Q2

# 2020 Second Quarter Report

## Financial and Operating Highlights

| ($000, except as otherwise indicated) | Three months ended June 30 | | | | Six months ended June 30 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2020** | | **2019** | | **2020** | | **2019** |
| **Financial Statement Highlights** | | | | | | | | |
| Sales including realized derivatives [3] | **$** | **48,593** | $ | 60,017 | **$** | **114,365** | $ | 141,389 |
| Net income (loss) and comprehensive income (loss) | **$** | **(20,088)** | $ | 3,372 | **$** | **(286,607)** | $ | 4,053 |
| per basic share [2] | **$** | **(0.11)** | $ | 0.02 | **$** | **(1.53)** | $ | 0.02 |
| Basic weighted average shares (000) | | **187,901** | | 186,858 | | **187,406** | | 186,402 |
| Cash provided by operating activities | **$** | **24,357** | $ | 44,292 | **$** | **45,183** | $ | 88,775 |
| Cash provided by financing activities | **$** | **23,492** | $ | (20,309) | **$** | **58,452** | $ | (808) |
| Cash used in investing activities | **$** | **44,855** | $ | 27,303 | **$** | **110,076** | $ | 87,017 |
| **Other Financial Highlights** | | | | | | | | |
| Adjusted funds flow [1] | **$** | **17,259** | $ | 32,777 | **$** | **49,352** | $ | 82,800 |
| per boe [1] | **$** | **4.19** | $ | 8.38 | **$** | **5.91** | $ | 10.41 |
| per basic share [1][2] | **$** | **0.09** | $ | 0.18 | **$** | **0.26** | $ | 0.44 |
| Net capital expenditures [1] | **$** | **10,663** | $ | 19,578 | **$** | **104,293** | $ | 77,000 |
| Working capital deficit (surplus) [1] | **$** | **3,295** | $ | (1,891) | **$** | **3,295** | $ | (1,891) |
| Bank indebtedness | **$** | **354,199** | $ | 270,495 | **$** | **354,199** | $ | 270,495 |
| Net debt [1][4] | **$** | **357,494** | $ | 268,604 | **$** | **357,494** | $ | 268,604 |
| **Operating** | | | | | | | | |
| Production | | | | | | | | |
| Crude oil and condensate (bbls/d) | | **2,645** | | 1,184 | | **2,398** | | 968 |
| NGLs (bbls/d) | | **2,001** | | 1,396 | | **1,782** | | 1,338 |
| Total Liquids (bbls/d) | | **4,646** | | 2,580 | | **4,180** | | 2,306 |
| Natural gas (mcf/d) | | **243,749** | | 242,409 | | **250,106** | | 249,773 |
| Total production (boe/d) | | **45,271** | | 42,982 | | **45,864** | | 43,935 |
| Average realized prices (including realized derivatives) | | | | | | | | |
| Natural gas ($/mcf) [2] | **$** | **1.72** | $ | 2.17 | **$** | **1.92** | $ | 2.65 |
| Crude oil and condensate ($/bbl) | **$** | **32.44** | $ | 70.33 | **$** | **45.09** | $ | 66.98 |
| NGLs ($/bbl) | **$** | **14.44** | $ | 35.99 | **$** | **22.57** | $ | 40.90 |
| **Operating Netback ($/boe)** | | | | | | | | |
| Petroleum and natural gas sales from production | **$** | **11.56** | $ | 13.14 | **$** | **13.40** | $ | 16.07 |
| Net sales of natural gas purchased from third parties [1] | | **-** | | - | | **-** | | (0.18) |
| Realized gains on derivatives | | **0.23** | | 2.20 | | **0.30** | | 1.71 |
| Royalty (expense) recovery | | **(0.26)** | | 0.02 | | **(0.58)** | | (0.28) |
| Operating expense | | **(2.43)** | | (1.89) | | **(2.35)** | | (1.95) |
| Transportation expense | | **(3.34)** | | (3.56) | | **(3.42)** | | (3.48) |
| Operating netback [1] | **$** | **5.76** | $ | 9.91 | **$** | **7.35** | $ | 11.89 |

(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.
(4) On July 2, 2020, Advantage closed the sale of a 12.5% interest in the Corporation's 100% owned 400 mmcf/d Glacier Gas Plant for $100 million. Advantage utilized the cash proceeds from the sale to reduce net debt to $257 million.

# MESSAGE TO SHAREHOLDERS

## Advantage Announces Second Quarter 2020 Financial and Operating Results

Advantage Oil & Gas Ltd. ("Advantage" or the "Corporation") is pleased to announce its second quarter 2020 financial and operating results. The Corporation's key priorities during the COVID-19 pandemic continue to be the health and safety of all our personnel. We also wish to thank all front-line workers who deliver our essential services, including energy.

Highlights for the quarter include:

- Cash provided by operating activities was $24.4 million
- Adjusted funds flow[(a)] of $17.3 million, or $0.09 per share, exceeded net capital expenditures[(a)] of $10.7 million and generated $6.6 million of excess cash
- Total production of 45,271 boe/d (up 5% from second quarter 2019)
- Liquids production achieved a record of 4,646 bbls/d, up 80% from the second quarter 2019 and up 25% from the first quarter of 2020
- Gas production of 244 mmcf/d (up 1% from second quarter 2019), demonstrating the low decline rates of our natural gas assets, with only one Glacier well brought on-production this year

Advantage quickly responded to unprecedented market volatility during the second quarter of 2020 by deferring spending on planned liquids projects, restricting initial production from new oil wells and reducing our 2020 capital budget with focus on short cycle payout gas weighted projects. In addition, Advantage closed the previously announced sale of 12.5% of its Glacier Gas Plant for $100 million on July 2, 2020, reducing net debt(a) to approximately $257 million from $365 million as at March 31, 2020. Advantage anticipates generating cash in excess of capital spending for the remainder of 2020 and through 2021, reducing net debt to adjusted funds flow(a) to less than 2 times.

During the second quarter, Advantage achieved several key milestones which contributed to record liquids production. This included commissioning of our 5,000 bbl/d Pipestone/Wembley oil battery and bringing on additional production at both Progress and Wembley. These successes have derisked the assets further and reinforced our ability to quickly shift back to oil development once prices recover.

With a focus on delivering cash that exceeds capital spending and modest growth, Advantage is well positioned to capitalize on high-return, short payout projects throughout our natural gas, condensate and light oil assets and continue reducing net debt.

a. Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see Advisory for reconciliations to the nearest measure calculated in accordance with GAAP.

## Operational Update

Advantage invested $10.7 million during the three months ended June 30, 2020. Development spending was primarily on the final steps of equipping and tying-in wells that were completed during the prior quarter with no wells drilled in the first half of 2020.

Pipestone/Wembley

Construction and commissioning of the 36 mmcf/d / 5,000 bbl/d Wembley battery was completed in the second quarter of 2020, resulting in increased well production and reliability at a third-party gas plant. Advantage now has 8 (8.0 net) Montney wells and one water disposal well operating, with results continuing to meet expectations. Production at Pipestone/Wembley averaged 2,498 boe/d (1,284 bbls/d oil, 660 bbls/d NGLs and 3.3 mmcf/d natural gas) during the second quarter of 2020, despite proactively restricting production during times of low oil prices.

Progress

During the first six months of 2020, Advantage completed two wells and tied-in five wells, successfully proving up three layers of development on the Progress land block. Consisting of 50 net sections (100% working interest), the asset is now connected to our Glacier Gas Plant and Valhalla liquid hub. Progress has advanced to full commerciality adding another, high-quality, cash-generating asset with attractive economics on Advantage's land blocks.

During the second quarter of 2020, two additional oil wells were brought on-stream, at restricted rates, further delineating the asset and establishing commercial production from three zones to-date. Preparations continued for the Progress 25 mmcf/d / 5,000 bbl/d oil battery; however, in response to the recent decline in oil prices, construction of the facility has been delayed until oil prices support growth beyond the current capacity of approximately 2,000 bbls/d. Production at Progress averaged 2,209 boe/d (711 bbls/d oil, 158 bbls/d NGLs and 8.0 mmcf/d natural gas) with the wells performing at or above internal expectations, although restricted by up to 900 boe/d as third-party facility infrastructure is at capacity.

Valhalla

The 40 mmcf/d Valhalla facility is now handling production from both Valhalla and initial production from the Progress property. The facility remains fully utilized as a result of the continued outperformance of the assets and is anticipated to be full for the balance of 2020.

Glacier

One previously drilled Upper Montney well has been completed and placed on-production in 2020. With increasing gas prices, Glacier is expected to be the focus of our activity for the remainder of the year. Advantage recently spud a three-well pad, targeted to come on-stream in early fourth quarter; a total of six wells are planned for the second half of 2020 when North American natural gas prices are showing signs of improvement.

## Hedging Update

Advantage has hedged approximately 51% of its natural gas production for the second half of 2020. The Corporation continues to increase its hedging position in 2021 and currently has 31% of forecast natural gas production hedged between Henry Hub, Chicago and Dawn at an average price of US$2.51/mmbtu. Advantage has hedged 33% of its crude oil and condensate production for the second half of 2020 with WTI swaps at an average price of US$55.44/bbl.

a. Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see Advisory for reconciliations to the nearest measure calculated in accordance with GAAP.

## Second Quarter 2020 Financial and Operating Summary

- First half 2020 production was 45,864 boe/d (4% higher than 2019). Second quarter 2020 production was 45,271 boe/d (5% higher than 2019).
- Cash provided by operating activities was $45.2 million for the first half of 2020 and $24.4 million for the second quarter of 2020.
- Adjusted funds flow[a] was $49.4 million or $0.26 per share for the first half of 2020 and $17.3 million or $0.09 per share for the second quarter of 2020.
- Net loss was $20.1 million during the second quarter of 2020 due to lower adjusted funds flow[a] and $14.1 million unrealized losses on derivatives.
- Bank indebtedness was $354.2 million and net debt[a] was $357.5 million. Subsequent to closing the sale of 12.5% of our Glacier Gas Plant on July 2, 2020, the Corporation used the proceeds of $100 million to reduce bank indebtedness, resulting in a net debt to adjusted funds flow[a] ratio of 2.1x.
- Maintained low costs including royalty costs of $0.58/boe, operating costs of $2.35/boe, transportation costs of $3.42/boe and general & administrative costs of $0.57/boe over the first half of 2020.

## Appointment of New Director

Advantage is also pleased to announce the appointment of Mr. Don Clague to the Board of Directors, which is now comprised of six independent directors. Mr. Clague has had an extensive 35 year working career in oil and gas, including diverse experience in North American domestic and frontier areas, as well as internationally in North Africa, Norway and the United Kingdom. He is a Life Member (P. Geoph) of the Association of Professional Engineers and Geoscientists of Alberta and has served on executive policy groups with the Canadian Association of Petroleum Producers (CAPP) and the Colorado Oil and Gas Association (COGA).

a. Non-GAAP Measure which may not be comparable to similar non-GAAP measures used by other entities. Please see Advisory for reconciliations to the nearest measure calculated in accordance with GAAP.

## Advisory

The information in this press release contains certain forward-looking statements, including within the meaning of applicable securities laws. These statements relate to future events or our future intentions or performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "continue", "demonstrate", "expect", "may", "can", "will", "believe", "would" and similar expressions and include statements relating to, among other things, Advantage's focus, strategy and development plans; timing for wells to come on-stream at Glacier; number of wells planned for the second half of 2020; ability to quickly shift back to oil development once prices recover; anticipation that for the remainder of 2020 and into 2021, capital expenditures will be below cash flow and benefits to be derived therefrom; Advantage's ability to reduce net debt to adjusted funds flow ratio in 2021 and benefits to be derived therefrom; timing for construction of facility at Progress; the anticipation that the compressor and liquids hub will be full for the balance of 2021 and the Corporation's hedging activities and the benefits to be derived therefrom. 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, including as a result of demand and supply effects resulting from the COVID-19 pandemic; 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; the impact and duration thereof that the COIVID-19 pandemic will have on (i) the demand for crude oil, NGLs and natural gas, (ii) the supply chain including the Corporation's ability to obtain the equipment and services it requires, and (iii) the Corporation's ability to produce, transport and/or sell its crude oil, NGLs and natural gas; 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. Readers are cautioned that the foregoing lists of factors are not exhaustive. These forward-looking statements are made as of the date of this press release and Advantage disclaims any

## Advisory (continued)

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. References to natural gas or liquids production in this press release refer to conventional natural gas and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

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

## Non-GAAP Measures

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

<u>Net Capital Expenditures</u>

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)** | **2020** | **2019** | **2020** | **2019** |
| Cash used in investing activities | $ 44,855 | $ 27,303 | $ 110,076 | $ 87,017 |
| Changes in non-cash working capital | 34,192 | 7,725 | 5,783 | 10,017 |
| Net capital expenditures | $ 10,663 | $ 19,578 | $ 104,293 | $ 77,000 |

