



Independent auditor's report

To the Shareholders of Advantage Oil & Gas Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Advantage Oil & Gas Ltd. and its subsidiaries (together, the "Company") as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2018 and 2017;
- the consolidated statement of comprehensive income for the years then ended;
- the consolidated statement of changes in shareholders' equity for the years then ended;
- the consolidated statement of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

Independence

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

Other information

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 28, 2019

Consolidated Statement of Financial Position

(thousands of Canadian dollars)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Current assets			
Cash and cash equivalents	5	\$ 6,359	\$ 6,916
Trade and other receivables	6	28,350	28,678
Prepaid expenses and deposits		2,178	1,602
Derivative asset	9	29,593	33,093
Total current assets		66,480	70,289
Non-current assets			
Derivative asset	9	12,943	17,777
Exploration and evaluation assets	7	22,613	22,143
Property, plant and equipment	8	1,669,161	1,580,973
Total non-current assets		1,704,717	1,620,893
Total assets		\$ 1,771,197	\$ 1,691,182
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		\$ 38,799	\$ 51,004
Derivative liability	9	94	111
Total current liabilities		38,893	51,115
Non-current liabilities			
Derivative liability	9	822	-
Bank indebtedness	10	270,918	208,978
Decommissioning liability	11	50,028	46,913
Deferred income tax liability	12	78,341	72,500
Total non-current liabilities		400,109	328,391
Total liabilities		439,002	379,506
SHAREHOLDERS' EQUITY			
Share capital	13	2,342,689	2,340,801
Contributed surplus		115,574	110,077
Deficit		(1,126,068)	(1,139,202)
Total shareholders' equity		1,332,195	1,311,676
Total liabilities and shareholders' equity		\$ 1,771,197	\$ 1,691,182

Commitments (note 22)

See accompanying Notes to the Consolidated Financial Statements

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



Paul G. Haggis, Director



Andy J. Mah, Director

Consolidated Statement of Comprehensive Income

(thousands of Canadian dollars, except for per share amounts)	Notes	Year ended	
		2018	2017
Revenues			
Sales of natural gas and liquids from production	16	\$ 222,335	\$ 231,764
Sales of natural gas purchased from third parties	17	5,078	-
Royalty expense		(2,583)	(6,387)
Natural gas and liquids revenue		224,830	225,377
Gains on derivatives	9	19,130	101,152
Other income		188	320
Total revenues and other income		244,148	326,849
Expenses			
Operating expense		(27,593)	(21,729)
Transportation expense		(50,694)	(34,517)
Natural gas purchased from third parties	17	(3,967)	-
General and administrative expense	18	(8,873)	(7,165)
Share based compensation	15	(5,162)	(5,119)
Depreciation expense	8	(119,042)	(117,945)
Exploration and evaluation expense	7	-	(168)
Finance expense	19	(11,952)	(7,882)
Gains on foreign exchange		95	-
Total expenses		(227,188)	(194,525)
Income before taxes		16,960	132,324
Income tax expense	12	(5,841)	(37,285)
Net income and comprehensive income		\$ 11,119	\$ 95,039
Net income per share	14		
Basic		\$ 0.06	\$ 0.51
Diluted		\$ 0.06	\$ 0.50

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Changes in Shareholders' Equity

(thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2017		\$ 2,340,801	\$ 110,077	\$ (1,139,202)	\$ 1,311,676
Net income and comprehensive income		-	-	11,119	11,119
Share based compensation	15	-	8,208	-	8,208
Settlement of Performance Awards	13, 15(b)	1,906	(2,711)	-	(805)
Proceeds on share cancellations	13	-	-	2,015	2,015
Share repurchases	13	(18)	-	-	(18)
Balance, December 31, 2018		\$ 2,342,689	\$ 115,574	\$ (1,126,068)	\$ 1,332,195

(thousands of Canadian dollars)	Notes	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2016		\$ 2,334,199	\$ 108,315	\$ (1,234,241)	\$ 1,208,273
Net income and comprehensive income		-	-	95,039	95,039
Share based compensation	15	-	8,364	-	8,364
Settlement of Performance Awards	13, 15(b)	5,374	(5,374)	-	-
Exercise of Stock Options	13, 15(a)	1,228	(1,228)	-	-
Balance, December 31, 2017		\$ 2,340,801	\$ 110,077	\$ (1,139,202)	\$ 1,311,676

