 31, 2019	**1,989,149**	**$ 6.29**

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
$5.87 - $6.81	1,110,009	0.04	$ 5.87	1,110,009	$ 5.87
$6.82	879,140	1.01	6.82	879,140	6.82
$5.87 - $6.82	1,989,149	0.47	$ 6.29	1,989,149	$ 6.29

No Stock Options were exercised during the three months ended March 31, 2019.

14. 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. As at March 31, 2019, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

	Performance Awards
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**
Forfeited	(14,341)
Balance at March 31, 2019	**2,924,910**

No Performance Awards were settled during the three months ended March 31, 2019.

Share-based compensation recognized by plan for the three months ended March 31, 2019 and 2018 is as follows:

	Three months ended March 31	
	2019	2018
Stock Options	$ -	$ 54
Performance Awards	1,705	1,253
Total share-based compensation	1,705	1,307
Capitalized	(629)	(563)
Share-based compensation expense	**$ 1,076**	**$ 744**

15. Revenue

(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 three months ended March 31, 2019 and 2018, revenue realized from natural gas and liquids sales was as follows:

	Three months ended March 31	
	2019	**2018**
Natural gas	$ 66,904	$ 51,481
Liquids	9,489	6,575
Natural gas and liquids sales	**$ 76,393**	**$ 58,056**

At March 31, 2019, receivables from contracts with customers, which are included in trade and other receivables, were $29.8 million (March 31, 2018 - $16.0 million).

(b) Sales of natural gas purchased from third parties

During the three months ended March 31, 2019, the Corporation purchased natural gas volumes from third parties to satisfy physical sales commitments. No natural gas volumes were purchased during the three months ended March 31, 2018. Purchases and sales of natural gas from third parties was as follows:

	Three months ended March 31	
	2019	**2018**
Sales of natural gas purchased from third parties	$ 637	$ -
Natural gas purchased from third parties	$ 2,037	$ -

16. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Three months ended March 31	
	2019	**2018**
Source (use) of cash:		
Trade and other receivables	$ (4,055)	$ 10,265
Prepaid expense and deposits	202	105
Trade and other accrued liabilities	(3,114)	(8,629)
	$ (6,967)	$ 1,741
Related to operating activities	$ (4,675)	$ 9,893
Related to financing activities	-	-
Related to investing activities	(2,292)	(8,152)
	$ (6,967)	$ 1,741

17. Commitments

At March 31, 2019, Advantage had commitments relating to building operating cost of $3.4 million, and transportation and processing commitments of $358.1 million. The estimated remaining payments are as follows:

	Payments due by period						
($ millions)	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**Beyond 5 Years**
Building operating cost [1]	$ 3.4	$ 0.3	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.5
Transportation and processing	358.1	36.6	49.3	48.2	46.9	40.4	136.7
Total commitments	**$ 361.5**	**$ 36.9**	**$ 49.7**	**$ 48.6**	**$ 47.3**	**$ 40.8**	**$ 138.2**

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

On January 1, 2019, the Corporation adopted IFRS 16 which resulted in the recognition of a lease liability related to operating leases on the balance sheet. These liabilities were previously reported as commitments. For a reconciliation of our commitments as at December 31, 2018 to our lease liability as at January 1, 2019, see Note 2.

Directors

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

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

Officers

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

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

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

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

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
mcfe	- thousand cubic feet equivalent (1 bbl = 6 mcf)
mcfe/d	- thousand cubic feet equivalent per day
bcf	- billion 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

Toronto Stock Exchange Trading Symbol

AAV

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