ADVANTAGE OIL & GAS LTD.

Q2

2019 Second Quarter Report

Financial and Operating Highlights

($000, except as otherwise indicated)		Three months ended June 30 2019		2018		Six months ended June 30 2019		2018
Financial Statement Highlights								
Sales including realized hedging [3]	**$**	**60,017**	$	45,319	**$**	**141,389**	$	118,697
Net income (loss) and comprehensive income (loss)	**$**	**3,372**	$	(15,294)	**$**	**4,053**	$	(5,191)
per basic share [2]	**$**	**0.02**	$	(0.08)	**$**	**0.02**	$	(0.03)
Cash provided by operating activities	**$**	**44,292**	$	21,009	**$**	**88,775**	$	79,663
Cash provided by (used in) financing activities	**$**	**(20,309)**	$	12,852	**$**	**(808)**	$	41,193
Cash used in investing activities	**$**	**27,303**	$	38,701	**$**	**87,017**	$	123,926
Basic weighted average shares (000)		**186,858**		186,190		**186,402**		186,077
Other Financial Highlights								
Adjusted funds flow [1]	**$**	**32,777**	$	23,160	**$**	**82,800**	$	72,042
per boe [1]	**$**	**8.38**	$	7.20	**$**	**10.41**	$	10.59
per basic share [2]	**$**	**0.18**	$	0.12	**$**	**0.44**	$	0.39
Net capital expenditures [1]	**$**	**19,578**	$	25,324	**$**	**77,000**	$	102,397
Working capital (surplus) deficit [1]	**$**	**(1,891)**	$	3,206	**$**	**(1,891)**	$	3,206
Bank indebtedness	**$**	**270,495**	$	250,189	**$**	**270,495**	$	250,189
Total debt [1]	**$**	**268,604**	$	253,395	**$**	**268,604**	$	253,395
Operating								
Daily Production								
Natural gas (mcf/d)		**242,409**		205,712		**249,773**		219,009
Liquids (bbls/d)		**2,580**		1,067		**2,306**		1,086
Total production (mcfe/d)		**257,889**		212,114		**263,609**		225,525
Total production (boe/d)		**42,982**		35,352		**43,935**		37,588
Average prices (including realized hedging)								
Natural gas ($/mcf) [3]	**$**	**2.17**	$	2.05	**$**	**2.65**	$	2.65
Liquids ($/bbl)	**$**	**51.76**	$	72.32	**$**	**51.83**	$	69.17
Operating Netback ($/boe)								
Sales of natural gas and liquids from production	**$**	**13.14**	$	11.65	**$**	**16.07**	$	14.04
Net sales of natural gas purchased from third parties [1]		**-**		0.35		**(0.18)**		0.16
Realized gains on derivatives		**2.20**		2.43		**1.71**		3.40
Royalty recovery (expense)		**0.02**		0.33		**(0.28)**		(0.02)
Operating expense		**(1.89)**		(2.06)		**(1.95)**		(2.00)
Transportation expense		**(3.56)**		(3.75)		**(3.48)**		(3.59)
Operating netback [1]	**$**	**9.91**	$	8.95	**$**	**11.89**	$	11.99

(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

Solid Adjusted Funds Flow Driven by Liquids Production Growth and Market Diversification Gains

Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce solid operating and financial results for the second quarter of 2019 with liquids production growth of 142%, strong market diversification gains of $16 million and continued low costs.

The Corporation's second quarter operational highlights were substantially reported in our press release dated July 8, 2019 and included successful liquids-rich well results, commissioning of a new liquids handling facility at Valhalla and dry gas production curtailments in response to periods of very low AECO natural gas prices. In addition, Advantage secured 76 mmcf/d of firm NGTL capacity to Empress, which will substantially eliminate AECO exposure by 2021.

These operational and financial achievements demonstrate the ongoing disciplined execution of Advantage's multi-year liquids development program and our transition to increasing liquids revenues.

Highlights for the six months and second quarter of 2019

- First half of 2019 production was 43,935 boe/d (17% higher than 2018). Second quarter 2019 production was 42,982 boe/d (22% higher than 2018)
- First half 2019 liquids production was 2,306 bbls/d (112% higher than 2018). Second quarter 2019 liquids production was 2,580 bbls/d (142% higher than 2018). Liquids production reached approximately 2,900 bbls/d (71% C5+/Oil) in July
- Generated adjusted funds flow[a] of $82.8 million ($0.44/share) for the first half of 2019, and $32.8 million ($0.18/share) for the second quarter. Adjusted funds flow exceeded net capital expenditures by $6 million in the first half of 2019.
- Achieved $21.6 million of gains from our market diversification portfolio including $13.6 million of hedging gains over the six months of 2019. This resulted in an average realized natural gas price of $2.65/mcf compared to the average daily AECO price of $1.82/mcf
- Maintained low costs including royalty costs of $0.28/boe, operating costs of $1.95/boe, transportation costs of $3.48/boe and general & administrative costs of $0.63/boe over the first half of 2019
- Retained strong financial flexibility with total debt to adjusted funds flow[a] of 1.7x at the end of the second quarter 2019
- Secured an additional 76 mmcf/d of firm NGTL transportation capacity to Empress, AB in two tranches commencing November 2020 and November 2021 providing additional downstream capacity to continental markets and virtually eliminating AECO price exposure by 2021

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

Looking Forward

During the second half of 2019, Advantage will bring 11 standing liquids-rich wells onstream at east Glacier and Valhalla; the 12-25 Pipestone/Wembley well (see Advantage press release dated March 5, 2018) is expected to begin production in September 2019 when Tidewater's new Pipestone gas plant is scheduled to be commissioned. Construction of our Wembley liquids handing facility will begin in September and is targeted for completion in second quarter of 2020.

Advantage retains flexibility to moderate capital spending by up to $30 million through the second half of 2019 with no impact expected to our 2019 production guidance. Any reductions to the capital program will be prioritized to minimize the impact on our high-returns liquids projects and will be intended to preserve mid-term total debt to adjusted funds flow[a] ratio below two times.

The Corporation's 2019 net capital expenditures[a] guidance range remains between $180 and $200 million. Our 2019 annual production guidance range remains between 43,500 and 46,500 boe/d (261 and 279 mmcfe/d), including liquids production between 2,900 and 3,200 bbls/d.

In the third quarter of 2019, Advantage is prepared to continue restricting AECO-exposed dry natural gas production if there are periods of extremely low prices. However, the Corporation has adequate productive capacity to achieve 2019 gas production targets, so long as prices justify steady production in the second half. Liquids production is expected to continue increasing throughout the second half of 2019.

Advantage will remain diligent in monitoring commodity and industry trends and respond accordingly to retain a strong balance sheet while advancing our multi-year strategy to increase liquids development and enhance shareholder returns.

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

Advisory

The information in this press release contains certain forward-looking statements, including within the meaning of applicable securities laws. These statements relate to future events or our future intentions or performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "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 focus strategy, plans and expectations generally; the expected benefits of adding firm NGTL capacity; the anticipated number of wells to be brought on production in Glacier and Valhalla for the remainder of 2019; Advantage's 2019 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 are to be brought on-stream; Advantage's ability to moderate capital spending through the second half of 2019; ability to preserve total debt to adjusted funds flow ratio; and Advantage's 2019 net capital expenditures guidance range, 2019 production guidance range and 2019 liquids production guidance range. Advantage's actual decisions, activities, results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits that Advantage will derive from them.