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

(thousands of Canadian dollars)	Notes	Year ended	
		December 31 2018	2017
Operating Activities			
Income before taxes		\$ 16,960	\$ 132,324
Add (deduct) items not requiring cash:			
Share based compensation	15	5,162	5,119
Exploration and evaluation expense	7	-	168
Depreciation expense	8	119,042	117,945
Unrealized (gains) losses on derivatives	9	9,139	(73,305)
Unrealized gains on foreign exchange		(449)	-
Finance expense	19	11,952	7,882
Settlement of Performance Awards	15(b)	(506)	-
Expenditures on decommissioning liability	11	(1,782)	(1,190)
Changes in non-cash working capital	21	644	(2,542)
Cash provided by operating activities		160,162	186,401
Financing Activities			
Increase in bank indebtedness	10	62,999	56,189
Interest paid		(11,981)	(7,244)
Proceeds on share cancellations	13	2,015	-
Share repurchases	13	(18)	-
Cash provided by financing activities		53,015	48,945
Investing Activities			
Payments on property, plant and equipment	8, 21	(211,637)	(221,223)
Payments on exploration and evaluation assets	7	(2,097)	(7,207)
Cash used in investing activities		(213,734)	(228,430)
Net change in cash and cash equivalents		(557)	6,916
Cash and cash equivalents, beginning of year		6,916	-
Cash and cash equivalents, end of year		\$ 6,359	\$ 6,916

See accompanying Notes to the Consolidated Financial Statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

(thousands of Canadian dollars except as otherwise indicated)

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

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

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

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”).

The accounting policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of February 28, 2019, the date the Board of Directors approved the statements.

(b) Basis of measurement

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

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

(c) Functional and presentation currency

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

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

3. Significant accounting policies (continued)

(b) Basis of consolidation

(i) Subsidiaries

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

(ii) Joint arrangements

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

(c) Financial instruments

The Corporation adopted IFRS 9, *Financial Instruments*, effective January 1, 2018 and the standard was applied retrospectively. Comparative figures have not been restated, in accordance with transitional provisions. The Corporation's consolidated financial statements were substantially unchanged by the adoption of IFRS 9.

On January 1, 2018, the Corporation determined the appropriate classification category and measurement for each of its financial assets and financial liabilities under IFRS 9 and compared each to their original classification and measurement under IAS 39. Under IFRS 9, financial instruments are classified as amortized cost, fair value through other comprehensive income or fair value through profit and loss. No adjustments were made to the carrying amounts of financial instruments as a result of the adoption of IFRS 9.

Accounting policy prior to the adoption of IFRS 9

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

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

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

Accounting policy after the adoption of IFRS 9

Financial instruments are classified as amortized cost, fair value through other comprehensive income or fair value through profit and loss. A comparison of the Corporation's classification of each identified financial instrument under IAS 39 and IFRS 9 is provided below:

Financial Instrument	Measurement Category (IAS 39)	Measurement Category (IFRS 9)
Cash and cash equivalents	Loans and receivables (measured at amortized cost)	Amortized cost
Trade and other receivables	Loans and receivables (measured at amortized cost)	Amortized cost
Prepaid expenses and deposits	Loans and receivables (measured at amortized cost)	Amortized cost
Derivative asset	Fair value through profit and loss	Fair value through profit and loss
Trade and other accrued liabilities	Financial liabilities (measured at amortized cost)	Amortized cost
Derivative liability	Fair value through profit and loss	Fair value through profit and loss
Bank indebtedness	Financial liabilities (measured at amortized cost)	Amortized cost

Derivative assets and liabilities

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

Impairment of Financial Assets

IFRS 9 requires the application of an expected credit loss ("ECL") model to financial assets measured at amortized cost, contract assets and debt investments measured at fair value through other comprehensive income. For the Corporation's financial assets measured at amortized cost, loss allowances are determined based on the expected credit loss over the asset's lifetime. ECLs are a probability-weighted estimate of credit losses, considering possible default events over the expected life of a financial asset. ECLs are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive) over the life of the financial asset, discounted at the effective interest rate specific to the financial asset. Substantially all of the Corporation's trade and other receivables are with counterparties with high credit ratings. At December 31, 2018, the average expected credit loss for trade and other receivables was 0.03% and no expected credit loss was recognized.