## Non-GAAP Measures (continued)

Working Capital

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

Net Debt

Net debt is comprised of bank indebtedness and working capital. Net debt provides Management and users with a measure of the Corporation's bank indebtedness and expected settlement of net liabilities in the next year. Net debt subsequent to receiving proceeds from the sale of 12.5% of the Glacier Gas Plant for $100 million on July 2, 2020 was calculated by reducing net debt as at June 30, 2020 by $100 million. A detailed calculation of net debt is provided below:

| ($000) | | June 30 2020 | | December 31 2019 |
|---|---|---|---|---|
| Bank indebtedness (non-current) | $ | 354,199 | $ | 295,624 |
| Working capital deficit | | 3,295 | | 7,996 |
| Net debt | $ | 357,494 | $ | 303,620 |

Adjusted Funds Flow

The Corporation considers adjusted funds flow to be a useful measure of Advantage's ability to generate cash from the production of natural gas and liquids, which may be used to settle outstanding debt and obligations, and to support future capital expenditures plans. Changes in non-cash working capital are excluded from adjusted funds flow as they may vary significantly between periods and are not considered to be indicative of the Corporation's operating performance as they are a function of the timeliness of collecting receivables and paying payables. Expenditures on decommissioning liabilities are excluded from the calculation as the amount and timing of these expenditures are unrelated to current production and are partially discretionary due to the nature of our low liability. 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, except as otherwise indicated) | | 2020 | | 2019 | | 2020 | | 2019 |
| Cash provided by operating activities | $ | 24,357 | $ | 44,292 | $ | 45,183 | $ | 88,775 |
| Expenditures on decommissioning liability | | 24 | | 690 | | 203 | | 1,555 |
| Changes in non-cash working capital | | (7,122) | | (12,205) | | 3,966 | | (7,530) |
| Adjusted funds flow | $ | 17,259 | $ | 32,777 | $ | 49,352 | $ | 82,800 |

Net Debt to Adjusted Funds Flow

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

## Non-GAAP Measures (continued)

Operating Netback

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

| | Three months ended June 30 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | **$000** | **per boe** | **$000** | **per boe** |
| Petroleum and natural gas sales from production | $ 47,634 | $ 11.56 | $ 51,395 | $ 13.14 |
| Realized gains on derivatives | 931 | 0.23 | 8,622 | 2.20 |
| Royalty (expense) recovery | (1,086) | (0.26) | 75 | 0.02 |
| Operating expense | (9,993) | (2.43) | (7,381) | (1.89) |
| Transportation expense | (13,771) | (3.34) | (13,908) | (3.56) |
| Operating netback | $ 23,715 | $ 5.76 | $ 38,803 | $ 9.91 |

| | Six months ended June 30 | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | **$000** | **per boe** | **$000** | **per boe** |
| Petroleum and natural gas sales from production | $ 111,819 | $ 13.40 | $ 127,788 | $ 16.07 |
| Net sales of natural gas purchased from third parties | - | 0.00 | (1,400) | (0.18) |
| Realized gains on derivatives | 2,518 | 0.30 | 13,601 | 1.71 |
| Royalty expense | (4,841) | (0.58) | (2,227) | (0.28) |
| Operating expense | (19,640) | (2.35) | (15,538) | (1.95) |
| Transportation expense | (28,575) | (3.42) | (27,658) | (3.48) |
| Operating netback | $ 61,281 | $ 7.35 | $ 94,566 | $ 11.89 |

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.

The following terms and abbreviations used in this press release have the meanings set forth below:

| | |
|---|---|
| bbl | one barrel |
| bbls | barrels |
| bbls/d | barrels per day |
| boe | barrels of oil equivalent of natural gas, on the basis of one barrel of oil or NGLs for six thousand cubic feet of natural gas |
| boe/d | barrels of oil equivalent of natural gas per day |
| mcf | thousand cubic feet |
| mcf/d | thousand cubic fee per day |
| mcfe | thousand cubic feet equivalent on the basis of six thousand cubic feet of natural gas for one barrel of oil or NGLs |
| mcfe/d | thousand cubic feet equivalent per day |
| mmbtu | million British thermal units |
| mmcf | million cubic feet |
| mmcf/d | million cubic feet per day |
| mmcfe/d | million cubic feet equivalent per day |
| Crude oil and condensate | Light crude oil and medium crude oil as defined in National Instrument 51-101 |
| NGLs | Natural Gas Liquids as defined in National Instrument 51-101 |
| Natural gas | Conventional Natural Gas as defined in National Instrument 51-101 |

# CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three and six months ended June 30, 2020 and 2019

# CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

The following Management's Discussion and Analysis ("MD&A"), dated as of August 6, 2020, provides a detailed explanation of the consolidated financial and operating results of Advantage Oil & Gas Ltd. ("Advantage", the "Corporation", "us", "we" or "our") for the three and six months ended June 30, 2020 and should be read in conjunction with the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2020 and the audited consolidated financial statements for the year ended December 31, 2019 (together, the "Consolidated Financial Statements"). The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

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

## Financial Highlights

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|---|---|---|---|---|
| **Financial Statement Highlights** | | | | |
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## Operating Highlights

| | Three months ended June 30 | | Six months ended June 30 | |
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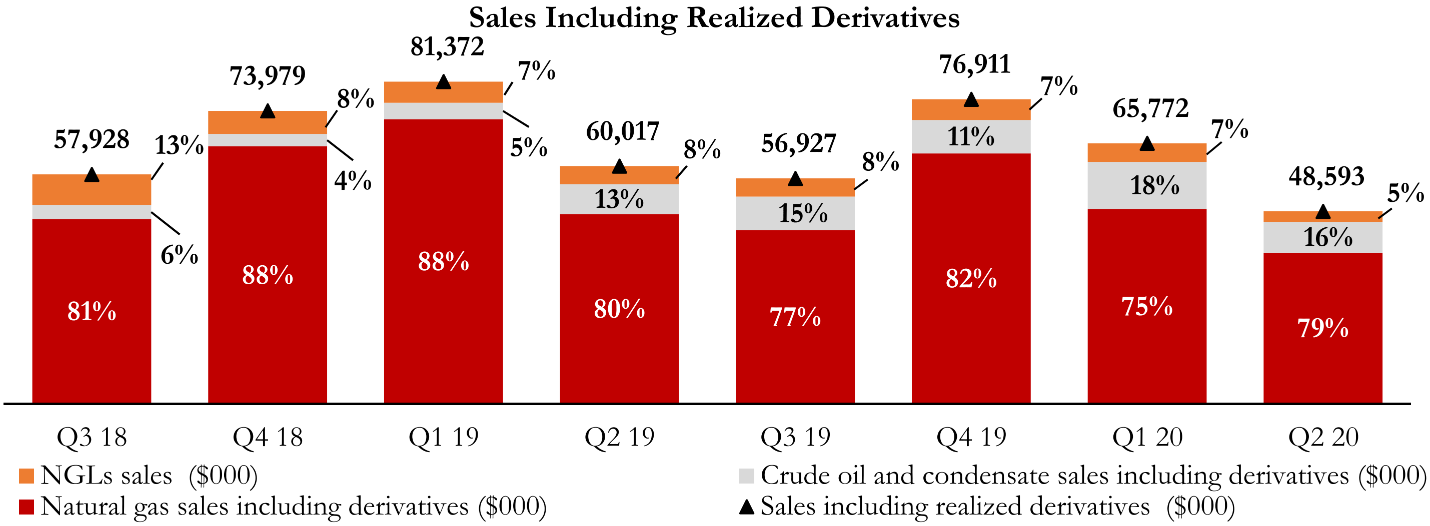
| | **2020** | **2019** | **2020** | **2019** |
| **Operating** | | | | |
| Production | | | | |
| Crude oil and condensate (bbls/d) | **2,645** | 1,184 | **2,398** | 968 |
| NGLs (bbls/d) | **2,001** | 1,396 | **1,782** | 1,338 |
| Total liquids production (bbls/d) | **4,646** | 2,580 | **4,180** | 2,306 |
| Natural gas (mcf/d) | **243,749** | 242,409 | **250,106** | 249,773 |
| Total production (boe/d) | **45,271** | 42,982 | **45,864** | 43,935 |
| Average realized prices (including realized derivatives) | | | | |
| Natural gas ($/mcf) [2] | **$ 1.72** | $ 2.17 | **$ 1.92** | $ 2.65 |
| Crude oil and condensate ($/bbl) | **$ 32.44** | $ 70.33 | **$ 45.09** | $ 66.98 |
| NGLs ($/bbl) | **$ 14.44** | $ 35.99 | **$ 22.57** | $ 40.90 |
| **Operating Netback ($/boe)** | | | | |
| Petroleum and natural gas sales from production | **$ 11.56** | $ 13.14 | **$ 13.40** | $ 16.07 |
| Net sales of natural gas purchased from third parties [1] | **-** | - | **-** | (0.18) |
| Realized gains on derivatives | **0.23** | 2.20 | **0.30** | 1.71 |
| Royalty (expense) recovery | **(0.26)** | 0.02 | **(0.58)** | (0.28) |
| Operating expense | **(2.43)** | (1.89) | **(2.35)** | (1.95) |
| Transportation expense | **(3.34)** | (3.56) | **(3.42)** | (3.48) |
| Operating netback [1] | **$ 5.76** | $ 9.91 | **$ 7.35** | $ 11.89 |

(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.

## Petroleum and Natural Gas Sales

| ($000) | Three months ended June 30 2020 | 2019 | % change | Six months ended June 30 2020 | 2019 | % change |
|---|---|---|---|---|---|---|
| **Natural gas** | | | | | | |
| Sales from production | $ 40,212 | $ 39,245 | 2 % | $ 89,321 | $ 106,149 | (16) % |
| Realized gains (losses) on derivatives | (2,057) | 8,622 | (124) % | (1,955) | 13,601 | (114) % |
| | $ 38,155 | $ 47,867 | (20) % | $ 87,366 | $ 119,750 | (27) % |
| **Crude oil and condensate** | | | | | | |
| Sales from production | $ 4,792 | $ 7,578 | (37) % | $ 15,177 | $ 11,735 | 29 % |
| Realized gains on derivatives | 3,016 | - | nm | 4,501 | - | nm |
| | $ 7,808 | $ 7,578 | 3 % | $ 19,678 | $ 11,735 | 68 % |
| **NGLs** | | | | | | |
| Sales from production | $ 2,630 | $ 4,572 | (42) % | $ 7,321 | $ 9,904 | (26) % |
| **Sales including realized derivatives** | **$ 48,593** | **$ 60,017** | **(19) %** | **$ 114,365** | **$ 141,389** | **(19) %** |



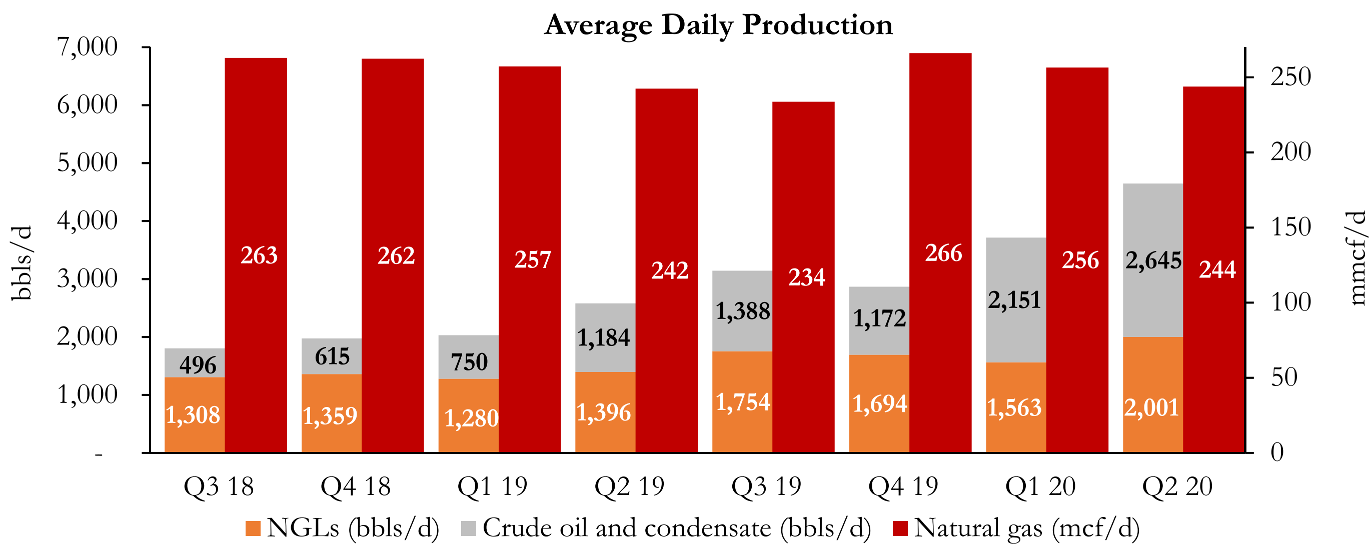

Advantage's natural gas sales excluding derivatives was $40.2 million and $89.3 million for the three and six months ended June 30, 2020, a 2% increase and a 16% decrease compared to the same periods of 2019. The decrease in sales for 2020 has been primarily due to the reduction in price received for the Corporation's natural gas attributed to lower benchmark prices in the Dawn, Chicago and Ventura markets, partially offset by increased prices at AECO (see "Commodity Prices and Marketing").