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

With respect to forward-looking statements contained in this press release, Advantage has made assumptions regarding, but not limited to: conditions in general economic and financial markets; effects of regulation by governmental agencies; current and future commodity prices and royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labor; availability of drilling and related equipment; timing and amount of net capital expenditures; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the 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 press release contains a number of oil and gas metrics, including operating netback, which do not have standardized meanings or standard methods of calculation and therefore such measures may not be comparable to similar measures used by other companies and should not be used to make comparisons. Such metrics have been included herein to provide readers with additional measures to evaluate the Corporation's performance; however, such measures are not reliable indicators of the future performance of the Corporation and future performance may not compare to the performance in previous periods and therefore such metrics should not be unduly relied upon. Management uses these oil and gas metrics for its own performance measurements and to provide securityholders with measures to compare Advantage's operations over time. Readers are cautioned that the information provided by these metrics, or that can be derived from the metrics presented in this 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.

Non-GAAP Measures [a]

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

Net Capital Expenditures

Net capital expenditures include total capital expenditures related to property, plant and equipment and exploration and evaluation assets incurred during the period. Management considers this measure reflective of actual capital activity for the period as it excludes changes in working capital related to other periods. A reconciliation between net capital expenditures and the nearest measure calculated in accordance with GAAP, cash used in investing activities, is provided below:

	Three months ended June 30		Six months ended June 30	
($000)	**2019**	**2018**	**2019**	**2018**
Cash used in investing activities	**$ 27,303**	**$ 38,701**	**$ 87,017**	**$ 123,926**
Changes in non-cash working capital	(7,725)	(13,377)	(10,017)	(21,529)
Net capital expenditures	**$ 19,578**	**$ 25,324**	**$ 77,000**	**$ 102,397**

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.

Total Debt

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

($000)	**June 30, 2019**	**December 31, 2018**
Bank indebtedness (non-current)	$ 270,495	$ 270,918
Working capital (surplus) deficit	(1,891)	1,912
Total debt	**$ 268,604**	**$ 272,830**

Adjusted Funds Flow

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

	Three months ended June 30		Six months ended June 30	
($000)	**2019**	**2018**	**2019**	**2018**
Cash provided by operating activities	$ 44,292	$ 21,009	$ 88,775	$ 79,663
Increase in other long-term liabilities	(366)	-	(366)	-
Expenditures on decommissioning liability	690	115	1,555	236
Changes in non-cash working capital	(11,839)	2,036	(7,164)	(7,857)
Adjusted funds flow	**$ 32,777**	**$ 23,160**	**$ 82,800**	**$ 72,042**

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.

Operating Netback

Advantage calculates operating netback on a 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.

Net Sales of Natural Gas Purchased from Third Parties

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

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 2019 and 2018

CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of August 1, 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 and six months ended June 30, 2019 and should be read in conjunction with the unaudited condensed consolidated financial statements for the three and six months ended June 30, 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	Three months ended June 30				Six months ended June 30			
($000, except as otherwise indicated)		**2019**		**2018**		**2019**		**2018**
Financial Statement Highlights								
Sales including realized hedging [3]	**$**	**60,017**	$	45,319	**$**	**141,389**	$	118,697
Net income (loss) and comprehensive income (loss)	**$**	**3,372**	$	(15,294)	**$**	**4,053**	$	(5,191)
per basic share [2]	**$**	**0.02**	$	(0.08)	**$**	**0.02**	$	(0.03)
Cash provided by operating activities	**$**	**44,292**	$	21,009	**$**	**88,775**	$	79,663
Cash provided by (used in) financing activities	**$**	**(20,309)**	$	12,852	**$**	**(808)**	$	41,193
Cash used in investing activities	**$**	**27,303**	$	38,701	**$**	**87,017**	$	123,926
Basic weighted average shares (000)		**186,858**		186,190		**186,402**		186,077
Other Financial Highlights								
Adjusted funds flow [1]	**$**	**32,777**	$	23,160	**$**	**82,800**	$	72,042
per boe [1]	**$**	**8.38**	$	7.20	**$**	**10.41**	$	10.59
per basic share [2]	**$**	**0.18**	$	0.12	**$**	**0.44**	$	0.39
Net capital expenditures [1]	**$**	**19,578**	$	25,324	**$**	**77,000**	$	102,397
Working capital (surplus) deficit [1]	**$**	**(1,891)**	$	3,206	**$**	**(1,891)**	$	3,206
Bank indebtedness	**$**	**270,495**	$	250,189	**$**	**270,495**	$	250,189
Total debt [1]	**$**	**268,604**	$	253,395	**$**	**268,604**	$	253,395

(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 June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Operating				
Daily Production				
Natural gas (mcf/d)	**242,409**	205,712	**249,773**	219,009
Liquids (bbls/d)	**2,580**	1,067	**2,306**	1,086
Total production (mcfe/d)	**257,889**	212,114	**263,609**	225,525
Total production (boe/d)	**42,982**	35,352	**43,935**	37,588
Average prices (including realized hedging)				
Natural gas ($/mcf) [2]	**$ 2.17**	$ 2.05	**$ 2.65**	$ 2.65
Liquids ($/bbl)	**$ 51.76**	$ 72.32	**$ 51.83**	$ 69.17
Operating Netback ($/boe)				
Sales of natural gas and liquids from production	**$ 13.14**	$ 11.65	**$ 16.07**	$ 14.04
Net sales of natural gas purchased from third parties [1]	**-**	0.35	**(0.18)**	0.16
Realized gains on derivatives	**2.20**	2.43	**1.71**	3.40
Royalty recovery (expense)	**0.02**	0.33	**(0.28)**	(0.02)
Operating expense	**(1.89)**	(2.06)	**(1.95)**	(2.00)
Transportation expense	**(3.56)**	(3.75)	**(3.48)**	(3.59)
Operating netback [1]	**$ 9.91**	$ 8.95	**$ 11.89**	$ 11.99

(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 June 30 2019	Three months ended June 30 2018	% change	Six months ended June 30 2019	Six months ended June 30 2018	% change
Natural gas sales (1)	$ 39,245	$ 30,464	29 %	$ 106,149	$ 81,945	30 %
Realized gains on derivatives	8,622	7,833	10 %	13,601	23,155	(41) %
Natural gas sales including derivatives	47,867	38,297	25 %	119,750	105,100	14 %
Liquids sales	12,150	7,022	73 %	21,639	13,597	59 %
Total (1)	**$ 60,017**	**$ 45,319**	**32 %**	**$ 141,389**	**$ 118,697**	**19 %**

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

Higher natural gas production and realized natural gas prices resulted in increased natural gas sales of $8.8 million or 29% and $24.2 million or 30% for the three and six months ended June 30, 2019, respectively. Advantage continues to focus on market diversification including hedging that has strengthen and increased our natural gas sales. For the three months ended June 30, 2019, Advantage recognized $15.8 million of gains from our market diversification portfolio which includes fixed price hedges, increased Midwest U.S. sales from 20 mmcf/d to 40 mmcf/d, and Dawn sales of 53 mmcf/d (see "Commodity Prices and Marketing").

Liquids sales for the three and six months ended June 30, 2019 increased by $5.1 million or 73% and $8.0 million or 59%, respectively, as a result of significantly increased liquids production, offset by weaker realized liquids prices. Liquids contributed 20% of total revenue for the second quarter, including hedging gains, and liquids production is expected to continue increasing through the second half of 2019.

Realized gains on derivatives during the three and six months ended June 30, 2019 were $8.6 million and $13.6 million, respectively. Realized gains on derivatives and changes from prior periods are the result of differences in natural gas prices and contracts outstanding during the three and six months ended June 30, 2019 and 2018 (see "Commodity Price Risk Management and Market Diversification").

Production

	Three months ended June 30 2019	Three months ended June 30 2018	% change	Six months ended June 30 2019	Six months ended June 30 2018	% change
Natural gas (mcf/d)	242,409	205,712	18 %	249,773	219,009	14 %
Liquids (bbls/d)	2,580	1,067	142 %	2,306	1,086	112 %
Total production - mcfe/d	**257,889**	**212,114**	**22 %**	**263,609**	**225,525**	**17 %**
- boe/d	**42,982**	**35,352**	**22 %**	**43,935**	**37,588**	**17 %**
Natural gas (%)	94 %	97 %		95 %	97 %	
Liquids (%)	6 %	3 %		5 %	3 %	

Total production for the three months ended June 30, 2019 averaged 42,982 boe/d, a 22% increase over the same period of 2018. For the six months ended June 30, 2019, total production averaged 43,935 boe/d, a 17% increase over the same period of 2018.