3. Significant accounting policies (continued)

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

(i) Recognition and measurement

Exploration and evaluation costs

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

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

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

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

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

Property, plant and equipment

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

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

(ii) Subsequent costs

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

3. Significant accounting policies (continued)

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

(iii) Depreciation

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

(iv) Dispositions

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

(v) Impairment

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

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

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

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

3. Significant accounting policies (continued)

(d) Decommissioning liability

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

(e) Share based compensation

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

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

Advantage's Restricted and Performance Award Incentive Plan provides share based compensation for service providers. Awards granted under this plan may be settled in cash or in shares. As the Corporation generally intends to settle the Awards in shares, the plan is considered and accounted for as "equity-settled".

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

(f) Revenue

IFRS 15, Revenue from Contracts with Customers

Adoption

The Corporation adopted IFRS 15, *Revenue from contracts with customers*, effective January 1, 2018 and the standard was adopted using the Modified Retrospective approach. The Corporation elected to apply IFRS 15 retrospectively only to contracts that were not completed as at January 1, 2018 and, for modified contracts, elected to evaluate the original contract together with any contract modifications at the date of initial application. The Corporation's revenue recognition was substantially unchanged by the adoption of IFRS 15 and did not result in an adjustment to the Deficit balance at January 1, 2018.

Accounting policy prior to the adoption of IFRS 15

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

Accounting policy after to the adoption of IFRS 15

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

3. Significant accounting policies (continued)

(g) Finance expense

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

(h) Income tax

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

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

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

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

(i) Net income per share

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

(j) Investment tax credits

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

3. Significant accounting policies (continued)

(k) Accounting Pronouncement not yet Adopted

IFRS 16 Leases applies to annual periods beginning on or after January 1, 2019. Under IFRS 16, lease assets and liabilities will be required to be recognized on the balance sheet for many leases, where the entity is acting as a lessee. The Corporation intends to adopt IFRS 16 using the modified retrospective method. Under this method, comparative asset and liability balances will not be restated as any cumulative effect of applying the standard to prior periods would be adjusted in opening retained earnings. The value of the lease liability at January 1, 2019 will be based on the present value of lease payments remaining to be made as of January 1, 2019 and the lease asset recognized will be equal to the lease liability at the date of transition. The Corporation intends to apply the following adoption expedients:

- (i) Exemption of short-term leases. A lease is considered to be short term if, at its commencement date, it has a term of 12 months or less.
- (ii) Exemption of low-value leases. A lease is considered to be low value if the value of its underlying asset(s), when new, is equal to US \$5,000 or less.
- (iii) Application of IFRS 16 to a portfolio of leases with similar characteristics.

The Corporation has identified leases and arrangements qualifying as leases under IFRS 16 in which the Corporation is currently a party and which will be subject to the recognition requirements of IFRS 16. The Corporation anticipates the value of lease assets and equivalent lease liabilities to be recognized upon adoption of IFRS 16 to be between \$2.5 million and \$3.5 million.

4. Significant accounting judgments, estimates and assumptions

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

(a) Reserves base

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

(b) Determination of cash generating unit

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

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

(c) Impairment indicators and calculation of impairment

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

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

(d) Derivative assets and liabilities

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

(e) Decommissioning liability

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

(f) Income taxes

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

5. Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash at financial institutions	\$ 6,359	\$ 6,916

Cash at financial institutions earns interest at floating rates based on daily deposit rates. As at December 31, 2018, cash at financial institutions included US\$1.9 million (December 31, 2017: US\$0.1 million). The Corporation only deposits cash with major financial institutions of high quality credit ratings.