Crude oil and condensate sales excluding derivatives for the six months ended June 30, 2020 increased by $3.4 million or 29%, as compared to the same period of 2019. However, for the three months ended June 30, 2020 crude oil and condensate sales excluding derivatives decreased by 37% while for the three and six months ended June 30, 2020 NGLs sales decreased by 42% and 26%, respectively. Although sales has been positively impacted by Advantage's increased production due to our continued successful liquids development from both our Pipestone/Wembley and Progress areas, this progress has been significantly offset by the weaker realized liquids prices in the second quarter of 2020 attributable to the COVID-19 pandemic (see "Commodity Prices and Marketing"). Crude oil and condensate sales and NGLs sales contributed 17% and 6%, respectively, of total sales for the six months ended June 30, 2020, including realized gains on derivatives.

Net realized gains on commodity derivatives during the three and six months ended June 30, 2020 were $1.0 million and $2.5 million, respectively. Realized gains and losses on commodity derivatives and changes from prior periods are the result of differences in natural gas and crude oil prices, and contracts outstanding during the three and six months ended June 30, 2020 and 2019 (see "Market Diversification and Commodity Risk Management").

## Production

| | Three months ended June 30 | | % | Six months ended June 30 | | % |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | change | 2020 | 2019 | change |
| Crude oil and condensate (bbls/d) | 2,645 | 1,184 | 123 % | 2,398 | 968 | 148 % |
| NGLs (bbls/d) | 2,001 | 1,396 | 43 % | 1,782 | 1,338 | 33 % |
| **Total liquids production (bbls/d)** | **4,646** | **2,580** | **80 %** | **4,180** | **2,306** | **81 %** |
| Natural gas (mcf/d) | 243,749 | 242,409 | 1 % | 250,106 | 249,773 | - % |
| **Total production (boe/d)** | **45,271** | **42,982** | **5 %** | **45,864** | **43,935** | **4 %** |
| Crude oil and condensate (%) | 6 % | 3 % | | 5 % | 2 % | |
| NGLs (%) | 4 % | 3 % | | 4 % | 3 % | |
| Natural gas (%) | 90 % | 94 % | | 91 % | 95 % | |




Total production for the three and six months ended June 30, 2020 averaged 45,271 boe/d and 45,864 boe/d, respectively, an increase of 5% and 4% compared to the same periods of the prior year. Advantage's production has increased due to our continued successful liquids development from both our Pipestone/Wembley and Progress areas, resulting in a 148% growth in crude oil and condensate production and a 33% growth in NGLs production for the six months ended June 30, 2020. At Pipestone/Wembley our average production increased to 2,498 boe/d (1,284 bbls/d oil, 660 bbls/d NGLs and 3.3 mmcf/d natural gas) for the three months ended June 30, 2020. At Progress our average production for the second quarter of 2020 increased to 2,209 boe/d (711 bbls/d oil, 158 bbls/d NGLs and 8.0 mmcf/d natural gas) with liquids extraction to a third-party producer facility, and the natural gas processed at the Glacier Gas Plant. As previously announced, Advantage's 5,000 bbl/d Progress battery installation is being delayed to optimize capital spending in 2020. With increased production from our new areas, Advantage's liquids composition is changing with a greater portion comprising light oil and heavier condensate as compared to the very light condensate and NGL mix produced from the Glacier area. The change in liquids composition associated with our ongoing development has an impact on price realizations (see "Commodity Prices and Marketing").

Advantage's natural gas production for the three and six months ended June 30, 2020 was comparable to the same periods of 2019.

## Commodity Prices and Marketing

| Average Realized Prices | Three months ended June 30 2020 | | Three months ended June 30 2019 | % change | Six months ended June 30 2020 | | Six months ended June 30 2019 | % change |
|---|---|---|---|---|---|---|---|---|
| **Natural gas** | | | | | | | | |
| Excluding derivatives ($/mcf)(1) | $ | 1.81 | $ 1.78 | 2 % | $ | 1.96 | $ 2.35 | (16) % |
| Including derivatives ($/mcf)(1) | $ | 1.72 | $ 2.17 | (21) % | $ | 1.92 | $ 2.65 | (28) % |
| **Crude oil and condensate** | | | | | | | | |
| Excluding derivatives ($/bbl) | $ | 19.91 | $ 70.33 | (72) % | $ | 34.77 | $ 66.98 | (48) % |
| Including derivatives ($/bbl) | $ | 32.44 | $ 70.33 | (54) % | $ | 45.09 | $ 66.98 | (33) % |
| **NGLs** | | | | | | | | |
| Excluding derivatives ($/bbl)(2) | $ | 14.44 | $ 35.99 | (60) % | $ | 22.57 | $ 40.90 | (45) % |
| **Average Benchmark Prices** | | | | | | | | |
| **Natural Gas** | | | | | | | | |
| AECO daily ($/mcf) | $ | 2.00 | $ 1.04 | 92 % | $ | 2.02 | $ 1.82 | 11 % |
| AECO monthly ($/mcf) | $ | 1.85 | $ 1.17 | 58 % | $ | 1.99 | $ 1.55 | 28 % |
| Henry Hub ($US/mmbtu) | $ | 1.65 | $ 2.51 | (34) % | $ | 1.77 | $ 2.69 | (34) % |
| Dawn daily ($US/mmbtu) | $ | 1.63 | $ 2.34 | (30) % | $ | 1.70 | $ 2.63 | (35) % |
| Chicago Citygate ($US/mmbtu) | $ | 1.63 | $ 2.45 | (33) % | $ | 1.79 | $ 2.89 | (38) % |
| Ventura ($US/mmbtu) | $ | 1.58 | $ 2.25 | (30) % | $ | 1.62 | $ 2.53 | (36) % |
| **Crude Oil** | | | | | | | | |
| WTI ($US/bbl) | $ | 27.85 | $ 59.79 | (53) % | $ | 36.97 | $ 57.32 | (36) % |
| MSW Edmonton ($/bbl) | $ | 33.27 | $ 73.32 | (55) % | $ | 42.68 | $ 70.40 | (39) % |
| Average Exchange rate ($US/$CDN) | | 0.7210 | 0.7476 | (4) % | | 0.7446 | 0.7499 | (1) % |

(1) Excludes net sales of natural gas purchased from third parties.
(2) The Corporation had no NGL derivative contracts in place for the three and six months ended June 30, 2020.

The second quarter of 2020 reflected the full effect of the COVID-19 pandemic which broadly impacted global economies and more specifically energy consumption, supply management and resulting commodity markets. This situation led to a highly volatile quarter that significantly impacted realized commodity prices, particularly in respect of liquids prices. Although the significant influence of the COVID-19 pandemic continues, crude oil pricing has improved into the start of the third quarter of 2020.

Advantage's realized natural gas price excluding derivatives for the three and six months ended June 30, 2020 was $1.81/mcf and $1.96/mcf, respectively, which was a 2% increase and a 16% decrease compared to the same periods of the prior year. For 2020, AECO natural gas prices have been stronger, while other physical gas markets experienced considerable price declines. With Advantage's market diversification strategy, our realized natural gas prices tend to experience less volatility as compared to individual market dynamics as evidenced during the second quarter of 2020.

Advantage's physical natural gas sales portfolio has exposure to AECO, Dawn, Chicago and Ventura markets. Advantage's firm transportation service to Dawn of 52,700 mcf/d represents approximately 21% of our current natural gas production. Advantage began 2019 with sales of 20,000 mcf/d at Chicago Citygate prices that increased to 40,000 mcf/d in April 2019 and 55,000 mcf/d in April 2020. Chicago sales represent approximately 19% of our current natural gas production. Commencing April 2020, Advantage began sales arrangements for 15,000 mcf/d at Ventura prices. Ventura sales represents approximately 6% of our current natural gas production. Both the prices received for sales to Chicago and Ventura are reduced by a fixed differential, that averaged approximately US$1.15/mmbtu during the second quarter of 2020.

### Commodity Prices and Marketing (continued)

Realized crude oil and condensate prices decreased by 72% and 48% for the three and six months ended June 30, 2020, respectively, compared to the same periods of the prior year. Realized NGL prices decreased by 60% and 45% for the three and six months ended June 30, 2020, respectively. The primary cause for the lower realized liquids prices has been the impact of the COVID-19 pandemic that adversely impacted crude oil demand and significantly increased price volatility. WTI prices were 53% lower for the three months ended June 30, 2020 as compared to the same quarter of 2019, but experienced a historic low of negative US$37/bbl in late April prior to rebounding with a significant improvement by the end of the quarter approaching US$40/bbl. Similar volatility was experienced by Canadian crude oil stream differentials, with the May Edmonton MSW differential to WTI widening to a discount of over US$16/bbl and then subsequently improving to a premium to WTI before eventually settling at quarter-end to a slight discount of approximately US$3/bbl to WTI. Since then the liquids pricing volatility has subsided with more stability into the third quarter of 2020.

In addition, with the increased production from our new areas, Advantage's liquids composition is changing compared to our prior liquids production that was very light condensate and NGL mix produced from the Glacier area. Advantage now produces more NGL mix, as expected, due to our continued liquids development; however, crude oil and heavier condensate now make up a larger proportion of our total liquids production. Although condensate prices have suffered recently due to reduced diluent demand for oilsands, we believe this shift in our liquids composition will generally yield higher market prices as commodity markets recover from the COVID-19 impacts. Approximately 75% of our liquids is comprised of crude oil, condensate and pentanes, which generally attracts higher market prices than other NGLs.

## Market Diversification and Commodity Risk Management

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

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

| | January 1 to December 31, 2020 | | |
|---|---|---|---|
| | Volumes Contracted (mmcf/d)[1] | Average Minimum Price | % of Estimated Production |
| **Fixed Price** | | | |
| AECO fixed price swaps | 48.2 | $1.64/mcf | 20 % |
| Dawn fixed price swaps | 24.6 | US$2.08/mcf [2] | 10 % |
| Chicago fixed price swaps | 4.2 | US$2.72/mcf | 2 % |
| Henry Hub fixed price swaps | 38.3 | US$2.30/mcf | 16 % |
| | 115.3 | | 48 % |
| **Variable Price** | | | |
| AECO physical | 44.9 | AECO | 18% |
| Dawn physical | 28.1 | Dawn [2] | 11% |
| Empress physical | 4.7 | Empress [3] | 2% |
| Emerson physical | 4.5 | Emerson [4] | 2% |
| Midwest physical | 47.5 | Chicago, Ventura and Henry Hub less differentials [5] | 19 % |
| | 129.7 | | 52 % |
| Total Natural Gas [6] | 245.0 | | 100 % |

(1) All volumes contracted converted to mcf on the basis of 1 mcf = 1.055056 GJ and 1 mcf = 1 mmbtu.
(2) Transportation under our firm commitment from AECO to Dawn is approximately $1.10/mcf.
(3) Transportation under our firm commitment from AECO to Empress is approximately $0.18/mcf.
(4) Transportation under our firm commitment from Empress to Emerson is approximately $0.63/mcf.
(5) Refer to the Corporation's website for details on differentials: http://www.advantageog.com/investors/hedging.
(6) Represents the midpoint of our revised guidance for 2020 natural gas volumes (see New Release dated May 6, 2020).

## Market Diversification and Commodity Risk Management (continued)

A summary of realized and unrealized commodity and foreign exchange derivative gains and losses for the three and six months ended June 30, 2020 and 2019 are as follows:

| ($000) | Three months ended June 30 2020 | Three months ended June 30 2019 | Six months ended June 30 2020 | Six months ended June 30 2019 |
|---|---|---|---|---|
| **Realized gains (losses) on derivatives** | | | | |
| Natural gas | $ (2,057) | $ 8,622 | $ (1,955) | $ 13,601 |
| Crude oil | 3,016 | - | 4,501 | - |
| Foreign exchange | (10) | - | (10) | - |
| | **$ 949** | **$ 8,622** | **$ 2,536** | **$ 13,601** |
| **Unrealized gains (losses) on derivatives** | | | | |
| Natural gas | $ (6,087) | $ (10,784) | $ (2,842) | $ (26,071) |
| Crude oil | (7,027) | - | 4,878 | - |
| Foreign exchange | (392) | - | (392) | - |
| | **$ (13,506)** | **$ (10,784)** | **$ 1,644** | **$ (26,071)** |
| **Gains (losses) on derivatives** | | | | |
| Natural gas | $ (8,144) | $ (2,162) | $ (4,797) | $ (12,470) |
| Crude oil | (4,011) | - | 9,379 | - |
| Foreign exchange | (402) | - | (402) | - |
| | **$ (12,557)** | **$ (2,162)** | **$ 4,180** | **$ (12,470)** |

For the three and six months ended June 30, 2020, Advantage recognized net realized gains on commodity and foreign exchange derivatives of $0.9 and $2.5 million, respectively, due to the settlement of contracts with average derivative contract prices that were above average market prices. For the three and six months ended June 30, 2020, Advantage recognized a net unrealized loss on commodity and foreign exchange derivative of $13.5 million and a net unrealized gain of $1.6 million, respectively, resulting from changes in the fair value of the Corporation's outstanding commodity and foreign exchange derivative contracts. The change in the fair value of our outstanding derivative contracts during the six months ended June 30, 2020 was mainly attributable to the increased valuation of our crude oil derivative contracts due to weakening WTI prices, when compared to December 31, 2019. The valuation of our crude oil derivative contracts decreased for the three months ended June 30, 2020 as WTI prices improved since March 31, 2020. In addition, the valuation of our natural gas derivative contracts have decreased for the three and six months ended June 30, 2020 as a result of weakening Henry Hub prices.