The increase in total production for the three and six months ended June 30, 2019 was primarily related to production gains from successful well results at Glacier and Valhalla and the commencement of our new compressor and liquids handling facility at Valhalla in the first half of 2019. This increase was also partially due to lower production in early 2018 from the Corporation's planned shut-down of our Glacier gas plant in the last week of March 2018 to begin the tie-in of new equipment for the plant expansion to 400 mmcf/d processing capacity, with the plant resuming operations during mid-April 2018. Additionally, during the three months ended June 30, 2019, the Corporation proactively shut-in an average of 30 mmcf/d of dry gas during period of extremely low AECO pricing.

Commodity Prices and Marketing

	Three months ended June 30 2019	Three months ended June 30 2018	% change	Six months ended June 30 2019	Six months ended June 30 2018	% change
Average Realized Prices						
Natural gas, excluding hedging ($/mcf)[1]	$ 1.78	$ 1.63	9 %	$ 2.35	$ 2.07	14 %
Natural gas, including hedging ($/mcf)[1]	$ 2.17	$ 2.05	6 %	$ 2.65	$ 2.65	- %
Liquids, excluding and including hedging ($/bbl)	$ 51.76	$ 72.32	(28) %	$ 51.83	$ 69.17	(25) %
Average Benchmark Prices						
AECO daily ($/mcf)	$ 1.04	$ 1.18	(12) %	$ 1.82	$ 1.63	12 %
AECO monthly ($/mcf)	$ 1.17	$ 1.03	14 %	$ 1.55	$ 1.44	8 %
Dawn daily ($US/mmbtu)	$ 2.34	$ 2.77	(16) %	$ 2.63	$ 2.90	(9) %
Chicago Citygate ($US/mmbtu)	$ 2.45	$ 2.58	(5) %	$ 2.89	$ 2.93	(1) %
Henry Hub ($US/mmbtu)	$ 2.51	$ 2.82	(11) %	$ 2.69	$ 2.91	(8) %
WTI ($US/bbl)	$ 59.79	$ 68.03	(12) %	$ 57.32	$ 65.46	(12) %
Exchange rate (US$/CDN$)	0.7476	0.7747	(3) %	0.7499	0.7827	(4) %

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

Realized natural gas prices, excluding hedging, for the three and six months ended June 30, 2019 was $1.78/mcf and $2.35/mcf, respectively, which was 9% and 14% higher than the same periods of the prior year. The increase in prices are a result of the Corporation's continued market diversification efforts, along with proactively shutting-in dry gas production during periods of extremely low AECO pricing. On average, 30 mmcf/d of AECO-exposed dry gas was taken off-line during the quarter.

Advantage sells significant natural gas into the Dawn and the Chicago markets, 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 22% 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 increased to 40,000 mcf/d.

Realized liquids prices decreased by 28% and 25% for the three and six months ended June 30, 2019, respectively, compared to the same periods of the prior year. The decrease in price is primarily a result of the decrease in WTI prices, as a significant portion of our realized liquids prices are contracted based on WTI, and an increase in differentials relative to Canadian liquids prices. Advantage's current liquids mix is comprised of 71% pentanes and condensate, which generally 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 on 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/d with a maximum term of seven years. Basis swap arrangements are excluded from hedged production limits.

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	67.3	AECO	27 %
Dawn physical	28.1	Dawn [(2)]	11 %
Chicago physical	35.0	Chicago less US$1.19/mcf	14 %
AECO / Henry Hub basis swaps	3.3	Henry Hub less US$0.98/mcf	1 %
	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).

Commodity Price Risk Management and Market Diversification (continued)

A summary of realized and unrealized derivative gains and losses for the three and six months ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30		%	Six months ended June 30		%
($000)	**2019**	**2018**	**change**	**2019**	**2018**	**change**
Realized gains on derivatives	$ 8,622	$ 7,833	10 %	$ 13,601	$ 23,155	(41) %
Unrealized losses on derivatives	(10,784)	(17,408)	(38) %	(26,071)	(23,133)	13 %
Gains (losses) on derivatives	**$ (2,162)**	**$ (9,575)**	**(77) %**	**$ (12,470)**	**$ 22**	**nm**

For the three and six months ended June 30, 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 and six months ended June 30, 2019, Advantage recognized unrealized losses on derivative of $10.8 million and $26.1 million, respectively, resulting from a decrease in the fair value of our future derivative contracts to a net asset of $15.5 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 six months ended June 30, 2019 was attributable to the change in valuation of the derivative contracts and $13.6 million of actual cash received from derivative settlements during the period. Remaining derivative contracts will settle between July 1, 2019 and December 31, 2024.

Sales of Natural Gas Purchased from Third Parties

	Three months ended June 30		%	Six months ended June 30		%
	2019	**2018**	**change**	**2019**	**2018**	**change**
Sales of natural gas purchased from third parties ($000)	$ -	$ 5,078	(100) %	$ 637	$ 5,078	(87) %
Natural gas purchased from third parties ($000)	-	(3,967)	(100) %	(2,037)	(3,967)	(49) %
Net sales of natural gas purchased from third parties ($000)	$ -	$ 1,111	(100) %	$ (1,400)	$ 1,111	(226) %
per boe	$ -	$ 0.35	(100) %	$ (0.18)	$ 0.16	(213) %

For the six months ended June 30, 2019 Advantage purchased natural gas volumes from third parties to satisfy physical delivery commitments during a two-day plant outage in the first quarter of 2019. Advantage realized $0.6 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of $2.0 million. During the three months ended June 30, 2018, Advantage had a scheduled plant expansion shutdown and purchased $4.0 million of natural gas volumes from third parties to satisfy physical delivery commitments while realizing $5.1 million of revenue from the sale of this purchased natural gas.

Royalty Expense

	Three months ended June 30 2019	2018	% change	Six months ended June 30 2019	2018	% change
Royalty expense (recovery) ($000)	$ (75)	$ (1,070)	(93) %	$ 2,227	$ 142	nm
per boe	$ (0.02)	$ (0.33)	(94) %	$ 0.28	$ 0.02	nm
Royalty rate (percentage of natural gas and liquids sales)	0.0 %	(2.9) %	2.9 %	1.7 %	0.1 %	1.6 %

Advantage pays royalties to the owners of mineral rights from which we have leases. The Corporation has mineral leases with provincial governments, individuals and other companies. Our current average royalty rates are determined by various royalty regimes that incorporate factors including well depths, well production rates, and commodity prices. Royalties also include the impact of gas cost allowance ("GCA") which is a reduction of royalties payable to the Alberta Provincial Government (the "Crown") to recognize capital and operating expenditures incurred by Advantage in the gathering and processing of the Crown's share of our natural gas production.

Royalty expense for 2019 has generally increased due to higher production, along with higher realized natural gas prices and increased liquids sales. However, for both the three months ended June 30, 2019 and 2018, the Corporation received GCA credits that has resulted in a recovery of royalties paid and low corporate royalty expense.

Operating Expense

	Three months ended June 30 2019	2018	% change	Six months ended June 30 2019	2018	% change
Operating expense ($000)	$ 7,381	$ 6,616	12 %	$ 15,538	$ 13,576	14 %
per boe	$ 1.89	$ 2.06	(8) %	$ 1.95	$ 2.00	(3) %

Operating expense for the three and six months ended June 30, 2019 increased to $7.4 million and $15.5 million compared to the respective periods of 2018. The increase in total operating expense was attributable to a higher number of producing wells, which increased natural gas and liquids production, and commissioning of our new Valhalla liquids handling hub. However, increased production and efficiencies resulted in a modest decrease in operating expense per boe maintaining our low costs as planned (see "Production"). With our continuing liquid-rich development, we expect operating expense will increase marginally associated with more producing wells, additional Advantage owned infrastructure at Wembley, and processing at third-party facilities. Nevertheless, Advantage expects to maintain a low-cost structure while continuing to progress development of our high-returns liquids projects.