6. Trade and other receivables

	December 31, 2018	December 31, 2017
Trade receivables	\$ 25,955	\$ 25,384
Receivables from joint venture partners	524	1,425
Other	1,871	1,869
	\$ 28,350	\$ 28,678

7. Exploration and evaluation assets

Balance at December 31, 2016	\$	16,012
Additions		7,207
Lease expiries		(168)
Transferred to property, plant and equipment (note 8)		(908)
Balance at December 31, 2017	\$	22,143
Additions		2,097
Transferred to property, plant and equipment (note 8)		(1,627)
Balance at December 31, 2018	\$	22,613

8. Property, plant and equipment

Cost	Natural gas and liquids properties	Furniture and equipment	Total
Balance at December 31, 2016	\$ 1,993,684	\$ 5,648	\$ 1,999,332
Additions	241,449	118	241,567
Change in decommissioning liability (note 11)	6,160	-	6,160
Transferred from exploration and evaluation assets (note 7)	908	-	908
Balance at December 31, 2017	\$ 2,242,201	\$ 5,766	\$ 2,247,967
Additions	201,577	159	201,736
Change in decommissioning liability (note 11)	3,867	-	3,867
Transferred from exploration and evaluation assets (note 7)	1,627	-	1,627
Balance at December 31, 2018	\$ 2,449,272	\$ 5,925	\$ 2,455,197

Accumulated depreciation	Natural gas and liquids properties	Furniture and equipment	Total
Balance at December 31, 2016	\$ 544,790	\$ 4,259	\$ 549,049
Depreciation	117,643	302	117,945
Balance at December 31, 2017	\$ 662,433	\$ 4,561	\$ 666,994
Depreciation	118,801	241	119,042
Balance at December 31, 2018	\$ 781,234	\$ 4,802	\$ 786,036

Net book value	Natural gas and liquids properties	Furniture and equipment	Total
At December 31, 2017	\$ 1,579,768	\$ 1,205	\$ 1,580,973
At December 31, 2018	\$ 1,668,038	\$ 1,123	\$ 1,669,161

During the year ended December 31, 2018, Advantage capitalized general and administrative expenditures directly related to development activities of \$4.2 million (year ended December 31, 2017 - \$4.1 million) and capitalized share based compensation directly related to development activities of \$3.0 million (year ended December 31, 2017 - \$3.2 million).

At December 31, 2018, Advantage included future development costs of \$1.7 billion (December 31, 2017 – \$1.7 billion) in property, plant and equipment costs subject to depreciation.

9. Financial risk management

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

Cash and cash equivalents, trade and other receivables, prepaid expenses and deposits, trade and other accrued liabilities and bank indebtedness are classified as 'amortized cost'. As at December 31, 2018, there were no significant differences between the carrying amounts reported on the Consolidated Statement of Financial Position and the estimated fair values of these financial instruments due to the short terms to maturity and the floating interest rate on the bank indebtedness.

Fair value is determined following a three level hierarchy:

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

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

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

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

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

9. Financial risk management (continued)

(a) Credit risk

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

	December 31, 2018	December 31, 2017
Trade and other receivables	\$ 28,350	\$ 28,678
Deposits	1,299	938
Derivative asset	42,536	50,870
	\$ 72,185	\$ 80,486

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

Substantially all of the Corporation's trade and other receivables are due from customers concentrated in the Canadian oil and gas industry. As such, trade and other receivables are subject to normal industry credit risks. As at December 31, 2018, \$0.2 million or 0.9% of trade and other receivables are outstanding for 90 days or more (December 31, 2017 - \$0.2 million or 0.8% of trade and other receivables). The Corporation believes the entire balance is collectible, and in some instances has the ability to mitigate risk through withholding production or offsetting payables with the same parties. At December 31, 2018 no expected credit loss was recognized.

The Corporation's most significant customer, a Canadian oil and natural gas marketer, accounts for \$10.2 million of the trade and other receivables at December 31, 2018 (December 31, 2017 - \$19.2 million).

9. Financial risk management (continued)

(b) Liquidity risk

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

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

The timing of cash outflows relating to financial liabilities as at December 31, 2018 and 2017 are as follows:

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

December 31, 2017	Less than one year	One to three years	Total
Trade and other accrued liabilities	\$ 51,004	\$ -	\$ 51,004
Derivative liability	111	-	111
Bank indebtedness - principal	-	210,001	210,001
- interest ⁽¹⁾	9,404	4,483	13,887
	\$ 60,519	\$ 214,484	\$ 275,003

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

The Corporation's bank indebtedness does not have specific maturity dates. It is governed by credit facility agreements with a syndicate of financial institutions (note 10). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in June 2019. The facilities are revolving and are extendible at each annual review for a further 364 day period at the option of the syndicate. If not extended, the credit facilities are converted at that time into one year term facilities, with the principal payable at the end of such one year terms. Management fully expects that the facilities will be extended at each annual review.