The fair value of derivative assets and liabilities 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 and losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. Remaining derivative contracts will settle between July 1, 2020 and December 31, 2024.

## Sales of Natural Gas Purchased from Third Parties

| | Three months ended June 30 2020 | Three months ended June 30 2019 | % change | Six months ended June 30 2020 | Six months ended June 30 2019 | % change |
|---|---|---|---|---|---|---|
| Sales of natural gas purchased from third parties ($000) | $ - | $ - | nm | $ - | $ 637 | nm |
| Natural gas purchased from third parties ($000) | - | - | nm | - | (2,037) | nm |
| Net sales of natural gas purchased from third parties ($000) | $ - | $ - | nm | $ - | $ (1,400) | nm |
| per boe | $ - | $ - | nm | $ - | $ (0.18) | nm |

Advantage infrequently purchases natural gas volumes from third parties to satisfy physical delivery commitments during brief outages at our Glacier Gas Plant. The Corporation did not incur purchases and sales of natural gas from third parties during the six months ended June 30, 2020. During the six months ended June 30, 2019, Advantage realized $0.6 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of $2.0 million.

## Royalty Expense

| | Three months ended June 30 2020 | Three months ended June 30 2019 | % change | Six months ended June 30 2020 | Six months ended June 30 2019 | % change |
|---|---|---|---|---|---|---|
| Royalty expense (recovery) ($000) | $ 1,086 | $ (75) | nm | $ 4,841 | $ 2,227 | 117 % |
| per boe | $ 0.26 | $ (0.02) | nm | $ 0.58 | $ 0.28 | 107 % |
| Royalty rate (%)[1] | 2.3 % | 0.0 % | 2.3 % | 4.3 % | 1.7 % | 2.6 % |

[1] Percentage of petroleum and natural gas sales from production.

Royalty expense for the three and six months ended June 30, 2020 increased due to higher crude oil and condensate sales. The increase in royalty rates was primarily due to increased liquids production, combined with lower revenue enhancements from market diversification when compared to 2019. However, for both the three months ended June 30, 2020 and 2019, the Corporation received Gas Cost Allowance credits that has resulted in a recovery of royalties paid and low corporate royalty expense.

## Operating Expense

| | Three months ended June 30 2020 | Three months ended June 30 2019 | % change | Six months ended June 30 2020 | Six months ended June 30 2019 | % change |
|---|---|---|---|---|---|---|
| Operating expense ($000) | $ 9,993 | $ 7,381 | 35 % | $ 19,640 | $ 15,538 | 26 % |
| per boe | $ 2.43 | $ 1.89 | 29 % | $ 2.35 | $ 1.95 | 21 % |

Operating expense for the three and six months ended June 30, 2020 increased to $10.0 million and $19.6 million compared to the respective periods of 2019. The increase in operating expense has been attributable to our liquids development, with cost coming in slightly below our expectation. Operating expense now includes the costs associated with operation of our newly constructed oil battery at Pipestone/Wembley, including certain one-time initial operating expenses, and additional third-party processing expense associated with both Pipestone/Wembley and Progress (see "Production").

## Transportation Expense

| | Three months ended June 30 | | | | % | Six months ended June 30 | | | | % |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 2020 | | 2019 | change | | 2020 | | 2019 | change |
| Natural gas ($000) | $ | 11,851 | $ | 12,520 | (5) % | $ | 24,726 | $ | 24,915 | (1) % |
| Liquids ($000) | | 1,920 | | 1,388 | 38 % | | 3,849 | | 2,743 | 40 % |
| Total transportation expense ($000) | $ | 13,771 | $ | 13,908 | (1) % | $ | 28,575 | $ | 27,658 | 3 % |
| per boe | $ | 3.34 | $ | 3.56 | (6) % | $ | 3.42 | $ | 3.48 | (2) % |

Transportation expense represents the cost of transporting our natural gas and liquids (crude oil, condensate and NGLs) to the sales points, including associated fuel costs. Total transportation expense for the three and six months ended June 30, 2020 was comparable to the same periods of 2019 although there has been increased liquids transportation associated with increased crude oil, condensate and NGLs production (see "Production").

## Operating Netback

| | Three months ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | 2019 | | | |
| | | $000 | | per boe | | $000 | | per boe |
| Petroleum and natural gas sales from production | $ | 47,634 | $ | 11.56 | $ | 51,395 | $ | 13.14 |
| Realized gains on derivatives | | 931 | | 0.23 | | 8,622 | | 2.20 |
| Royalty (expense) recovery | | (1,086) | | (0.26) | | 75 | | 0.02 |
| Operating expense | | (9,993) | | (2.43) | | (7,381) | | (1.89) |
| Transportation expense | | (13,771) | | (3.34) | | (13,908) | | (3.56) |
| **Operating netback [(1)]** | **$** | **23,715** | **$** | **5.76** | **$** | **38,803** | **$** | **9.91** |

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

| | Six months ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | 2019 | | | |
| | | $000 | | per boe | | $000 | | per boe |
| Petroleum and natural gas sales from production | $ | 111,819 | $ | 13.40 | $ | 127,788 | $ | 16.07 |
| Net sales of natural gas purchased from third parties [(1)] | | - | | 0.00 | | (1,400) | | (0.18) |
| Realized gains on derivatives | | 2,518 | | 0.30 | | 13,601 | | 1.71 |
| Royalty expense | | (4,841) | | (0.58) | | (2,227) | | (0.28) |
| Operating expense | | (19,640) | | (2.35) | | (15,538) | | (1.95) |
| Transportation expense | | (28,575) | | (3.42) | | (27,658) | | (3.48) |
| **Operating netback [(1)]** | **$** | **61,281** | **$** | **7.35** | **$** | **94,566** | **$** | **11.89** |

[(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, 2020 was $23.7 million or $5.76/boe, a decrease of 39% or $4.15/boe compared to the same period of 2019. For the six months ended June 30, 2020, Advantage's operating netback was $61.3 million or $7.35/boe, a decrease of 35% or $4.54/boe compared to the same period of 2019. The decrease in the Corporation's operating netback was primarily due to the decrease in petroleum and natural gas sales as a result of significantly lower natural gas and crude oil benchmark prices (see "Commodity Prices and Marketing"), accompanied with decreased realized gains on derivatives.

## General and Administrative Expense

| | Three months ended June 30 | | % | Six months ended June 30 | | % |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | change | 2020 | 2019 | change |
| General and administrative expense ($000) | $ 2,789 | $ 2,556 | 9 % | $ 4,764 | $ 5,037 | (5) % |
| per boe | $ 0.68 | $ 0.65 | 5 % | $ 0.57 | $ 0.63 | (10) % |
| Employees at June 30 | | | | 38 | 32 | 19 % |

General and administrative ("G&A") expense for the six months ended June 30, 2020 decreased primarily due to the reduction in value of the outstanding deferred share units (issued pursuant the Corporation's deferred share unit plan) resulting from the lower share price, accompanied with cost saving measures enacted in the first half of 2020.

## Share-based Compensation

| | Three months ended June 30 | | % | Six months ended June 30 | | % |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | change | 2020 | 2019 | change |
| Share-based compensation ($000) | $ 2,011 | $ 2,325 | (14) % | $ 4,394 | $ 4,030 | 9% |
| Capitalized ($000) | (702) | (858) | (18) % | (1,534) | (1,487) | 3% |
| Share-based compensation expense ($000) | $ 1,309 | $ 1,467 | (11) % | $ 2,860 | $ 2,543 | 12% |
| per boe | $ 0.32 | $ 0.38 | (16) % | $ 0.34 | $ 0.32 | 6% |

Under the Corporation's restricted and performance award incentive plan, performance share units are granted to service providers of Advantage to align the interests of these individuals with those of shareholders. Capitalized share-based compensation is attributable to personnel involved with the development of the Corporation's capital projects. The Corporation recognized $1.3 million and $2.9 million of share-based compensation expense during the three and six months ended June 30, 2020, respectively, and capitalized $0.7 million and $1.5 million. Share-based compensation expense for the three and six months ended was similar when compared to the same periods of 2019.

## Finance Expense and Interest Rate Risk Management

| | | Three months ended June 30 2020 | | 2019 | % change | | Six months ended June 30 2020 | | 2019 | % change |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash finance expense ($000) [1] | $ | 3,667 | $ | 3,495 | 5 % | $ | 7,165 | $ | 6,790 | 6 % |
| per boe | $ | 0.89 | $ | 0.89 | - % | $ | 0.86 | $ | 0.85 | 1 % |
| Accretion expense ($000) | | 166 | | 239 | (31) % | | 364 | | 470 | (23) % |
| Total finance expense ($000) | $ | 3,833 | $ | 3,734 | 3 % | $ | 7,529 | $ | 7,260 | 4 % |
| per boe | $ | 0.93 | $ | 0.95 | (2) % | $ | 0.90 | $ | 0.91 | (1) % |

Advantage realized higher cash finance expense during the three and six months ended June 30, 2020 due to higher average outstanding bank indebtedness. Advantage's interest rates are primarily based on short-term bankers' acceptance rates plus a stamping fee and determined by net debt to the trailing four quarters Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") ratio as calculated pursuant to our Credit Facilities.

The Corporation's Credit Facilities are exposed to interest rate risk. Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Management has been proactive in entering into interest rate derivative contracts for the purposes of reducing the volatility of interest rates posted by lenders. The Corporation has a $175 million notional amount of fixed interest rate swaps covering April 2020 to March 2022 at a weighted average fixed rate of 0.81%. A summary of realized and unrealized interest rate derivative losses for the three and six months ended June 30, 2020 and 2019 are as follows:

| **($000)** | | Three months ended June 30 2020 | | 2019 | | Six months ended June 30 2020 | | 2019 |
|---|---|---|---|---|---|---|---|---|
| Realized losses on interest rate derivatives | $ | (18) | $ | - | $ | (18) | $ | - |
| Unrealized losses on interest rate derivatives | | (632) | | - | | (870) | | - |
| **Losses on interest rate derivatives** | | (650) | | - | | (888) | | - |

## Depreciation and Impairment Expense

| | Three months ended June 30 | | % | Six months ended June 30 | | % |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | change | 2020 | 2019 | change |
| Depreciation expense ($000) | $ 27,400 | $ 30,982 | (12) % | $ 57,731 | $ 62,983 | (8) % |
| per boe | $ 6.65 | $ 7.92 | (16) % | $ 6.92 | $ 7.92 | (13) % |
| Impairment expense ($000) | $ - | $ - | nm | $ 361,000 | $ - | nm |

The decrease in depreciation expense during 2020 was attributable to a lower net book value associated with the Corporation's petroleum and natural gas properties subsequent to booking an impairment in the first quarter of 2020.

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

## Taxes

| | Three months ended June 30 | | % | Six months ended June 30 | | % |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | change | 2020 | 2019 | change |
| Income tax recovery ($000) | $ 5,666 | $ 14,092 | (60) % | $ 85,412 | $ 13,373 | 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, 2020, the Corporation recognized a deferred income tax recovery of $5.7 million and $85.4 million, respectively. The increased recovery for the six months ended June 30, 2020 is as a result of a $372.0 million loss before taxes for the six months ended June 30, 2020, primarily due to the $361 million impairment recognized during the first quarter of 2020. As at June 30, 2020, the Corporation had a deferred income tax asset of $27.0 million. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses can be utilized.