Transportation Expense

	Three months ended June 30 2019	2018	% change	Six months ended June 30 2019	2018	% change
Natural gas ($000)	$ 12,520	$ 11,203	12 %	$ 24,915	$ 22,611	10 %
Liquids ($000)	1,388	866	60 %	2,743	1,785	54 %
Total transportation expense ($000)	$ 13,908	$ 12,069	15 %	$ 27,658	$ 24,396	13 %
per boe	$ 3.56	$ 3.75	(5) %	$ 3.48	$ 3.59	(3) %

Transportation expense represents the cost of transporting our natural gas and liquids to the sales points, including associated fuel costs. For the three and six months ended June 30, 2019, transportation expense increased 15% and 13%, respectively, due to increased natural gas and liquids production (see "Production"). Transportation expense per boe for the three and six months ended June 30, 2019 was modestly lower than their comparable periods as a result of 2018 having unutilized firm transportation due to the Glacier gas plant outages.

Operating Netback

	Three months ended June 30			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 51,395	$ 13.14	$ 37,486	$ 11.65
Net sales of natural gas purchased from third parties (1)	-	-	1,111	0.35
Realized gains on derivatives	8,622	2.20	7,833	2.43
Royalty recovery	75	0.02	1,070	0.33
Operating expense	(7,381)	(1.89)	(6,616)	(2.06)
Transportation expense	(13,908)	(3.56)	(12,069)	(3.75)
Operating netback (1)	**$ 38,803**	**$ 9.91**	**$ 28,815**	**$ 8.95**

	Six months ended June 30			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 127,788	$ 16.07	$ 95,542	$ 14.04
Net sales of natural gas purchased from third parties (1)	(1,400)	(0.18)	1,111	0.16
Realized gains on derivatives	13,601	1.71	23,155	3.40
Royalty expense	(2,227)	(0.28)	(142)	(0.02)
Operating expense	(15,538)	(1.95)	(13,576)	(2.00)
Transportation expense	(27,658)	(3.48)	(24,396)	(3.59)
Operating netback (1)	**$ 94,566**	**$ 11.89**	**$ 81,694**	**$ 11.99**

(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 June 30, 2019 was $38.8 million or $9.91/boe, an increase of 11% or $0.96/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, focus on liquids-rich development, stronger natural gas prices, and market diversification including realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification"). For the six months ended June 30, 2019, Advantage's operating netback was $94.6 million or $11.89/boe, which was comparable to the same period in 2018. Advantage recognized a significant increase in sales of natural gas and liquids, which was offset by lower realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification").

General and Administrative Expense

	Three months ended June 30 2019	Three months ended June 30 2018	% change	Six months ended June 30 2019	Six months ended June 30 2018	% change
General and administrative expense ($000)	$ 2,556	$ 2,477	3 %	$ 5,037	$ 4,223	19 %
per boe	$ 0.65	$ 0.77	(16) %	$ 0.63	$ 0.62	2 %
Employees at June 30				32	29	10 %

General and administrative ("G&A") expense for the three and six months ended June 30, 2019 increased from 2018 due to a change in Advantage's long-term compensation plan allowing for the granting of Performance Awards and an increase in number of staff. The higher G&A was partially offset by lower stock exchange fees due to the Corporation delisting from the New York Stock Exchange, and by lease payments that are no longer recorded under G&A as a result of adopting of IFRS 16 – leases on January 1, 2019.

Advantage's long-term compensation plan for employees and contractors is designed to align the interests of these individuals with those of shareholders. Annual grants of long-term compensation are now allocated 50% to granting Performance Awards and 50% to granting Performance Share Units. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. Performance Awards are amortized to G&A with the recording of a long-term liability until eventually settled in cash. Performance Share Units are amortized to share-based compensation with the recording of contributed surplus until eventually settled in shares and recorded as share capital (see "Share-based Compensation").

Share-based Compensation

	Three months ended June 30 2019	Three months ended June 30 2018	% change	Six months ended June 30 2019	Six months ended June 30 2018	% change
Share-based compensation ($000)	$ 2,325	$ 2,192	6 %	$ 4,030	$ 3,499	15 %
Capitalized ($000)	(858)	(736)	17 %	(1,487)	(1,299)	14 %
Share-based compensation expense ($000)	$ 1,467	$ 1,456	1 %	$ 2,543	$ 2,200	16 %
per boe	$ 0.38	$ 0.45	(16) %	$ 0.32	$ 0.32	- %

Advantage's long-term compensation plan for employees and contractors is designed to align the interests of these individuals with those of shareholders. Annual grants of long-term compensation are now allocated 50% through granting Performance Awards and 50% through granting Performance Share Units. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. Performance Share Units are amortized to share based compensation with the recording of contributed surplus until eventually settled in shares and recorded as share capital. Performance Awards are amortized to G&A with the recording of a long-term liability until eventually settled in cash (see "General and Administrative Expense").

Share-based compensation for the three and six months ended June 30, 2019 increased by $0.1 million and $0.5 million, respectively, as compared to the same period of 2018. The increase was primarily due the revaluation of payout multipliers associated with outstanding Performance Share Units that can result in expense variability. During April 2019, 598,069 Performance Share Units matured and were settled with the issuance of 968,707 common shares. As at June 30, 2019, a total of 0.8 million Stock Options and 3.8 million Performance Share Units are unexercised which represents 2.5% of Advantage's total outstanding common shares.

Finance Expense

	Three months ended June 30 2019	2018	% change	Six months ended June 30 2019	2018	% change
Cash expense ($000)	$ 3,470	$ 2,672	30 %	$ 6,737	$ 4,923	37 %
per boe	$ 0.89	$ 0.83	7 %	$ 0.85	$ 0.72	18 %
Non-cash finance expense ($000)	264	247	7 %	523	511	2 %
Total finance expense ($000)	$ 3,734	$ 2,919	28 %	$ 7,260	$ 5,434	34 %
per boe	$ 0.95	$ 0.91	4 %	$ 0.91	$ 0.80	14 %

Advantage realized higher cash finance expense during the three and six months ended June 30, 2019 due to higher average outstanding bank indebtedness. As anticipated in our development plan, bank debt peaked during early 2019 due to higher capital expenditures as compared to cash provided by operating activities. However, with cash exceeding capital spending during the second quarter of 2019, bank indebtedness was reduced by $20.1 million to $270.5 million, effectively unchanged from December 31, 2018. 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 June 30 2019	2018	% change	Six months ended June 30 2019	2018	% change
Depreciation expense ($000)	$ 30,982	$ 25,153	23 %	$ 62,983	$ 53,186	18 %
per boe	$ 7.92	$ 7.82	1 %	$ 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 increase in depreciation expense during 2019 has been entirely attributable to higher production while the rate of depreciation expense per boe was comparable to 2018.

Taxes

	Three months ended June 30 2019	2018	% change	Six months ended June 30 2019	2018	% change
Income tax recovery ($000)	$ 14,092	$ 5,304	206 %	$ 13,373	$ 1,291	nm
per boe	$ 3.60	$ 1.65	152 %	$ 1.68	$ 0.19	nm

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the three and six months ended June 30, 2019, the Corporation recognized a deferred income tax recovery of $14.1 million and $13.4 million as a result of the *Job Creation Tax Cut Act* ("Bill 3") being substantively enacted during the second quarter of 2019 by the Alberta Government. Bill 3 decreased the Corporation's provincial corporate tax rate to 11% (from 12%) on July 1, 2019, with a further 1% rate reductions every year on January 1 until the provincial corporate tax rate is 8% on January 1, 2022. As at June 30, 2019, the Corporation had a deferred income tax liability of $65.0 million.