9. Financial risk management (continued)

(c) Price risk

Advantage's derivative assets and liabilities are subject to price risk as their fair values are based on assumptions regarding forward market prices. The Corporation enters into non-financial derivatives to manage price risk exposure relative to actual commodity production and does not utilize derivative instruments for speculative purposes. Changes to price assumptions can have a significant effect on the fair value of the derivative assets and liabilities and thereby impact earnings. The estimated impact to net income for the year ended December 31, 2018 resulting from a 10% change to significant price assumptions is as follows:

Price Assumption	\$ millions
Forward AECO natural gas price	\$ 2.5
Forward basis differential between Henry Hub and AECO natural gas prices	\$ 7.7
Forward Dawn natural gas price	\$ 2.2

9. Financial risk management (continued)

(c) Price risk (continued)

The Corporation's derivative contracts are classified as Level 2 within the fair value hierarchy. As at December 31, 2018, the Corporation had the following derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas – AECO			
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn \$3.00/mcf
Fixed price swap	October 2018 to March 2019	18,956 mcf/d	Cdn \$3.00/mcf
Fixed price swap	October 2018 to March 2019	9,478 mcf/d	Cdn \$3.00/mcf
Fixed price swap	October 2018 to December 2019	25,000 mcf/d	Cdn \$2.58/mcf
Fixed price swap	November 2018 to March 2019	9,478 mcf/d	Cdn \$2.64/mcf
Fixed price swap	April 2019 to October 2019	61,608 mcf/d	Cdn \$1.77/mcf
Fixed price swap	April 2019 to October 2019	4,739 mcf/d	Cdn \$1.28/mcf ⁽¹⁾
Fixed price swap	April 2019 to October 2019	18,956 mcf/d	Cdn \$1.27/mcf ⁽¹⁾
Natural gas – Dawn			
Fixed price swap	November 2018 to March 2019	25,000 mcf/d	US \$3.13/mcf
Fixed price swap	November 2018 to October 2019	20,000 mcf/d	US \$2.87/mcf
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

⁽¹⁾ Contract entered into subsequent to December 31, 2018.

9. Financial risk management (continued)

(c) Price risk (continued)

As at December 31, 2018, the fair value of the derivatives outstanding resulted in an aggregate asset of \$42.5 million (December 31, 2017 – \$50.9 million) and an aggregate liability of \$0.9 million (December 31, 2017 – \$0.1 million). The fair value of the derivatives has been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements.

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

	Year ended December 31, 2018	Year ended December 31, 2017
Realized gains on derivatives	\$ 28,269	\$ 27,847
Unrealized gains (losses) on derivatives	(9,139)	73,305
Gains on derivatives	\$ 19,130	\$ 101,152

(d) Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the outstanding bank indebtedness fluctuates with the interest rates posted by the lenders. The Corporation is exposed to interest rate risk and has not entered into any mitigating interest rate hedges or swaps. Had the borrowing rate been different by 100 basis points throughout the year ended December 31, 2018, net income and comprehensive income would have changed by \$1.8 million (December 31, 2017 - \$1.2 million) based on the average debt balance outstanding during the year.

9. Financial risk management (continued)

(e) Capital management

The Corporation manages its capital with the following objectives:

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

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

Advantage's capital structure as at December 31, 2018 and 2017 is as follows:

	December 31, 2018	December 31, 2017
Bank indebtedness (non-current) (note 10)	\$ 270,918	\$ 208,978
Working capital deficit	1,912	13,808
Total debt ⁽¹⁾	\$ 272,830	\$ 222,786
Shares outstanding (note 13)	185,942,141	185,963,186
Share closing market price (\$/share)	\$ 1.98	\$ 5.40
Market capitalization	368,165	1,004,201
Total capitalization	\$ 640,995	\$ 1,226,987

⁽¹⁾ Total debt is a non-GAAP measure that includes bank indebtedness and working capital deficit.