## Net Income (Loss) and Comprehensive Income (Loss)

| | Three months ended June 30 | | % | Six months ended June 30 | | % |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | change | 2020 | 2019 | change |
| Net income (loss) and comprehensive income (loss) ($000) | $ (20,088) | $ 3,372 | nm | $ (286,607) | $ 4,053 | nm |
| per share - basic | $ (0.11) | $ 0.02 | nm | $ (1.53) | $ 0.02 | nm |
| per share - diluted | $ (0.11) | $ 0.02 | nm | $ (1.53) | $ 0.02 | nm |

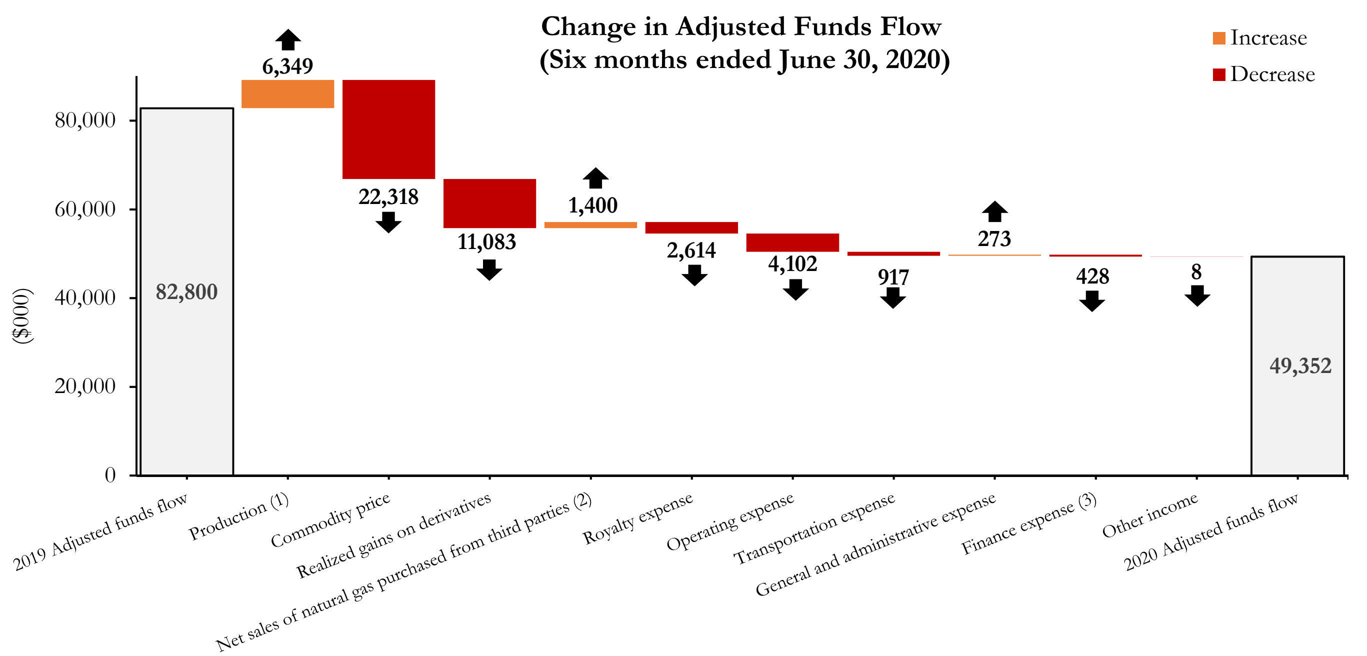
Advantage recognized a net loss of $20.1 million and $286.6 million for the three and six months ended June 30, 2020, respectively. For the three and six months ended June 30, 2020, the Corporation realized lower sales including realized derivatives (see "Petroleum and Natural Gas Sales") when compared to the same periods in 2019. For the six months ended June 30, 2020, the net loss and comprehensive loss was due to the non-cash impairment expense of $361 million offset by a deferred tax recovery of $85.4 million. Further reductions in future commodity prices could potentially lead to additional impairments; however, if the outlook for commodity prices in North America were to improve in future quarters, the Corporation may recognize impairment recoveries against the $361 million impairment expense, which would lead to future income volatility.

## Cash Provided by Operating Activities and Adjusted Funds Flow

| ($000, except as otherwise indicated) | Three months ended June 30 2020 | 2019 | Six months ended June 30 2020 | 2019 |
|---|---|---|---|---|
| Cash provided by operating activities | $ 24,357 | $ 44,292 | $ 45,183 | $ 88,775 |
| Expenditures on decommissioning liability | 24 | 690 | 203 | 1,555 |
| Changes in non-cash working capital | (7,122) | (12,205) | 3,966 | (7,530) |
| **Adjusted funds flow [(1)]** | **$ 17,259** | **$ 32,777** | **$ 49,352** | **$ 82,800** |
| **Adjusted funds flow per share [(1)]** | **$ 0.09** | **$ 0.18** | **$ 0.26** | **$ 0.44** |

(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, 2020, Advantage realized adjusted funds flow of $17.3 million or $0.09/share, and $49.4 million or $0.26/share, respectively. The decrease in adjusted funds flow for the three and six months ended was primarily due to the decrease in petroleum and natural gas sales, as a result of significantly lower natural gas and crude oil benchmark prices (see "Commodity Prices and Marketing"), and lower realized gains on derivatives (see "Market Diversification and Commodity Risk Management").




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

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

(3) Finance expense excludes accretion of decommissioning liability.

## Contractual Obligations and Commitments

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

| | Payments due by period | | | | | | |
|---|---|---|---|---|---|---|---|
| **($ millions)** | **Total** | **Six months 2020** | **2021** | **2022** | **2023** | **2024** | **Beyond** |
| Building operating cost [1] | $ 2.9 | $ 0.2 | $ 0.4 | $ 0.4 | $ 0.4 | $ 0.4 | $ 1.1 |
| Processing | 64.2 | 0.7 | 3.9 | 8.5 | 8.5 | 8.5 | 34.1 |
| Transportation | 499.3 | 23.5 | 55.5 | 59.3 | 55.6 | 53.4 | 252.0 |
| Bank indebtedness [2] | | | | | | | |
| - principal | 354.2 | - | 354.2 | - | - | - | - |
| - interest | 14.7 | 7.8 | 6.9 | - | - | - | - |
| **Total contractual obligations** | **$ 935.3** | **$ 32.2** | **$ 420.9** | **$ 68.2** | **$ 64.5** | **$ 62.3** | **$ 287.2** |

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

(2) As at June 30, 2020 the Corporation's bank indebtedness was governed by a credit facility agreement with a syndicate of financial institutions. Under the terms of the agreement, the facility is reviewed semi-annually, with the next review scheduled in October 2020. The facility is revolving and extendible at each annual review for a further 364-day period at the option of the syndicate. If not extended, the credit facility is converted at that time into a one-year term facility, with the principal payable at the end of such one-year term.

## Liquidity and Capital Resources

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

| **($000, except as otherwise indicated)** | **June 30 2020** | **December 31 2019** |
|---|---|---|
| Bank indebtedness (non-current) | $ 354,199 | $ 295,624 |
| Working capital deficit [1] | 3,295 | 7,996 |
| **Net debt [1]** | **$ 357,494** | **$ 303,620** |
| Shares outstanding | 188,112,797 | 186,910,848 |
| Shares closing market price ($/share) | $ 1.66 | $ 2.75 |
| **Market capitalization** | **$ 312,267** | **$ 514,005** |
| **Total capitalization** | **$ 669,761** | **$ 817,625** |
| **Net debt to adjusted funds flow [1]** | **2.9** | **2.0** |

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

As at June 30, 2020, Advantage had a $400 million Credit Facility of which $31.2 million or 8% was available after deducting letters of credit of US$8 million outstanding (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's adjusted funds flow and bank indebtedness were utilized to fund our capital expenditure program of $104.3 million for the six months ended June 30, 2020 resulting in a net debt to adjusted funds flow ratio of 2.9 times. On July 2, 2020, Advantage received $100 million in proceeds from the sale of a 12.5% interest in the Corporation's Glacier Gas Plant with the Credit Facility borrowing base revised to $350 million. The closing of this transaction has resulted in a significant net increase in liquidity and our net debt to adjusted funds flow ratio was reduced to 2.1 times. Advantage continues to be focused on maintaining a strong balance sheet, a disciplined commodity risk management program, a low-cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing its multi-year development plan.

## Liquidity and Capital Resources (continued)

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

## Bank Indebtedness, Credit Facilities and Other Obligations

As at June 30, 2020, Advantage had bank indebtedness outstanding of $354.2 million, an increase of $58.6 million since December 31, 2019. Advantage's Credit Facilities had a borrowing base of $400 million that is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating as determined by the Alberta Energy Regulator is not less than 2.0. The borrowing base for the Credit Facilities is determined by the banking syndicate through an evaluation of our reserve estimates based upon their own commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In May 2020, the annual redetermination of the Credit Facilities borrowing base was completed with no changes to the borrowing base of $400 million.

On July 2, 2020, Advantage received $100 million in proceeds from the sale of a 12.5% interest in the Corporation's Glacier Gas Plant with the Credit Facility borrowing base revised to $350 million, comprised of a $30 million extendible revolving operating loan facility from one financial institution and a $320 million extendible revolving loan facility from a syndicate of financial institutions. The next semi-annual review is scheduled to occur in October 2020. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time.

Advantage had a working capital deficit of $3.3 million as at June 30, 2020, a decrease of $4.7 million compared to December 31, 2019 due to differences in the timing of capital expenditures and related payments. Our working capital includes cash and cash equivalents, trade receivables, prepaid expenses and deposits, trade payables and other accrued liabilities. Working capital varies primarily due to the timing of such items, the current level of business activity including our capital expenditure program, commodity price volatility, and seasonal fluctuations. We do not anticipate any problems in meeting future obligations as they become due as they can be satisfied with cash provided by operating activities and our available Credit Facilities.

## Shareholders' Equity

As at June 30, 2020, a total of 5.4 million performance share units were outstanding under the performance award incentive plan, which represents 2.8% of Advantage's total outstanding common shares. No stock options under the Corporation's stock option plan were exercised during the six months ended June 30, 2020 and all outstanding stock options have expired. As at August 6, 2020, Advantage had 188.1 million common shares outstanding.

## Cash Used in Investing Activities and Net Capital Expenditures

| ($000) | Three months ended June 30 2020 | Three months ended June 30 2019 | Six months ended June 30 2020 | Six months ended June 30 2019 |
|---|---|---|---|---|
| Drilling, completion and workovers | $ (215) | $ 2,075 | $ 33,251 | $ 45,815 |
| Well equipping and facilities | 10,809 | 14,668 | 69,946 | 27,758 |
| Other | 46 | 420 | 143 | 420 |
| Expenditures on property, plant and equipment | 10,640 | 17,163 | 103,340 | 73,993 |
| Expenditures on exploration and evaluation assets | 23 | 2,415 | 953 | 3,007 |
| **Net capital expenditures (1)** | **$ 10,663** | **$ 19,578** | **$ 104,293** | **$ 77,000** |
| Changes in non-cash working capital | 34,192 | 7,725 | 5,783 | 10,017 |
| **Cash used in investing activities** | **$ 44,855** | **$ 27,303** | **$ 110,076** | **$ 87,017** |

(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 $10.7 million and $104.3 million on property, plant, and equipment and exploration and evaluation assets during the three and six months ended June 30, 2020, respectively. During the second quarter of 2020, Advantage's capital activity was focused on completion of tie-ins and infrastructure projects in the Pipestone/Wembley and Progress areas. No wells have been drilled in 2020.

Progress

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

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

Procurement of equipment continued during the second quarter of 2020 for a new 25 mmcf/d compressor and 5,000 bbl/d oil battery to be located on the land block. Due to the recent decline in crude oil prices, the start of construction has been delayed until oil prices support continued growth from the area.

Pipestone/Wembley

Year-to-date, activity focused on finishing completions and flowback of the 7 gross (7.0 net) Montney wells and one water disposal well that were drilled in the second half of 2019. In addition, construction and commissioning activity was completed on our 36 mmcf/d compressor and 5,000 bbl/d oil battery.

The property has transitioned from our first well being completed in the first quarter of 2018 to production from 8 wells connected to a 100% owned battery.

Valhalla

Year-to-date activity has centered around continued production of the Valhalla wells and initial production from the Progress property through our 40 mmcf/d compressor and liquids hub. With the addition of gas from Progress and one remaining well shut in awaiting capacity at Valhalla, the facility is anticipated to be full for the balance of 2020.

Glacier

Year-to-date, Glacier activity was limited to completion and tie-in of one previously drilled Upper Montney well. With increasing gas prices, Glacier will continue to be an important foundation of our activity in subsequent drilling programs. Our first 3 well pad to be drilled in 2020 was spud in July.