Net Income (loss) and Comprehensive Income (loss)

	Three months ended June 30				%	Six months ended June 30				%
		2019		2018	change		2019		2018	change
Net income (loss) and comprehensive income (loss) ($000)	$	3,372	$	(15,294)	nm	$	4,053	$	(5,191)	nm
per share - basic	$	0.02	$	(0.08)	nm	$	0.02	$	(0.03)	nm
per share - diluted	$	0.02	$	(0.08)	nm	$	0.02	$	(0.03)	nm

Advantage recognized net income of $3.4 million and $4.1 million for the three and six months ended June 30, 2019, respectively. Advantage has generally recognized earnings due to the strength of our operating netback supported by a strong market diversification portfolio and low costs. Excluding unrealized losses on derivatives and income tax recoveries, Advantage's earnings in 2019 to date has been comparable to 2018, even though realized gains on derivatives have significantly decreased. The lower realized derivative gains have been more than offset by stronger natural gas prices and a continued strengthening of the business due to higher sales from increased production, particularly the focus on liquids-rich development. Advantage recognized unrealized losses on derivatives for the six months ended June 30, 2019 and 2018 of $26.1 million and $23.1 million, respectively. 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 (see "Commodity Price Risk Management and Market Diversification"). Additionally, net income for 2019 was positively impacted by the recognition of a $13.4 million income tax recovery associated with the recent enactment of reduced Alberta provincial corporate taxes (see "Taxes").

Cash Provided by Operating Activities and Adjusted Funds Flow

	Three months ended June 30				Six months ended June 30			
($000, except as otherwise indicated)		**2019**		**2018**		**2019**		**2018**
Cash provided by operating activities	$	44,292	$	21,009	$	88,775	$	79,663
Increase in other long-term liabilities		(366)		-		(366)		-
Expenditures on decommissioning liability		690		115		1,555		236
Changes in non-cash working capital		(11,839)		2,036		(7,164)		(7,857)
Adjusted funds flow (1)	**$**	**32,777**	**$**	**23,160**	**$**	**82,800**	**$**	**72,042**
Adjusted funds flow per share (1)	$	0.18	$	0.12	$	0.44	$	0.39

(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 and six months ended June 30, 2019, Advantage realized increased adjusted funds flow of $32.8 million or $0.18/share and $82.8 million or $0.44/share, respectively. Advantage realized higher adjusted funds flow for 2019 as a result of higher production, an increased focus on liquids-rich development, and stronger realized natural gas prices, all of which contributed to increased sales (see "Operating Netback"). For the six months ended June 30, 2019, the increase related to stronger realized natural gas prices was predominately offset by a reduction in realized gains on derivatives.

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)	$ 3.3	$ 0.2	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.5
Transportation and processing	513.0	25.4	49.2	51.6	59.8	54.7	272.3
Bank indebtedness (2)							
- principle	273.0	-	-	273.0	-	-	-
- interest	26.5	6.7	14.0	5.8	-	-	-
Total contractual obligations	**$ 815.8**	**$ 32.3**	**$ 63.6**	**$ 330.8**	**$ 60.2**	**$ 55.1**	**$ 273.8**

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

(2) As at June 30, 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 October 2019. The facility is revolving and extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. Management fully expects that the facility will be extended at each annual review.

Liquidity and Capital Resources

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

($000, except as otherwise indicated)	**June 30 2019**	**December 31 2018**
Bank indebtedness (non-current)	$ 270,495	$ 270,918
Working capital (surplus) deficit	(1,891)	1,912
Total debt (1)	**$ 268,604**	**$ 272,830**
Shares outstanding	186,910,848	185,942,141
Shares closing market price ($/share)	$ 1.63	$ 1.98
Market capitalization	**$ 304,665**	**$ 368,165**
Total capitalization	**$ 573,269**	**$ 640,995**
Total debt to adjusted funds flow (1)	**1.7**	**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 $120.4 million or 30% was available at June 30, 2019 after deducting letters of credit of US$5 million outstanding at June 30, 2019 (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's adjusted funds flow of $82.8 million was utilized to fund our active capital expenditure program of $77.0 million for the six months ended June 30, 2019. This resulted in a total debt to adjusted funds flow ratio of 1.7 times as at June 30, 2019, as expected. 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.

Liquidity and Capital Resources (continued)

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

Bank Indebtedness, Credit Facilities and Other Obligations

At June 30, 2019, Advantage had bank indebtedness outstanding of $270.5 million, a decrease of $0.4 million since December 31, 2018. 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 semi-annual review is scheduled to occur in October 2019. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage had a working capital surplus of $1.9 million as at June 30, 2019, an increase of $3.8 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.

Shareholders' Equity

As at June 30, 2019, a total of 0.8 million Stock Options and 3.8 million Performance Share units were outstanding, which represents 2.5% of Advantage's total outstanding common shares. No Stock Options were exercised during the six months ended June 30, 2019. During April 2019, 598,069 Performance Share Units matured and were settled with the issuance of 968,707 common shares. As at August 1, 2019, Advantage had 186.9 million common shares outstanding.

Cash Used in Investing Activities and Net Capital Expenditures

($000)	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Drilling, completion and workovers	$ 2,075	$ 2,844	$ 45,815	$ 37,089
Well equipping and facilities	14,668	22,446	27,758	64,771
Other	420	-	420	-
Expenditures on property, plant and equipment	17,163	25,290	73,993	101,860
Expenditures on exploration and evaluation assets	2,415	34	3,007	537
Net capital expenditures (1)	**$ 19,578**	**$ 25,324**	**$ 77,000**	**$ 102,397**
Changes in non-cash working capital	7,725	13,377	10,017	21,529
Cash used in investing activities	**$ 27,303**	**$ 38,701**	**$ 87,017**	**$ 123,926**

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

Advantage invested $19.6 million and $77.0 million on property, plant, equipment and exploration and evaluation assets during the three and six months ended June 30, 2019, respectively. Year-to-date, Advantage has 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 bbls/mmcf. The ten wells delineated all three layers within the Middle Montney and had an average shallow cut recoverable liquid yield of 73 bbls/mmcf at the conclusion of an average 53 hours of inline testing. Gas rates from the wells met or exceeded our Middle Montney type curve.

Pipestone/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.

Front-end engineering and design work are ongoing for a compressor/liquids handling hub and associated gathering system. Regulatory approval for the facility has been obtained with construction planned for the first half of 2020. Construction of the gathering system for our first group of wells has commenced and will be completed by the fourth quarter of 2019.

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 that 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 twelve total wells. Of these wells, seven are tied-in, waiting on production, and five are cased waiting to be completed.

Advantage holds 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.

2019 Guidance and Estimates

With weaker current commodity prices as compared to our original guidance estimates, adjusted funds flow is now expected to be approximately $155 to $165 million for 2019[1] (see November 1, 2018 Press Release). Advantage retains flexibility to moderate capital spending by up to $30 million through the second half of 2019 with no impact expected on our 2019 liquids production guidance. Any reductions to the capital program will be prioritized to minimize the impact on our high-returns liquids projects and will be intended to preserve a total debt to adjusted funds flow ratio below 2.0 for the mid-term.

(1) Based on strip prices on July 19, 2019 for periods after June 30, 2019.