10. Bank indebtedness

	December 31, 2018	December 31, 2017
Revolving credit facility	\$ 273,000	\$ 210,001
Discount on Bankers Acceptances and other fees	(2,082)	(1,023)
Balance, end of year	\$ 270,918	\$ 208,978

As at December 31, 2018, the Corporation had credit facilities with a borrowing base of \$400 million. The Credit Facilities are comprised of a \$20 million extendible revolving operating loan facility from one financial institution and a \$380 million extendible revolving credit facility from a syndicate of financial institutions.

In October 2018, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base. The revolving period for the Credit Facilities will end in June 2019 unless extended at the option of the syndicate for a further 364 day period. If not extended, the credit facility will be converted at that time into a one-year term facility, with the principal payable at the end of such one-year term. The Credit Facilities are subject to re-determination of the borrowing base semi-annually in October and June of each year, with the next annual review scheduled to occur in June 2019. There can be no assurance that the Credit Facilities will be renewed at the current borrowing base level at that time. The borrowing base is determined based on, among other things, a thorough evaluation of Advantage's reserve estimates based upon the lenders commodity price assumptions. Revisions or changes in the reserve estimates and commodity prices can have either a positive or a negative impact on the borrowing base. In the event that the lenders reduce the borrowing base below the amount drawn at the time of redetermination, the Corporation has 60 days to eliminate any shortfall by repaying amounts in excess of the new re-determined borrowing base.

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

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

The Credit Facilities contain standard commercial covenants for credit facilities of this nature. The Corporation did not have any financial covenants at December 31, 2018 and December 31, 2017. All applicable non-financial covenants were met at December 31, 2018 and 2017. Breach of any covenant will result in an event of default in which case the Corporation has 30 days to remedy such default. If the default is not remedied or waived, and if required by the lenders, the administrative agent of the lenders has the option to declare all obligations under the credit facilities to be immediately due and payable without further demand, presentation, protest, days of grace, or notice of any kind. The Credit Facilities are collateralized by a \$1 billion floating charge demand debenture covering all assets. For the year ended December 31, 2018, the average effective interest rate on the outstanding amounts under the facilities was approximately 4.3% (December 31, 2017 – 4.5%). The Corporation had letters of credit of US\$5 million outstanding at December 31, 2018 (December 31, 2017 – nil).

11. Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and processing facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2019 and 2078. A risk-free rate of 2.15% (December 31, 2017 – 2.20%) and an inflation factor of 2.0% (December 31, 2017 – 2.0%) were used to calculate the fair value of the decommissioning liability at December 31, 2018. A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2018	Year ended December 31, 2017
Balance, beginning of year	\$ 46,913	\$ 40,992
Accretion expense	1,030	951
Property acquisitions	-	751
Liabilities incurred	1,381	2,175
Change in estimates	(760)	(2,665)
Effect of change in risk-free rate and inflation rate factor	3,246	5,899
Liabilities settled	(1,782)	(1,190)
Balance, end of year	\$ 50,028	\$ 46,913

12. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
Current income tax expense	\$ -	\$ -
Deferred income tax expense	5,841	37,285
Income tax expense	\$ 5,841	\$ 37,285

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

	Year ended December 31, 2018	Year ended December 31, 2017
Income before taxes	\$ 16,960	\$ 132,324
Combined federal and provincial income tax rates	27.00%	27.00%
Expected income tax expense	4,579	35,727
Increase (decrease) in income taxes resulting from:		
Non-deductible share based compensation	2,002	2,261
Other	(740)	(703)
	\$ 5,841	\$ 37,285
Effective tax rate	34.44%	28.18%

12. Income taxes (continued)

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

Deferred income tax liability	Property, plant and equipment	Derivative asset/liability	Other	Total
Balance at December 31, 2016	\$ 268,189	\$ (6,088)	\$ -	\$ 262,101
Charged to income	13,522	19,793	-	33,315
Balance at December 31, 2017	\$ 281,711	\$ 13,705	\$ -	\$ 295,416
Charged (credited) to income	15,193	(2,468)	121	12,846
Balance at December 31, 2018	\$ 296,904	\$ 11,237	\$ 121	\$ 308,262