Corporate

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

## Quarterly Performance

| ($000, except as otherwise indicated) | 2020 Q2 | 2020 Q1 | 2019 Q4 | 2019 Q3 | 2019 Q2 | 2019 Q1 | 2018 Q4 | 2018 Q3 |
|---|---|---|---|---|---|---|---|---|
| **Financial Statement Highlights** | | | | | | | | |
| Sales including realized derivatives [3] | $ 48,593 | $ 65,772 | $ 76,921 | $ 56,927 | $ 60,017 | $ 81,372 | $ 73,979 | $ 57,928 |
| Net income (loss) and comprehensive income (loss) | $ (20,088) | $ (266,519) | $ (1,844) | $ (26,863) | $ 3,372 | $ 681 | $ 25,162 | $ (8,852) |
| per basic share [2] | $ (0.11) | $ (1.43) | $ (0.01) | $ (0.14) | $ 0.02 | $ 0.00 | $ 0.14 | $ (0.05) |
| Basic weighted average shares (000) | 187,901 | 186,911 | 186,911 | 186,911 | 186,858 | 185,942 | 185,942 | 186,065 |
| Cash provided by operating activities | $ 24,357 | $ 20,826 | $ 39,965 | $ 27,323 | $ 44,292 | $ 44,483 | $ 41,627 | $ 27,950 |
| Cash provided by (used in) financing activities | $ 23,492 | $ 34,960 | $ 20,115 | $ 5,010 | $ (20,309) | $ 19,501 | $ 11,739 | $ 11,005 |
| Cash used in investing activities | $ 44,855 | $ 65,221 | $ 50,365 | $ 36,258 | $ 27,303 | $ 59,714 | $ 50,723 | $ 39,085 |
| **Other Financial Highlights** | | | | | | | | |
| Adjusted funds flow [1] | $ 17,259 | $ 32,093 | $ 44,452 | $ 27,928 | $ 32,777 | $ 50,023 | $ 46,301 | $ 32,035 |
| per boe [1] | $ 4.19 | $ 7.59 | $ 10.20 | $ 7.21 | $ 8.38 | $ 12.38 | $ 11.02 | $ 7.63 |
| per basic share [1][2] | $ 0.09 | $ 0.17 | $ 0.23 | $ 0.15 | $ 0.18 | $ 0.27 | $ 0.25 | $ 0.17 |
| Net capital expenditures [1] | $ 10,663 | $ 93,630 | $ 59,609 | $ 48,313 | $ 19,578 | $ 57,422 | $ 51,187 | $ 47,502 |
| Working capital (surplus) deficit [1] | $ 3,295 | $ 34,284 | $ 7,996 | $ 13,322 | $ (1,891) | $ (9,325) | $ 1,912 | $ 8,169 |
| Bank indebtedness | $ 354,199 | $ 330,644 | $ 295,624 | $ 275,594 | $ 270,495 | $ 290,612 | $ 270,918 | $ 259,179 |
| Net debt [1] | $ 357,494 | $ 364,928 | $ 303,620 | $ 288,916 | $ 268,604 | $ 281,287 | $ 272,830 | $ 267,348 |
| **Operating Highlights** | | | | | | | | |
| Production | | | | | | | | |
| Crude oil and condensate (bbls/d) | 2,645 | 2,151 | 1,337 | 1,388 | 1,184 | 750 | 615 | 496 |
| NGLs (bbls/d) | 2,001 | 1,563 | 1,694 | 1,754 | 1,396 | 1,280 | 1,359 | 1,308 |
| Total liquids production (bbls/d) | 4,646 | 3,714 | 3,031 | 3,142 | 2,580 | 2,030 | 1,974 | 1,804 |
| Natural gas (mcf/d) | 243,749 | 256,463 | 266,035 | 233,625 | 242,409 | 257,219 | 262,269 | 262,841 |
| Total production (boe/d) | 45,271 | 46,458 | 47,370 | 42,080 | 42,982 | 44,900 | 45,686 | 45,611 |
| Average prices (including realized derivatives) | | | | | | | | |
| Natural gas ($/mcf) [3] | $ 1.72 | $ 2.11 | $ 2.58 | $ 2.04 | $ 2.17 | $ 3.11 | $ 2.70 | $ 1.93 |
| Crude oil and condensate ($/bbl) | $ 32.44 | $ 60.64 | $ 78.18 | $ 66.52 | $ 70.33 | $ 61.59 | $ 55.32 | $ 78.08 |
| NGLs ($/bbl) | $ 14.44 | $ 32.98 | $ 33.68 | $ 28.54 | $ 35.99 | $ 46.28 | $ 46.48 | $ 64.04 |
| **Operating Netback ($/boe)** | | | | | | | | |
| Petroleum and natural gas sales from production | $ 11.56 | $ 15.18 | $ 17.69 | $ 11.98 | $ 13.14 | $ 18.90 | $ 16.86 | $ 13.33 |
| Net sales of natural gas purchased from third parties [1] | $ - | $ - | $ - | $ (0.03) | $ - | $ (0.35) | $ - | $ - |
| Realized gains (losses) on derivatives | $ 0.23 | $ 0.38 | $ (0.04) | $ 2.72 | $ 2.20 | $ 1.23 | $ 0.74 | $ 0.47 |
| Royalty (expense) recovery | $ (0.26) | $ (0.89) | $ (0.51) | $ (0.06) | $ 0.02 | $ (0.57) | $ (0.39) | $ (0.19) |
| Operating expense | $ (2.43) | $ (2.28) | $ (1.89) | $ (2.12) | $ (1.89) | $ (2.02) | $ (1.73) | $ (1.61) |
| Transportation expense | $ (3.34) | $ (3.50) | $ (3.46) | $ (3.58) | $ (3.56) | $ (3.40) | $ (3.18) | $ (3.09) |
| Operating netback [1] | $ 5.76 | $ 8.89 | $ 11.79 | $ 8.91 | $ 9.91 | $ 13.79 | $ 12.30 | $ 8.91 |

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

The table above highlights the Corporation's performance for the second quarter of 2020 and for the preceding seven quarters. Production decreased in the second and third quarters of 2019 due to Advantage proactively shutting-in dry natural gas exposed to periods of extremely low AECO pricing. Advantage ramped up natural gas production in the fourth quarter of 2019 in response to an increase in AECO pricing. Liquids production has continued to increase through the periods due to our continued successful liquids development, particularly from both our Pipestone/Wembley and Progress areas. Sales and adjusted funds flow deteriorated in the second and third quarters of 2018 as natural gas prices weakened associated with NGTL system maintenance. Both sales and adjusted funds flow improved from the third quarter of 2018 to the first quarter of 2019 largely as a result of higher production, especially increased liquids production, and stronger realized prices.

## Quarterly Performance (continued)

Sales and adjusted funds flow that were weaker in the second and third quarters of 2019 due to decreased production and lower realized natural gas prices, benefited significantly from a continued increase in liquids production and our market diversification portfolio, including derivatives. Sales and adjusted funds flow increased in the fourth quarter of 2019 as a result of increased production and stronger natural gas prices. However, weaker realized prices for crude oil and natural gas triggered by the COVID-19 pandemic led to reduce sales and adjusted funds flow in the first and second quarters of 2020. From 2018 to 2020, cash provided by operating activities experienced greater fluctuations than adjusted funds flow due to changes in non-cash working capital, which primarily resulted from the amount and timing of trade payable settlements and accounts receivable collections. The Corporation incurred a large net loss in the first quarter of 2020 due to an impairment charge which was triggered by the COVID-19 pandemic impact on anticipated future commodity prices due to supply and demand outlooks.

## 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.

The Coronavirus pandemic ("COVID-19") has led to significant ongoing uncertainty surrounding demand for commodities, leading to volatile prices and currency exchange rates. The Corporation's operations and business are particularly sensitive to a reduction in the demand for, and prices of crude oil, NGLs and natural gas. The full effects of COVID-19 are uncertain at this time. The potential direct and indirect impacts of the economic downturn as a result of COVID-19 have been considered in management's estimates and assumptions at period end and have been reflected in the Condensed Consolidated Financial Statements for the three and six months ended June 30, 2020.

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

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

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

## Critical Accounting Estimates (continued)

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

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

## Changes in Accounting Policies

There have been no changes in accounting policies during the three months ended June 30, 2020.

## Accounting Pronouncements not yet Adopted

There have been no changes to accounting pronouncements not yet adopted during the three months ended June 30, 2020.

## Evaluation of Disclosure Controls and Procedures

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

## Evaluation of Internal Controls over Financial Reporting

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

Advantage's Chief Executive Officer and Chief Financial Officer are required to disclose any change in the ICFR that occurred during our most recent interim period that has materially affected, or is reasonably likely to materially affect, the Corporation's ICFR. No material changes in the ICFR were identified during the interim period ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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

## Non-GAAP Measures

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

Net Capital Expenditures

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

Working Capital

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

Net Debt

Net debt is comprised of bank indebtedness and working capital. Net debt provides Management and users with a measure of the Corporation's indebtedness and expected settlement of net liabilities in the next year. Please see "Liquidity and Capital Resources". Net debt subsequent to receiving proceeds from the sale of 12.5% of the Glacier Gas Plant for $100 million on July 2, 2020 was calculated by reducing net debt as at June 30, 2020 by $100 million.

Adjusted Funds Flow

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

Net Debt to Adjusted Funds Flow

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

## Non-GAAP Measures (continued)

Operating Netback

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

Net Sales of Natural Gas Purchased from Third Parties

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

## Conversion Ratio

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

## Forward-Looking Information and Other Advisories

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

In particular, forward-looking statements in this MD&A include, but are not limited to, statements about our strategy, plans, objectives, priorities and focus and the benefits to be derived therefrom; the change in Advantage's liquids composition and the benefits to be derived therefrom; Corporation's hedging activities and the benefits to be derived therefrom; estimated tax pools; impact of further reduction in future commodity prices; impact of improved commodity prices in North America; terms of the Corporation's derivative contracts, including their purposes, the timing of settlement of such contracts and the expected realization of fixed market prices and variable market exposures for 2020; future commitments and contractual obligations; the Corporation's strategy for managing its capital structure, including by issuing new common shares, repurchasing outstanding common shares, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; terms of the Corporation's Credit Facilities, including timing of the next review of the Credit Facilities, the Corporation's expectations regarding extension of Advantage's Credit Facilities at each annual review; timing of construction of the land block at Progress; the anticipation that the compressor and liquids hub will be full for the balance of 2020; the statements under "critical accounting estimates" in this MD&A; and other matters.

These forward-looking statements involve substantial known and unknown risks and uncertainties, many of which are beyond our control, including, but not limited to, risks related to changes in general economic conditions (including as a result of demand and supply effects resulting from the COVID-19 pandemic and the actions of OPEC and non-OPEC countries) which will, among other things, impact demand for and market prices of the Corporation's products , market and business conditions; continued volatility in market prices for oil and natural gas; the impact of significant declines in market prices for oil and natural gas; stock market volatility; changes to legislation and regulations and how they are interpreted and enforced; our ability to comply with current and future environmental or other laws; actions by governmental or regulatory authorities including increasing taxes, regulatory approvals, changes in investment or other regulations; changes in tax laws, royalty regimes and incentive programs relating to the oil and gas industry; the effect of acquisitions; our success at acquisition, exploitation and development of reserves; unexpected drilling results; failure to achieve production targets on timelines anticipated or at all; changes in commodity prices, currency exchange rates, capital expenditures, reserves or reserves estimates and debt service requirements; the occurrence of unexpected events involved in the exploration for, and the operation and development of, oil and gas properties; hazards such as fire, explosion, blowouts, cratering, and spills, each of which could result in substantial damage to wells, production facilities, other property and the environment or in personal injury; changes or fluctuations in production levels; individual well productivity; delays in anticipated timing of drilling and completion of wells; lack of available capacity on pipelines; delays in timing of facility installation; potential disruption of the Corporation's operations as a result of the COVID-19 pandemic through potential loss of manpower and labour pools resulting from quarantines in the Corporation's operating areas, risk on the financial capacity of the Corporation's contract counterparties and potentially their ability to perform contractual obligations, delays in obtaining stakeholder and regulatory approvals; performance or achievement could differ materially from those expressed in, or implied by, the forward-looking information; the failure to extend the credit facilities at each annual review; competition from other producers; the lack of availability of qualified personnel or management; ability to access sufficient capital from internal and external sources; credit risk; and the risks and uncertainties described in the Corporation's Annual Information Form which is available at www.sedar.com and www.advantageog.com. Readers are also referred to risk factors described in other documents Advantage files with Canadian securities authorities.

## Forward-Looking Information and Other Advisories (continued)

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: current and future prices of oil and natural gas; the impact (and the duration thereof) that the COVID-19 pandemic will have on (i) the demand for crude oil, NGLs and natural gas, (ii) the supply chain, including the Corporation's ability to obtain the equipment and services it requires, and (iii) the Corporation's ability to product, transport and/or sell its crude oil, NGLs and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required stakeholder and regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of drilling and related equipment; timing and amount of capital expenditures; the ability to efficiently integrate assets acquired through acquisitions; the impact of increasing competition; the price of crude oil and natural gas; that the Corporation will have sufficient cash flow, debt or equity sources or other financial resources required to fund its capital and operating expenditures and requirements as needed; that the Corporation's conduct and results of operations will be consistent with its expectations; that the Corporation will have the ability to develop the Corporation's crude oil and natural gas properties in the manner currently contemplated; availability of pipeline capacity; that current or, where applicable, proposed assumed industry conditions, laws and regulations will continue in effect or as anticipated as described herein; and that the estimates of the Corporation's production, reserves and resources volumes and the assumptions related thereto (including commodity prices and development costs) are accurate in all material respects.