Quarterly Performance

	2019		2018				2017	
($000, except as otherwise indicated)	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Daily production								
Natural gas (mcf/d)	242,409	257,219	262,269	262,841	205,712	232,456	237,780	219,812
Liquids (bbls/d)	2,580	2,030	1,974	1,804	1,067	1,105	1,227	1,395
Total (mcfe/d)	257,889	269,401	274,113	273,665	212,114	239,086	245,142	228,182
Total (boe/d)	42,982	44,900	45,686	45,611	35,352	39,848	40,857	38,030
Average prices								
Natural gas ($/mcf)								
Excluding hedging	$ 1.78	$ 2.89	$ 2.57	$ 1.85	$ 1.63	$ 2.46	$ 2.15	$ 1.84
Including realized hedging [2]	$ 2.17	$ 3.11	$ 2.70	$ 1.93	$ 2.05	$ 3.19	$ 2.69	$ 2.26
Liquids ($/bbl)								
Excluding and including hedging	$ 51.76	$ 51.93	$ 49.23	$ 67.90	$ 72.32	$ 66.11	$ 60.48	$ 46.95
Total sales including realized hedging [1][2]	$ 60,017	$ 81,372	$ 73,979	$ 57,928	$ 45,319	$ 73,378	$ 65,779	$ 51,706
Net income (loss)	$ 3,372	$ 681	$ 25,162	$ (8,852)	$ (15,294)	$ 10,103	$ 21,425	$ 13,026
per share - basic	$ 0.02	$ -	$ 0.14	$ (0.05)	$ (0.08)	$ 0.05	$ 0.12	$ 0.07
per share - diluted	$ 0.02	$ -	$ 0.14	$ (0.05)	$ (0.08)	$ 0.05	$ 0.11	$ 0.07
Cash provided by operating activities [3]	$ 44,292	$ 44,483	$ 41,627	$ 27,950	$ 21,009	$ 58,654	$ 27,880	$ 55,063
Adjusted funds flow [4]	$ 32,777	$ 50,023	$ 46,301	$ 32,035	$ 23,160	$ 48,882	$ 43,883	$ 36,722

(2) Excludes net sales of natural gas purchased from third parties.
(3) Excludes unrealized hedging.
(4) Cash provided by operating activities has been adjusted to conform to the presentation adopted for the period ended June 30, 2019.
(5) 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 second quarter of 2019 and also for the preceding seven quarters. Production for the third quarter of 2017 was reduced 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 quarters of 2018 as a result of Glacier gas plant expansion activities, with production increasing significantly afterwards following the completion of the 400 mmcf/d expansion. Production decreased in the second quarter of 2019 due to Advantage proactively shutting-in dry natural gas production during periods of extremely low AECO pricing.

Quarterly Performance (continued)

Sales and adjusted funds flow that began to strengthen into the first quarter of 2018 due to improving commodity prices, subsequently deteriorated as natural gas prices weakened in the second and third quarters of 2018 associated with NGTL system maintenance. Both sales and adjusted funds flow improved from the third quarter of 2018 to the first quarter of 2019 largely as a result of higher production, especially increased liquids production, and stronger realized prices. Sales and adjusted funds flow that were weaker in the second quarter of 2019 due to decreased production and lower realized natural gas prices, benefited significantly from a continued increase in liquids production and our market diversification portfolio, including hedging. From early 2017 to 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

On January 1, 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 and six months ended June 30, 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 and six months ended June 30, 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 June 30, 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.

Non-GAAP Measures (continued)

Net Capital Expenditures

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

Working Capital

Working capital includes cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued 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 and other long-term liabilities are excluded from adjusted funds flow as they may vary significantly between periods and are not considered to be indicative of the Corporation's operating performance as they are a function of the timeliness of collecting receivables or paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production, highly variable and discretionary. Please see "Cash Provided by Operating Activities and Adjusted Funds Flow" for a reconciliation to the nearest measure calculated in accordance with GAAP, cash provided by operating activities. Adjusted funds flow has also been presented per boe, by dividing adjusted funds flow by total production in boe for the reporting period, and per basic share, by dividing by the basic weighted average shares outstanding of the Corporation.

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.

Abbreviations

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

bbl(s)	- barrel(s)
bbls/d	- barrels per day
boe	- barrels of oil equivalent (6 mcf = 1 bbl)
boe/d	- barrels of oil equivalent per day
mcf	- thousand cubic feet
mcf/d	- thousand cubic feet per day
mmbtu	- million British thermal units
mmbtu/d	- million British thermal units per day
mmcf	- million cubic feet
mmcf/d	- million cubic feet per day
mcfe	- thousand cubic feet equivalent (1 bbl = 6 mcf)
mcfe/d	- thousand cubic feet equivalent per day
gj	- gigajoules
AECO	- Alberta Energy Company (Canada)
NGLs	- Natural Gas Liquids
nm	- Not Meaningful Information
WTI	- West Texas Intermediate

Forward-Looking Information and Other Advisories

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; the Corporation's hedging activities; expectation that liquids production will continue to increase through the second half of 2019; 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 therefor; 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; the capacity and benefits to be derived from the Corporation's compressor/liquids handling hub and associated gathering system; timing for well completions at Valhalla; the expected amount of adjusted funds flow for the year ended 2019; the Corporation's ability to moderate capital spending through the second half of 2019; expected year-end total debt to adjusted funds flow for 2019; the statements under "critical accounting estimates" in this MD&A; and other matters.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, risks related to changes in general economic, market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, regulatory approvals, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; lack of available capacity on pipelines; delays in timing of 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

Forward-Looking Information and Other Advisories (continued)

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

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

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

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

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.

August 1, 2019

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2019 and 2018

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

	Notes		June 30 2019		December 31 2018
ASSETS					
Current assets					
Cash and cash equivalents	3	$	7,309	$	6,359
Trade and other receivables			17,182		28,350
Prepaid expenses and deposits			2,575		2,178
Derivative asset	7		17,713		29,593
Total current assets			**44,779**		**66,480**
Non-current assets					
Derivative asset	7		3,887		12,943
Exploration and evaluation assets	4		25,620		22,613
Right-of-use assets	5		2,263		-
Property, plant and equipment	6		1,689,716		1,669,161
Total non-current assets			**1,721,486**		**1,704,717**
Total assets		**$**	**1,766,265**	**$**	**1,771,197**
LIABILITIES					
Current liabilities					
Trade and other accrued liabilities		$	25,175	$	38,799
Derivative liability	7		502		94
Lease liability	8		173		-
Total current liabilities			**25,850**		**38,893**
Non-current liabilities					
Derivative liability	7		5,549		822
Lease liability	8		2,139		-
Bank indebtedness	9		270,495		270,918
Decommissioning liability	10		56,620		50,028
Other long-term liabilities			366		-
Deferred income tax liability	11		64,968		78,341
Total non-current liabilities			**400,137**		**400,109**
Total liabilities			**425,987**		**439,002**
SHAREHOLDERS' EQUITY					
Share capital	12		2,349,703		2,342,689
Contributed surplus			112,590		115,574
Deficit			(1,122,015)		(1,126,068)
Total shareholders' equity			**1,340,278**		**1,332,195**
Total liabilities and shareholders' equity		**$**	**1,766,265**	**$**	**1,771,197**

Commitments (note 17)
See accompanying Notes to the Condensed Consolidated Financial Statements

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

	Notes	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Revenues					
Sales of natural gas and liquids from production	15	$ 51,395	$ 37,486	$ 127,788	$ 95,542
Sales of natural gas purchased from third parties	15	-	5,078	637	5,078
Royalty recovery (expense)		75	1,070	(2,227)	(142)
Natural gas and liquids revenue		51,470	43,634	126,198	100,478
Gains (losses) on derivatives	7	(2,162)	(9,575)	(12,470)	22
Other income		-	-	8	-
Total revenues and other income		**49,308**	**34,059**	**113,736**	**100,500**
Expenses					
Operating expense		7,381	6,616	15,538	13,576
Transportation expense		13,908	12,069	27,658	24,396
Natural gas purchased from third parties	15	-	3,967	2,037	3,967
General and administrative expense		2,556	2,477	5,037	4,223
Share-based compensation expense	14	1,467	1,456	2,543	2,200
Depreciation expense	5,6	30,982	25,153	62,983	53,186
Finance expense		3,734	2,919	7,260	5,434
Total expenses		**60,028**	**54,657**	**123,056**	**106,982**
Loss before taxes		**(10,720)**	**(20,598)**	**(9,320)**	**(6,482)**
Income tax recovery	11	14,092	5,304	13,373	1,291
Net income (loss) and comprehensive income (loss)		**$ 3,372**	**$ (15,294)**	**$ 4,053**	**$ (5,191)**
Net income (loss) per share	13				
Basic		**$ 0.02**	**$ (0.08)**	**$ 0.02**	**$ (0.03)**
Diluted		**$ 0.02**	**$ (0.08)**	**$ 0.02**	**$ (0.03)**