Deferred income tax asset	Decommissioning liability	Non-capital losses	Other	Total
Balance at December 31, 2016	\$ (11,073)	\$ (191,713)	\$ (24,100)	\$ (226,886)
Charged (credited) to income	(1,593)	5,268	295	3,970
Balance at December 31, 2017	\$ (12,666)	\$ (186,445)	\$ (23,805)	\$ (222,916)
Charged (credited) to income	(877)	(6,623)	495	(7,005)
Balance at December 31, 2018	\$ (13,543)	\$ (193,068)	\$ (23,310)	\$ (229,921)

Net deferred income tax liability

Balance at December 31, 2016	\$ 35,215
Charged to income	37,285
Balance at December 31, 2017	\$ 72,500
Charged to income	5,841
Balance at December 31, 2018	\$ 78,341

The estimated tax pools available at December 31, 2018 are as follows:

Canadian development expenses	\$ 209,754
Canadian exploration expenses	65,994
Canadian oil and gas property expenses	13,588
Non-capital losses	715,067
Undepreciated capital cost	283,587
Capital losses	157,869
Scientific research and experimental development expenditures	32,506
Other	8,382
	\$ 1,486,747

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

No deferred tax asset has been recognized for capital losses of \$158 million (December 31, 2017 – \$158 million). Recognition is dependent on the realization of future taxable capital gains.

13. 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, 2016	184,654,333	\$ 2,334,199
Shares issued on Performance Award settlements (note 15(b))	825,359	-
Contributed surplus transferred on Performance Award settlements (note 15(b))	-	5,374
Shares issued on exercise of stock options (note 15(a))	483,494	-
Contributed surplus transferred on exercise of stock options (note 15(a))	-	1,228
Balance at December 31, 2017	185,963,186	\$ 2,340,801
Shares issued on Performance Award settlements (note 15(b))	239,791	-
Contributed surplus transferred on Performance Award settlements (note 15(b))	-	1,906
Share cancellations	(256,387)	-
Share repurchases	(4,449)	(18)
Balance at December 31, 2018	185,942,141	\$ 2,342,689

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

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

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

14. Net income per share

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

	Year ended December 31	
	2018	2017
Net income		
Basic and diluted	\$ 11,119	\$ 95,039
Weighted average shares outstanding		
Basic	186,039,947	185,641,050
Stock Options	-	389,977
Performance Awards	4,892,004	3,545,861
Diluted	190,931,951	189,576,888
Net income per share		
Basic	\$ 0.06	\$ 0.51
Diluted	\$ 0.06	\$ 0.50

15. Share based compensation

(a) Stock Option Plan

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

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

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

The following tables summarize information about changes in Stock Options outstanding at December 31, 2018:

	Stock Options	Weighted-Average Exercise Price
Balance at December 31, 2016	3,109,915	\$ 5.75
Exercised	(1,085,681)	4.72
Forfeited	(18,377)	6.82
Balance at December 31, 2017	2,005,857	\$ 6.30
Forfeited	(16,708)	6.82
Balance at December 31, 2018	1,989,149	\$ 6.29

15. Share based compensation (continued)

(a) Stock Option Plan (continued)

Range of Exercise Price	Stock Options Outstanding			Stock Options Exercisable	
	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life - Years	Weighted Average Exercise Price	Number of Stock Options Exercisable	Weighted Average Exercise Price
\$5.87 - \$6.81	1,110,009	0.29	\$ 5.87	1,110,009	\$ 5.87
\$6.82	879,140	1.26	6.82	879,140	6.82
\$5.87 - \$6.82	1,989,149	0.98	\$ 6.29	1,989,149	\$ 6.29

No Stock Options were exercised during the year ended December 31, 2018.

(b) Performance Incentive Plan

Under the Performance Incentive Plan, service providers can be granted two types of Incentive Awards: Restricted Awards and Performance Awards. As at December 31, 2018, no Restricted Awards have been granted.