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

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

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

## 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 6, 2020

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three and six months ended June 30, 2020 and 2019

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

| | Notes | | June 30 2020 | | December 31 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 3 | $ | 6,658 | $ | 13,099 |
| Trade and other receivables | | | 17,772 | | 29,318 |
| Prepaid expenses and deposits | | | 3,333 | | 1,487 |
| Derivative asset | 7 | | 10,396 | | 2,025 |
| Total current assets | | | **38,159** | | **45,929** |
| **Non-current assets** | | | | | |
| Derivative asset | 7 | | 1,213 | | - |
| Exploration and evaluation assets | 4 | | 21,466 | | 20,703 |
| Right-of-use assets | 5 | | 2,195 | | 2,354 |
| Property, plant and equipment | 6 | | 1,452,629 | | 1,749,468 |
| Deferred income tax asset | | | 26,950 | | - |
| Total non-current assets | | | **1,504,453** | | **1,772,525** |
| Total assets | | **$** | **1,542,612** | **$** | **1,818,454** |
| **LIABILITIES** | | | | | |
| **Current liabilities** | | | | | |
| Trade and other accrued liabilities | | $ | 31,058 | $ | 51,900 |
| Derivative liability | 7 | | 15,449 | | 11,173 |
| Current portion of non-current liabilities | 9,10 | | 1,999 | | 1,550 |
| Total current liabilities | | | **48,506** | | **64,623** |
| **Non-current liabilities** | | | | | |
| Derivative liability | 7 | | 27,670 | | 23,136 |
| Bank indebtedness | 8 | | 354,199 | | 295,624 |
| Other non-current liabilities | 13(d) | | 2,645 | | 1,252 |
| Lease liability | 9 | | 2,144 | | 2,271 |
| Decommissioning liability | 10 | | 73,564 | | 56,989 |
| Deferred income tax liability | | | - | | 58,462 |
| Total non-current liabilities | | | **460,222** | | **437,734** |
| Total liabilities | | | **508,728** | | **502,357** |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 12 | | 2,360,647 | | 2,349,703 |
| Contributed surplus | | | 110,566 | | 117,116 |
| Deficit | | | (1,437,329) | | (1,150,722) |
| Total shareholders' equity | | | **1,033,884** | | **1,316,097** |
| Total liabilities and shareholders' equity | | **$** | **1,542,612** | **$** | **1,818,454** |

**Commitments** (note 17)
**Subsequent events** (note 18)

See accompanying Notes to the Condensed Consolidated Financial Statements

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

| | Notes | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|---|
| | | 2020 | 2019 | 2020 | 2019 |
| **Revenues** | | | | | |
| Petroleum and natural gas sales from production | 15 | $ 47,634 | $ 51,395 | $ 111,819 | $ 127,788 |
| Sales of natural gas purchased from third parties | 15 | - | - | - | 637 |
| Royalty (expense) recovery | | (1,086) | 75 | (4,841) | (2,227) |
| Petroleum and natural gas revenue | | 46,548 | 51,470 | 106,978 | 126,198 |
| Gains (losses) on derivatives | 7 | (13,207) | (2,162) | 3,292 | (12,470) |
| Other income | | - | - | - | 8 |
| **Total revenues and other income** | | **33,341** | **49,308** | **110,270** | **113,736** |
| **Expenses** | | | | | |
| Operating expense | | 9,993 | 7,381 | 19,640 | 15,538 |
| Transportation expense | | 13,771 | 13,908 | 28,575 | 27,658 |
| Natural gas purchased from third parties | 15 | - | - | - | 2,037 |
| General and administrative expense | | 2,789 | 2,556 | 4,764 | 5,037 |
| Share-based compensation expense | 13(c) | 1,309 | 1,467 | 2,860 | 2,543 |
| Depreciation expense | 5,6 | 27,400 | 30,982 | 57,731 | 62,983 |
| Impairment expense | 6 | - | - | 361,000 | - |
| Exploration and evaluation expense | 4 | - | - | 190 | - |
| Finance expense | | 3,833 | 3,734 | 7,529 | 7,260 |
| **Total expenses** | | **59,095** | **60,028** | **482,289** | **123,056** |
| **Loss before taxes** | | **(25,754)** | **(10,720)** | **(372,019)** | **(9,320)** |
| Income tax recovery | 11 | 5,666 | 14,092 | 85,412 | 13,373 |
| **Net income (loss) and comprehensive income (loss)** | | **$ (20,088)** | **$ 3,372** | **$ (286,607)** | **$ 4,053** |
| **Net income (loss) per share** | 14 | | | | |
| Basic | | **$ (0.11)** | **$ 0.02** | **$ (1.53)** | **$ 0.02** |
| Diluted | | **$ (0.11)** | **$ 0.02** | **$ (1.53)** | **$ 0.02** |

See accompanying Notes to the Condensed Consolidated Financial Statements

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

| | Notes | Share capital | Contributed surplus | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|
| Balance, December 31, 2019 | | $ 2,349,703 | $ 117,116 | $ (1,150,722) | **$ 1,316,097** |
| Net loss and comprehensive loss | | - | - | (286,607) | **(286,607)** |
| Share-based compensation | 13(c) | - | 4,394 | - | **4,394** |
| Settlement of Performance Share Units | | 10,944 | (10,944) | - | **-** |
| **Balance, June 30, 2020** | | **$ 2,360,647** | **$ 110,566** | **$ (1,437,329)** | **$ 1,033,884** |

| | 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 | 13(c) | - | 4,030 | - | **4,030** |
| Settlement of Performance Share Units | | 7,014 | (7,014) | - | **-** |
| **Balance, June 30, 2019** | | **$ 2,349,703** | **$ 112,590** | **$ (1,122,015)** | **$ 1,340,278** |

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 2020 | Three months ended June 30 2019 | Six months ended June 30 2020 | Six months ended June 30 2019 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Loss before taxes | | $ (25,754) | $ (10,720) | $ (372,019) | $ (9,320) |
| Add (deduct) items not requiring cash: | | | | | |
| Unrealized (gains) losses on derivatives | 7 | 14,138 | 10,784 | (774) | 26,071 |
| Share-based compensation expense | 13(c) | 1,309 | 1,467 | 2,860 | 2,543 |
| Depreciation expense | 5,6 | 27,400 | 30,982 | 57,731 | 62,983 |
| Impairment expense | 6 | - | - | 361,000 | - |
| Exploration and evaluation expense | 4 | - | - | 190 | - |
| Accretion of decommissioning liability | 10 | 166 | 264 | 364 | 523 |
| Expenditures on decommissioning liability | 10 | (24) | (690) | (203) | (1,555) |
| Changes in non-cash working capital | 16 | 7,122 | 12,205 | (3,966) | 7,530 |
| Cash provided by operating activities | | **24,357** | **44,292** | **45,183** | **88,775** |
| **Financing Activities** | | | | | |
| Increase (decrease) in bank indebtedness | 8 | 23,555 | (20,117) | 58,575 | (423) |
| Principal repayment of leases | 9 | (63) | (192) | (123) | (385) |
| Cash provided by (used in) financing activities | | **23,492** | **(20,309)** | **58,452** | **(808)** |
| **Investing Activities** | | | | | |
| Payments on property, plant and equipment | 6,16 | (44,832) | (24,888) | (109,123) | (84,010) |
| Payments on exploration and evaluation assets | 4 | (23) | (2,415) | (953) | (3,007) |
| Cash used in investing activities | | **(44,855)** | **(27,303)** | **(110,076)** | **(87,017)** |
| Increase (decrease) in cash and cash equivalents | | 2,994 | (3,320) | (6,441) | 950 |
| Cash and cash equivalents, beginning of period | | 3,664 | 10,629 | 13,099 | 6,359 |
| **Cash and cash equivalents, end of period** | | **$ 6,658** | **$ 7,309** | **$ 6,658** | **$ 7,309** |

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 petroleum and natural gas development and production Corporation with a significant position in the Montney resource play located in Western Canada.

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

## 2. Basis of preparation

### (a) Statement of compliance

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

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

### (b) Basis of measurement

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

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

### (c) Functional and presentation currency

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

### (d) Significant accounting judgements, estimates and assumptions

The Coronavirus pandemic ("COVID-19") has led to significant ongoing uncertainty surrounding demand for commodities, leading to volatile prices and currency exchange rates. The Corporation's operations and business are particularly sensitive to a reduction in the demand for, and prices of crude oil, NGLs and natural gas. The full effects of COVID-19 are uncertain at this time. The potential direct and indirect impacts of the economic downturn as a result of COVID-19 have been considered in management's estimates and assumptions at period end and have been reflected in these Condensed Consolidated Financial Statements, with any significant changes described in the relevant financial statement note.

## 3. Cash and cash equivalents

| | | June 30 2020 | | December 31 2019 |
|---|---|---|---|---|
| Cash at financial institutions | $ | **6,658** | $ | **13,099** |

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at June 30, 2020 cash at financial institutions included US$0.6 million (December 31, 2019 - US$0.9 million). The Corporation only deposits cash with major financial institutions of high-quality credit ratings.

## 4. Exploration and evaluation assets

| | | |
|---|---|---|
| Balance at December 31, 2018 | $ | **22,613** |
| Additions | | 3,517 |
| Transferred to property, plant and equipment (note 6) | | (5,427) |
| Balance at December 31, 2019 | **$** | **20,703** |
| Additions | | 953 |
| Lease expiries | | (190) |
| **Balance at June 30, 2020** | **$** | **21,466** |

## 5. Right-of-use assets

| **Cost** | | **Buildings** | | **Other** | | **Total** |
|---|---|---|---|---|---|---|
| Balance at January 1, 2019 | $ | **2,458** | $ | **186** | $ | **2,644** |
| Additions | | 282 | | - | | 282 |
| Expired leases | | (422) | | - | | (422) |
| **Balance at December 31, 2019 and June 30, 2020** | **$** | **2,318** | **$** | **186** | **$** | **2,504** |

| **Accumulated depreciation** | | **Buildings** | | **Other** | | **Total** |
|---|---|---|---|---|---|---|
| Balance at January 1, 2019 | **$** | - | **$** | - | **$** | - |
| Depreciation | | 534 | | 38 | | 572 |
| Expired leases | | (422) | | - | | (422) |
| Balance at December 31, 2019 | **$** | **112** | **$** | **38** | **$** | **150** |
| Depreciation | | 142 | | 17 | | 159 |
| **Balance at June 30, 2020** | **$** | **254** | **$** | **55** | **$** | **309** |

| **Net book value** | | **Buildings** | | **Other** | | **Total** |
|---|---|---|---|---|---|---|
| At December 31, 2019 | $ | 2,206 | $ | 148 | $ | 2,354 |
| **At June 30, 2020** | **$** | **2,064** | **$** | **131** | **$** | **2,195** |

## 6. Property, plant and equipment

| Cost | | Petroleum & Natural Gas Properties | | Furniture & Equipment | | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2018 | **$** | **2,449,272** | **$** | **5,925** | **$** | **2,455,197** |
| Additions | | 180,888 | | 517 | | 181,405 |
| Capitalized share-based compensation | | 3,157 | | - | | 3,157 |
| Changes in decommissioning liability | | 9,220 | | - | | 9,220 |
| Transferred from exploration and evaluation assets | | 5,427 | | - | | 5,427 |
| Balance at December 31, 2019 | **$** | **2,647,964** | **$** | **6,442** | **$** | **2,654,406** |
| Additions | | 103,197 | | 143 | | 103,340 |
| Capitalized share-based compensation (note 13) | | 1,534 | | - | | 1,534 |
| Changes in decommissioning liability (note 10) | | 16,859 | | - | | 16,859 |
| **Balance at June 30, 2020** | **$** | **2,769,554** | **$** | **6,585** | **$** | **2,776,139** |

| Accumulated depreciation | | Petroleum & Natural Gas Properties | | Furniture & Equipment | | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2018 | **$** | **781,234** | **$** | **4,802** | **$** | **786,036** |
| Depreciation | | 118,634 | | 268 | | 118,902 |
| Balance at December 31, 2019 | **$** | **899,868** | **$** | **5,070** | **$** | **904,938** |
| Depreciation | | 57,468 | | 104 | | 57,572 |
| Impairment | | 361,000 | | - | | 361,000 |
| **Balance at June 30, 2020** | **$** | **1,318,336** | **$** | **5,174** | **$** | **1,323,510** |

| Net book value | | Petroleum & Natural Gas Properties | | Furniture & Equipment | | Total |
|---|---|---|---|---|---|---|
| At December 31, 2019 | $ | 1,748,096 | $ | 1,372 | $ | 1,749,468 |
| **At June 30, 2020** | **$** | **1,451,218** | **$** | **1,411** | **$** | **1,452,629** |

During the six months ended June 30, 2020, Advantage capitalized general and administrative expenditures directly related to development activities of $2.3 million included in additions (year ended December 31, 2019 - $5.0 million).

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

## 6. Property, plant and equipment (continued)

### Impairment assessment

For the period ended June 30, 2020, the Corporation evaluated its petroleum & natural gas properties for indicators of any potential impairment or related reversal. As a result of this assessment, no indicators were identified, and no impairment or related reversal was recorded for the period ended June 30, 2020.

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

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

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

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

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

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

## 7. Financial risk management

As at June 30, 2020, there were no significant differences between the carrying amounts reported on the consolidated statement of financial position and the estimated fair values of the Corporation's financial instruments due to the short terms to maturity and the floating interest rate on a portion of the Corporation's 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, interest 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 as compared to the valuation assumptions.