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		-	-	4,053	**4,053**
Share-based compensation	14	-	4,030	-	**4,030**
Settlement of Performance Share Units	14	7,014	(7,014)	-	**-**
Balance, June 30, 2019		**$ 2,349,703**	**$ 112,590**	**$ (1,122,015)**	**$ 1,340,278**

	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 loss and comprehensive loss		-	-	(5,191)	**(5,191)**
Share-based compensation	14	-	3,499	-	**3,499**
Settlement of Performance Share Units	14	1,906	(2,711)	-	**(805)**
Share repurchases		(18)	-	-	**(18)**
Balance, June 30, 2018		**$ 2,342,689**	**$ 110,865**	**$ (1,144,393)**	**$ 1,309,161**

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 June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Operating Activities					
Loss before taxes		$ (10,720)	$ (20,598)	$ (9,320)	$ (6,482)
Add (deduct) items not requiring cash:					
Unrealized losses on derivatives	7	10,784	17,408	26,071	23,133
Share-based compensation expense	14	1,467	1,456	2,543	2,200
Depreciation expense	5,6	30,982	25,153	62,983	53,186
Non-cash finance expense	8,10	264	247	523	511
Settlement of Performance Share Units		-	(506)	-	(506)
Increase in other long-term liabilities		366	-	366	-
Expenditures on decommissioning liability	10	(690)	(115)	(1,555)	(236)
Changes in non-cash working capital	16	11,839	(2,036)	7,164	7,857
Cash provided by operating activities		**44,292**	**21,009**	**88,775**	**79,663**
Financing Activities					
Increase (decrease) in bank indebtedness	9	(20,117)	12,870	(423)	41,211
Payment of lease liabilities	8	(192)	-	(385)	-
Share repurchases		-	(18)	-	(18)
Cash provided by (used in) financing activities		**(20,309)**	**12,852**	**(808)**	**41,193**
Investing Activities					
Payments on property, plant and equipment	6,16	(24,888)	(38,667)	(84,010)	(123,389)
Payments on exploration and evaluation assets	4	(2,415)	(34)	(3,007)	(537)
Cash used in investing activities		**(27,303)**	**(38,701)**	**(87,017)**	**(123,926)**
Increase (decrease) in cash and cash equivalents		(3,320)	(4,840)	950	(3,070)
Cash and cash equivalents, beginning of period		10,629	8,686	6,359	6,916
Cash and cash equivalents, end of period		**$ 7,309**	**$ 3,846**	**$ 7,309**	**$ 3,846**

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 2200, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "AAV".

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its condensed consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as defined in the Chartered Professional Accountants Canada Handbook (the "CPA Canada Handbook"). The CPA Canada Handbook incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), including IAS 34, Interim Financial Reporting. The Corporation has consistently applied the same accounting policies as those set out in the audited consolidated financial statements for the year ended December 31, 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 June 30, 2019.

The accounting policies applied in these condensed consolidated financial statements are based on IFRS issued and outstanding as of August 1, 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")

<u>Adoption</u>

The Corporation adopted IFRS 16 effective January 1, 2019, and the standard was applied using the modified retrospective method. The modified retrospective method does not require restatement of prior period financial information as it recognizes the cumulative effect, if any, as an adjustment to opening retained earnings and

2. Basis of preparation (continued)

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 January 1, 2019. ROU assets and a lease liability of $2.6 million were recorded as of January 1, 2019, with no impact on the Corporation's deficit. When measuring the lease liability, the Corporation discounts lease payments using the interest rate implicit in the lease, or the Corporation's incremental borrowing rate if the interest rate implicit in the lease cannot be readily determined. The weighted-average incremental borrowing rate applied on adoption was 4.3%.

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

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

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 (loss) over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. 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 the statement of comprehensive income (loss). Short-term leases are leases with a lease term of 12 months or less. The Corporation applies a single discount rate to portfolios of leases with similar characteristics.

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

Finance expense

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

Long-term benefits

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

(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

		June 30 2019		December 31 2018
Cash at financial institutions	$	7,309	$	6,359

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at June 30, 2019, cash at financial institutions included US$0.4 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	**$**	**22,613**
Additions		3,007
Balance at June 30, 2019	**$**	**25,620**

5. Right-of-use assets

Cost		**Buildings**		**Other**		**Total**
Balance at January 1, 2019 and June 30, 2019 (note 2)	**$**	**2,458**	**$**	**186**	**$**	**2,644**

Accumulated depreciation		**Buildings**		**Other**		**Total**
Balance at January 1, 2019	**$**	**-**	**$**	**-**	**$**	**-**
Depreciation		361		20		381
Balance at June 30, 2019	**$**	**361**	**$**	**20**	**$**	**381**

Net book value		**Buildings**		**Other**		**Total**
At January 1, 2019	$	2,458	$	186	$	2,644
At June 30, 2019	**$**	**2,097**	**$**	**166**	**$**	**2,263**

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		73,573		420		73,993
Capitalized share-based compensation (note 14)		1,487		-		1,487
Changes in decommissioning liability (note 10)		7,677		-		7,677
Balance at June 30, 2019	**$**	**2,532,009**	**$**	**6,345**	**$**	**2,538,354**

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		62,505		97		62,602
Balance at June 30, 2019	**$**	**843,739**	**$**	**4,899**	**$**	**848,638**

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 June 30, 2019	**$**	**1,688,270**	**$**	**1,446**	**$**	**1,689,716**

During the six months ended June 30, 2019, Advantage capitalized general and administrative expenditures directly related to development activities of $2.3 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 and other long-term liabilities.

Trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities, bank indebtedness and other long-term liabilities are classified as 'amortized cost'. As at June 30, 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 June 30, 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 December 2019	25,000 mcf/d	Cdn $2.58/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
Fixed price swap	April 2020 to October 2020	18,956 mcf/d	Cdn $1.21/mcf
Natural Gas - Dawn			
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
Basis swap	November 2019 to March 2020 (1)	20,000 mcf/d	Henry Hub less US $0.975/mcf

(1) Contract entered into subsequent to June 30, 2019

7. Financial risk management (continued)

(a) Price risk

As at June 30, 2019, the fair value of the derivatives outstanding resulted in an aggregate asset of $21.6 million (December 31, 2018 - $42.5 million) and an aggregate liability of $6.1 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 six months ended June 30, 2019, $12.5 million was recognized in net income as a loss on derivatives (six months ended June 30, 2018 - nil). The table below summarizes the realized and unrealized gains (losses) on derivatives recognized in net income (loss).

	Three months ended June 30				Six months ended June 30			
		2019		2018		2019		2018
Realized gains on derivatives	$	8,622	$	7,833	$	13,601	$	23,155
Unrealized losses on derivatives		(10,784)		(17,408)		(26,071)		(23,133)
Gains (losses) on derivatives	**$**	**(2,162)**	**$**	**(9,575)**	**$**	**(12,470)**	**$**	**22**

(b) Capital management

Advantage's capital structure as at June 30, 2019 and December 31, 2018 is as follows:

		June 30 2019		December 31 2018
Bank indebtedness (non-current) (note 9)	$	270,495	$	270,918
Working capital (surplus) deficit (1)		(1,891)		1,912
Total debt (2)	**$**	**268,604**	**$**	**272,830**
Shares outstanding (note 12)		186,910,848		185,942,141
Share closing market price ($/share)	$	1.63	$	1.98
Market Capitalization		304,665		368,165
Total Capitalization	**$**	**573,269**	**$**	**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.