The following table is a continuity of Performance Awards:

	Performance Awards
Balance at December 31, 2016	1,327,663
Granted	723,676
Settled	(402,582)
Forfeited	(68,458)
Balance at December 31, 2017	1,580,299
Granted	1,695,135
Settled	(248,688)
Forfeited	(87,495)
Balance at December 31, 2018	2,939,251

During April 2018, 136,631 Performance Awards matured and were settled with the issuance of 239,791 common shares, while 112,057 Performance Awards matured and were net settled for \$0.5 million of cash consideration.

Share based compensation recognized by plan for the years ended December 31, 2018 and 2017 is as follows:

	Year ended	
	December 31 2018	December 31 2017
Stock Options	\$ 57	\$ 355
Performance Awards	8,151	8,009
Total share based compensation	8,208	8,364
Capitalized (note 8)	(3,046)	(3,245)
Net share based compensation expense	\$ 5,162	\$ 5,119

16. Sales of natural gas and liquids from production

Advantage's revenue is comprised of natural gas and liquids sales to multiple customers. Revenue from the transfer of natural gas and liquids volumes to customers is recognized at a point of time, when Advantage's performance obligations are fully satisfied upon transfer of these volumes to customers. For the years ended December 31, 2018 and 2017, revenue realized from natural gas and liquids sales was as follows:

	Year ended December 31	
	2018	2017
Natural gas sales	\$ 188,528	\$ 207,623
Liquids sales	33,807	24,141
Sales of natural gas and liquids from production	\$ 222,335	\$ 231,764

17. Sales of natural gas purchased from third parties

During the year ended December 31, 2018, the Corporation purchased natural gas volumes from third parties in order to satisfy physical sales commitments. No natural gas volumes were purchased during the year ended December 31, 2017.

	Year ended December 31	
	2018	2017
Sales of natural gas purchased from third parties	\$ 5,078	\$ -
Natural gas purchased from third parties	\$ (3,967)	\$ -

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

	Year ended December 31	
	2018	2017
Salaries, benefits and consultants	\$ 9,635	\$ 8,741
Office rent	1,072	1,069
Other	2,316	1,432
Total G&A	13,023	11,242
Capitalized (note 8)	(4,150)	(4,077)
General and administrative expense	\$ 8,873	\$ 7,165

19. Finance expense

	Year ended December 31	
	2018	2017
Interest on bank indebtedness (note 10)	\$ 10,922	\$ 6,931
Accretion of decommissioning liability (note 11)	1,030	951
Total finance expense	\$ 11,952	\$ 7,882

20. Related party transactions

Key management compensation

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

	December 31	
	2018	2017
Salaries, director fees and short-term benefits	\$ 3,283	\$ 2,495
Share based compensation ⁽¹⁾	4,600	4,300
	\$ 7,883	\$ 6,795

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

As at December 31, 2018, there is a commitment of \$3.4 million (December 31, 2017 - \$2.9 million) related to change of control or termination of employment of officers.

21. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31	
	2018	2017
Source (use) of cash:		
Trade and other receivables	\$ 777	\$ (2,373)
Prepaid expenses and deposits	(576)	79
Trade and other accrued liabilities	(12,205)	16,850
	\$ (12,004)	\$ 14,556
Related to operating activities	\$ 644	\$ (2,542)
Related to financing activities	-	-
Related to investing activities	(12,648)	17,098
	\$ (12,004)	\$ 14,556

22. Commitments

At December 31, 2018, Advantage had lease commitments relating to office buildings of \$6.4 million (December 31, 2017 - \$1.8 million) and transportation commitments of \$370.9 million (December 31, 2017 - \$384.9 million). The estimated remaining annual minimum payments are as follows:

	December 31	
	2018	2017
2018	\$ -	47,327
2019	50,250	51,316
2020	49,929	49,941
2021	48,885	45,997
2022	47,628	43,885
2023	41,107	36,821
2024 and thereafter	139,472	111,418
Total commitments	\$ 377,271	\$ 386,705

Directors

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

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

Officers

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

Corporate Secretary

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

Auditors

PricewaterhouseCoopers LLP

Bankers

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

Independent Reserve Evaluators

Sproule Associates Limited

Legal Counsel

Burnet, Duckworth and Palmer LLP

Transfer Agent

Computershare Trust Company of Canada

Abbreviations

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

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Toronto Stock Exchange Trading Symbol

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