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

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** |
| **Realized gains (losses) on derivatives** | | | | |
| Natural gas | $ (2,057) | $ 8,622 | $ (1,955) | $ 13,601 |
| Crude oil | 3,016 | - | 4,501 | - |
| Foreign exchange | (10) | - | (10) | - |
| Interest Rate | (18) | - | (18) | - |
| **Total** | **$ 931** | **$ 8,622** | **$ 2,518** | **$ 13,601** |
| **Unrealized gains (losses) on derivatives** | | | | |
| Natural gas | $ (6,087) | $ (10,784) | $ (2,842) | $ (26,071) |
| Crude oil | (7,027) | - | 4,878 | - |
| Foreign exchange | (392) | - | (392) | - |
| Interest Rate | (632) | - | (870) | - |
| **Total** | **$ (14,138)** | **$ (10,784)** | **$ 774** | **$ (26,071)** |
| **Gains (losses) on derivatives** | | | | |
| Natural gas | $ (8,144) | $ (2,162) | $ (4,797) | $ (12,470) |
| Crude oil | (4,011) | - | 9,379 | - |
| Foreign exchange | (402) | - | (402) | - |
| Interest Rate | (650) | - | (888) | - |
| **Total** | **$ (13,207)** | **$ (2,162)** | **$ 3,292** | **$ (12,470)** |

## 7. Financial risk management (continued)

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

| | | June 30 2020 | | December 31 2019 |
|---|---|---|---|---|
| **Derivative type** | | | | |
| Natural gas derivative liability | $ | (33,848) | $ | (31,006) |
| Crude oil derivative asset (liability) | | 3,600 | | (1,278) |
| Foreign exchange derivative liability | | (392) | | - |
| Interest rate derivative liability | | (870) | | - |
| **Net derivative liability** | **$** | **(31,510)** | **$** | **(32,284)** |
| **Consolidated statement of financial position classification** | | | | |
| Current derivative asset | $ | 10,396 | $ | 2,025 |
| Non-current derivative asset | | 1,213 | | - |
| Current derivative liability | | (15,449) | | (11,173) |
| Non-current derivative liability | | (27,670) | | (23,136) |
| **Net derivative liability** | **$** | **(31,510)** | **$** | **(32,284)** |

## 7. Financial risk management (continued)

### (a) Commodity price risk

The Corporation's commodity derivative contracts are classified as Level 2 within the fair value hierarchy. As at June 30, 2020, the Corporation had the following commodity derivative contracts in place:

| Description of Derivative | Term | Volume | Price |
|---|---|---|---|
| **Natural gas - AECO** | | | |
| Fixed price swap | April 2020 to October 2020 | 47,391 mcf/d | Cdn $1.36/mcf |
| Fixed price swap | April 2020 to October 2020 | 9,478 mcf/d | Cdn $1.82/mcf |
| Fixed price swap | April 2020 to October 2020 | 9,478 mcf/d | Cdn $1.84/mcf |
| **Natural gas - Dawn** | | | |
| Fixed price swap | April 2020 to October 2020 | 10,000 mcf/d | US $1.86/mcf |
| Fixed price swap | April 2020 to October 2020 | 10,000 mcf/d | US $1.85/mcf |
| Fixed price swap | April 2020 to October 2020 | 5,000 mcf/d | US $1.58/mcf |
| Fixed price swap | April 2020 to October 2020 | 5,000 mcf/d | US $1.60/mcf |
| Fixed price swap | November 2020 to March 2021 | 20,000 mcf/d | US $2.65/mcf |
| Fixed price swap | November 2020 to October 2021 | 10,000 mcf/d | US $2.53/mcf |
| Fixed price swap | April 2021 to October 2021 | 25,000 mcf/d | US $2.34/mcf |
| **Natural gas - Henry Hub NYMEX** | | | |
| Fixed price swap | January 2020 to December 2020 | 20,000 mcf/d | US $2.31/mcf |
| Fixed price swap | February 2020 to December 2020 | 20,000 mcf/d | US $2.28/mcf |
| Fixed price swap | January 2021 to March 2021 | 20,000 mcf/d | US $2.57/mcf |
| Fixed price swap | January 2021 to December 2021 | 20,000 mcf/d | US $2.71/mcf |
| **Natural gas - Chicago Citygate** | | | |
| Fixed price swap | November 2020 to March 2021 | 15,000 mcf/d | US $2.51/mcf |
| Fixed price swap | November 2020 to March 2021 | 10,000 mcf/d | US $3.03/mcf |
| Fixed price swap | April 2021 to October 2021 | 25,000 mcf/d | US $2.24/mcf |
| **Natural gas - AECO/Henry Hub Basis Differential** | | | |
| Basis swap | January 2020 to December 2020 | 5,000 mcf/d | Henry Hub less US $1.20/mcf |
| Basis swap | January 2020 to December 2024 | 15,000 mcf/d | Henry Hub less US $1.20/mcf |
| Basis swap | January 2021 to December 2024 | 5,000 mcf/d | Henry Hub less US $1.135/mcf |
| Basis swap | January 2021 to December 2024 | 2,500 mcf/d | Henry Hub less US $1.185/mcf |
| Basis swap | January 2021 to December 2024 | 17,500 mcf/d | Henry Hub less US $1.20/mcf |
| **Natural gas - Chicago Citygate/Henry Hub Basis Differential** | | | |
| Basis swap | April 2020 to March 2021 | 20,000 mcf/d | Henry Hub less US $0.13/mcf |
| **Crude oil - WTI NYMEX** | | | |
| Fixed price swap | April 2020 to June 2020 | 1,000 bbls/d | US $56.53/bbl |
| Fixed price swap | June 2020 to July 2020 | 1,000 bbls/d | Cdn $35.13/bbl |
| Fixed price swap | July 2020 to December 2020 | 1,000 bbls/d | US $55.44/bbl |
| Fixed price swap | January 2021 to December 2021 (1) | 500 bbls/d | US $43.00/bbl |
| **Crude oil - Edmonton Light/WTI Differential** | | | |
| Basis swap | June 2020 to July 2020 | 1,000 bbls/d | WTI less Cdn $5.38/bbl |

(1) Contract entered into subsequent to June 30, 2020.

## 7. Financial risk management (continued)

### (b) Foreign exchange risk

The Corporation's foreign exchange derivative contracts are classified as Level 2 within the fair value hierarchy. As at June 30, 2020, the Corporation had the following foreign exchange derivative contracts in place:

| Description of Derivative | Term | Notional Amount | Rate |
|---|---|---|---|
| **Forward rate - CAD/USD** | | | |
| Average rate currency swap (1) | June 2020 to May 2021 | US $ 1,000,000/month | 1.3687 |
| Average rate currency swap | June 2020 to May 2022 | US $ 2,000,000/month | 1.3495 |

(1) The average rate currency swap includes a European option where the counterparty has the option to enter into a one year US $1,000,000/month notional amount average rate forward for a term of June 2021 to May 2022 at a fixed rate of 1.3687 CAD/USD if called.

### (c) Interest rate risk

The Corporation's interest rate derivative contracts are classified as Level 2 within the fair value hierarchy. As at June 30, 2020, the Corporation had the following interest rate derivative contracts in place:

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

### (d) Capital management

Advantage's capital structure as at June 30, 2020 and December 31, 2019 is as follows:

| | | **June 30 2020** | | **December 31 2019** |
|---|---|---|---|---|
| Bank indebtedness (non-current) (note 8) | $ | 354,199 | $ | 295,624 |
| Working capital deficit (1) | | 3,295 | | 7,996 |
| **Net debt (2)** | **$** | **357,494** | **$** | **303,620** |
| Shares outstanding (note 12) | | 188,112,797 | | 186,910,848 |
| Share closing market price ($/share) | $ | 1.66 | $ | 2.75 |
| Market Capitalization | | 312,267 | | 514,005 |
| **Total Capitalization** | **$** | **669,761** | **$** | **817,625** |

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

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

## 8. Bank indebtedness

| | | June 30 2020 | | December 31 2019 |
|---|---|---|---|---|
| Revolving credit facility | $ | 358,000 | $ | 298,000 |
| Discount on bankers' acceptance and other fees | | (3,801) | | (2,376) |
| **Balance, end of period** | **$** | **354,199** | **$** | **295,624** |

On May 22, 2020, the Credit Facilities were renewed with no changes to the borrowing base of $400 million, comprised of a $30 million extendible revolving operating loan facility from one financial institution and a $370 million extendible revolving loan facility from a syndicate of financial institutions. On July 2, 2020, Advantage closed the sale of a 12.5% interest in the Corporation's 100% owned 400 mmcf/d Glacier Gas Plant for $100 million (note 18). Advantage utilized the cash proceeds from the sale, net of transaction cost, to reduce bank indebtedness. Under the terms of the renewal, the borrowing base was adjusted to $350 million, comprised of a $30 million extendible revolving operating loan facility and a $320 million extendible revolving loan facility. The revolving period for the Credit Facilities will end in June 2021 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$8 million outstanding at June 30, 2020. The Corporation did not have any financial covenants at June 30, 2020 and December 31, 2019.

## 9. Lease liability

| | | Six months ended June 30, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| Balance, beginning of the year | $ | 2,537 | $ | 2,644 |
| Additions | | - | | 282 |
| Interest expense | | 53 | | 104 |
| Lease payments | | (176) | | (493) |
| **Balance, end of period** | **$** | **2,414** | **$** | **2,537** |
| Current lease liability | $ | 270 | $ | 266 |
| Non-current lease liability | $ | 2,144 | $ | 2,271 |

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

## 10. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2020 and 2079. A risk-free rate of 1.02% (December 31, 2019 - 1.67%) and an inflation factor of 2.0% (December 31, 2019 - 2.0%) were used to calculate the fair value of the decommissioning liability at June 30, 2020. As at June 30, 2020, the total estimated undiscounted, uninflated cash flows required to settle the Corporation's decommissioning liability was $52.0 million (December 31, 2019 – $51.8 million).

A reconciliation of the decommissioning liability is provided below:

| | | Six months ended June 30, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| Balance, beginning of the year | $ | 58,273 | $ | 50,028 |
| Accretion expense | | 364 | | 936 |
| Liabilities incurred | | - | | 1,773 |
| Change in estimates | | (161) | | (668) |
| Effect of change in risk-free rate and inflation rate factor | | 17,020 | | 8,115 |
| Liabilities settled | | (203) | | (1,911) |
| **Balance, end of period** | **$** | **75,293** | **$** | **58,273** |
| Current decommissioning liability | $ | 1,729 | $ | 1,284 |
| Non-current decommissioning liability | $ | 73,564 | $ | 56,989 |

## 11. Income taxes

| | | Three months ended June 30 | | | | Six months ended June 30 | | |
|---|---|---|---|---|---|---|---|---|
| | | 2020 | | 2019 | | 2020 | | 2019 |
| Income tax recovery | $ | 5,666 | $ | 14,092 | $ | 85,412 | $ | 13,373 |

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.

## 12. Share capital

### (a) Authorized

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

### (b) Issued

| | Common Shares | | Amount |
|---|---|---|---|
| Balance at December 31, 2018 | 185,942,141 | $ | 2,342,689 |
| Shares issued on Performance Share Unit settlements | 968,707 | | - |
| Contributed surplus transferred on Performance Share Unit settlements | - | | 7,014 |
| Balance at December 31, 2019 | 186,910,848 | $ | 2,349,703 |
| Shares issued on Performance Share Unit settlements (note 13 (b)) | 1,201,949 | | - |
| Contributed surplus transferred on Performance Share Unit settlements | - | | 10,944 |
| **Balance at June, 2020** | **188,112,797** | **$** | **2,360,647** |

## 13. Long-term compensation plans

### (a) Stock Option Plan

The following tables summarize information about changes in Stock Options outstanding at June 30, 2020:

| | Stock Options | | Weighted-Average Exercise Price |
|---|---|---|---|
| Balance at December 31, 2018 | 1,989,149 | $ | 6.29 |
| Forfeited | (38,691) | | 6.82 |
| Expired | (1,110,009) | | 5.87 |
| Balance at December 31, 2019 | 840,449 | $ | 6.82 |
| Forfeited | (13,190) | | 6.82 |
| Expired | (827,259) | | 6.82 |
| **Balance at June 30, 2020** | **-** | **$** | **-** |

No Stock Options were exercised during the six months ended June 30, 2020. All of the Corporation's outstanding Stock Options expired April 2020.

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

Under the Restricted and Performance Award Incentive Plan, service providers can be granted two types of equity incentive awards: Restricted Share Units and Performance Share Units. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. As at June 30, 2020, no Restricted Share Units have been granted.

The following table is a continuity of Performance Share Units:

| | Performance Share Units |
|---|---|
| Balance at December 31, 2018 | 2,939,251 |
| Granted | 1,670,929 |
| Settled | (598,069) |
| Forfeited | (64,535) |
| Balance at December 31, 2019 | 3,947,576 |
| Granted | 2,100,289 |
| Settled | (664,496) |
| Forfeited | (31,013) |
| **Balance at June 30, 2020** | **5,352,356** |

During April 2020, 664,496 Performance Share Units matured and were settled with the issuance of 1,201,949 common shares.

## 13. Long-term compensation plans (continued)

### (c) Share-based compensation expense

Share-based compensation recognized by each plan for the three and six months ended June 30, 2020 and 2019 is as follows:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| Stock Options | - | - | $ - | $ - |
| Performance Share Units | 2,011 | 2,325 | 4,394 | 4,030 |
| Total share-based compensation | 2,011 | 2,325 | 4,394 | 4,030 |
| Capitalized | (702) | (858) | (1,534) | (1,487) |
| **Share-based compensation expense** | **1,309** | **1,467** | **$ 2,860** | **$ 2,543** |

### (d) Performance Award Incentive Plan - Performance Awards

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

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

| | Six months ended June 30, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Balance, beginning of the year | $ 1,252 | $ - |
| Performance Award expense | 1,382 | 1,247 |
| Interest expense | 11 | 5 |
| **Balance, end of period** | **$ 2,645** | **$ 1,252** |