8. Lease liability

		Six months ended June 30, 2019
Balance at January 1, 2019 (note 2)	$	2,644
Interest expense		53
Lease payments		(385)
Balance, end of period	**$**	**2,312**
Less: current portion		173
Balance, end of period - non-current portion	$	**2,139**

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

		June 30 2019		December 31 2018
Revolving credit facility	$	273,000	$	273,000
Discount on bankers' acceptance and other fees		(2,505)		(2,082)
Balance, end of period	**$**	**270,495**	**$**	**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 June 30, 2019. The Corporation did not have any financial covenants at June 30, 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 1.73% (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 June 30, 2019. A reconciliation of the decommissioning liability is provided below:

		Six months ended June, 2019		Year ended December 31, 2018
Balance, beginning of the period	$	50,028	$	46,913
Accretion expense		470		1,030
Liabilities incurred		468		1,381
Change in estimates		625		(760)
Effect of change in risk-free rate and inflation rate factor		6,584		3,246
Liabilities settled		(1,555)		(1,782)
Balance, end of period	**$**	**56,620**	**$**	**50,028**

11. Income taxes

	Three months ended June 30				Six months ended June 30			
		2019		2018		2019		2018
Income tax recovery	$	14,092	$	5,304	$	13,373	$	1,291

Income tax recovery is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. On May 28, 2019, the *Job Creation Tax Cut Act* ("Bill 3") was substantively enacted by the Alberta Government. Bill 3 will decrease the Corporation's provincial corporate tax rate to 11% (from 12%) on July 1, 2019, with a further 1% rate reductions every year on January 1 until the provincial corporate tax rate is 8% on January 1, 2022. As a result, at June 30, 2019, the Corporation recognized a $11.0 million reduction in its deferred income tax liability related to the reduction in the Alberta corporate tax rate.

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 Share Unit settlements	239,791		-
Contributed surplus transferred on Performance Share Unit settlements	-		1,906
Share cancellations	(256,387)		-
Share repurchases	(4,449)		(18)
Balance at December 31, 2018	185,942,141	$	2,342,689
Shares issued on Performance Share Unit settlements	968,707		-
Contributed surplus transferred on Performance Share Unit settlements	-		7,014
Balance at June 30, 2019	**186,910,848**	**$**	**2,349,703**

13. Net income (loss) per share

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

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Net income (loss)				
Basic and diluted	$ 3,372	$ (15,294)	$ 4,053	$ (5,191)
Weighted average shares outstanding				
Basic	186,857,622	186,189,658	186,402,411	186,077,047
Performance Share Units	6,897,640	-	6,897,640	-
Diluted	193,755,262	186,189,658	193,300,051	186,077,047
Net income (loss) per share				
Basic	$ 0.02	$ (0.08)	$ 0.02	$ (0.03)
Diluted	$ 0.02	$ (0.08)	$ 0.02	$ (0.03)

14. Share-based compensation

(a) Stock Option Plan

The following tables summarize information about changes in Stock Options outstanding at June 30, 2019:

	Stock Options		Weighted-Average Exercise Price
Balance at December 31, 2017	2,005,857	$	6.30
Forfeited	(16,708)		6.82
Balance at December 31, 2018	1,989,149	$	6.29
Forfeited	(36,932)		6.82
Expired	(1,110,009)		5.87
Balance at June 30, 2019	**842,208**	**$**	**6.82**

Stock Options Outstanding				Stock Options Exercisable	
Range of Exercise Price	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
$6.82	842,208	0.76	6.82	842,208	6.82

No Stock Options were exercised during the six months ended June 30, 2019.

14. Share-based compensation (continued)

(b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of equity incentive awards: Restricted Share Units and Performance Share Units. As at June 30, 2019, no Restricted Share Units have been granted.

The following table is a continuity of Performance Share Units:

	Performance Share Units
Balance at December 31, 2017	1,580,299
Granted	1,695,135
Settled	(248,688)
Forfeited	(87,495)
Balance at December 31, 2018	2,939,251
Granted	1,464,484
Settled	(598,069)
Forfeited	(14,341)
Balance at June 30, 2019	**3,791,325**

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

Share-based compensation recognized by plan for the three and six months ended June 30, 2019 and 2018 is as follows:

	Three months ended June 30		**Six months ended June 30**	
	2019	**2018**	**2019**	**2018**
Stock Options	$ -	$ 3	$ -	$ 57
Performance Share Units	2,325	2,189	4,030	3,442
Total share-based compensation	2,325	2,192	4,030	3,499
Capitalized	(858)	(736)	(1,487)	(1,299)
Share-based compensation expense	**$ 1,467**	**$ 1,456**	**$ 2,543**	**$ 2,200**

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 and six months ended June 30, 2019 and 2018, revenue realized from natural gas and liquids sales was as follows:

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Natural gas	$ 39,245	$ 30,464	$ 106,149	$ 81,945
Liquids	12,150	7,022	21,639	13,597
Natural gas and liquids sales	**$ 51,395**	**$ 37,486**	**$ 127,788**	**$ 95,542**

At June 30, 2019, receivables from contracts with customers, which are included in trade and other receivables, were $13.3 million (June 30, 2018 - $14.9 million).

(b) Sales of natural gas purchased from third parties

During the three and six months ended June 30, 2019 and 2018, the Corporation purchased natural gas volumes from third parties to satisfy physical sales commitments. Purchases and sales of natural gas from third parties was as follows:

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Sales of natural gas purchased from third parties	$ -	$ 5,078	$ 637	$ 5,078
Natural gas purchased from third parties	$ -	$ 3,967	$ 2,037	$ 3,967

16. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Source (use) of cash:				
Trade and other receivables	$ 15,223	$ 858	$ 11,168	$ 11,123
Prepaid expense and deposits	(599)	(1,655)	(397)	(1,550)
Trade and other accrued liabilities	(10,510)	(14,616)	(13,624)	(23,245)
	$ 4,114	$ (15,413)	$ (2,853)	$ (13,672)
Related to operating activities	$ 11,839	$ (2,036)	$ 7,164	$ 7,857
Related to financing activities	-	-	-	-
Related to investing activities	(7,725)	(13,377)	(10,017)	(21,529)
	$ 4,114	$ (15,413)	$ (2,853)	$ (13,672)
Cash interest paid	$ 3,612	$ 2,802	$ 7,213	$ 6,711
Cash income taxes paid	$ -	$ -	$ -	$ -

17. Commitments

At June 30, 2019, Advantage had commitments relating to building operating cost of $3.3 million, and transportation and processing commitments of $513.0 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]	$ 3.3	$ 0.2	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.5
Transportation and processing	513.0	25.4	49.2	51.6	59.8	54.7	272.3
Total commitments	**$ 516.3**	**$ 25.6**	**$ 49.6**	**$ 52.0**	**$ 60.2**	**$ 55.1**	**$ 273.8**

(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

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

bbl(s)	- barrel(s)
bbls/d	- barrels per day
boe	- barrels of oil equivalent (6 mcf = 1 bbl)
boe/d	- barrels of oil equivalent per day
mcf	- thousand cubic feet
mcf/d	- thousand cubic feet per day
mmbtu	- million British thermal units
mmbtu/d	- million British thermal units per day
mmcf	- million cubic feet
mmcf/d	- million cubic feet per day
mcfe	- thousand cubic feet equivalent (1 bbl = 6 mcf)
mcfe/d	- thousand cubic feet equivalent per day
gj	- gigajoules
AECO	- Alberta Energy Company (Canada)
NGLs	- Natural Gas Liquids
nm	- Not Meaningful Information
WTI	- West Texas Intermediate

Corporate Office

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Toronto Stock Exchange Trading Symbol

AAV

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