CONSOLIDATED MANAGEMENT'S DISCUSSION & ANALYSIS

For the three months and years ended December 31, 2019 and 2018

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The following Management's Discussion and Analysis ("MD&A"), dated as of February 27, 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 months and year ended December 31, 2019 and should be read in conjunction with the December 31, 2019 audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), representing generally accepted accounting principles ("GAAP") for publicly accountable enterprises in Canada. All references in the MD&A and consolidated financial statements are to Canadian dollars unless otherwise indicated.

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

Financial Highlights

($000, except as otherwise indicated)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Financial Statement Highlights				
Sales including realized derivatives [3]	**$ 76,921**	$ 73,979	**$ 275,237**	$ 250,604
Net income (loss) and comprehensive income (loss)	**$ (1,844)**	$ 25,162	**$ (24,654)**	$ 11,119
per basic share [2]	**$ (0.01)**	$ 0.14	**$ (0.13)**	$ 0.06
Cash provided by operating activities [4]	**$ 39,965**	$ 41,627	**$ 156,063**	$ 149,240
Cash provided by financing activities [4]	**$ 20,037**	$ 11,739	**$ 24,317**	$ 63,937
Cash used in investing activities	**$ 50,365**	$ 50,723	**$ 173,640**	$ 213,734
Basic weighted average shares (000)	**186,911**	185,942	**186,659**	186,040
Other Financial Highlights				
Adjusted funds flow [1]	**$ 44,452**	$ 46,301	**$ 155,180**	$ 150,378
per boe [1]	**$ 10.20**	$ 11.02	**$ 9.59**	$ 9.89
per basic share [1] [2]	**$ 0.23**	$ 0.25	**$ 0.83**	$ 0.81
Net capital expenditures [1]	**$ 59,609**	$ 51,187	**$ 184,922**	$ 201,086
Working capital deficit [1]	**$ 7,996**	$ 1,912	**$ 7,996**	$ 1,912
Bank indebtedness	**$ 295,624**	$ 270,918	**$ 295,624**	$ 270,918
Net debt [1]	**$ 303,620**	$ 272,830	**$ 303,620**	$ 272,830

(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) Cash provided by operating activities and cash provided by financing activities for the three months and year ended December 31, 2018 has been adjusted to conform to the presentation adopted for the periods ended December 31, 2019.

Operating Highlights

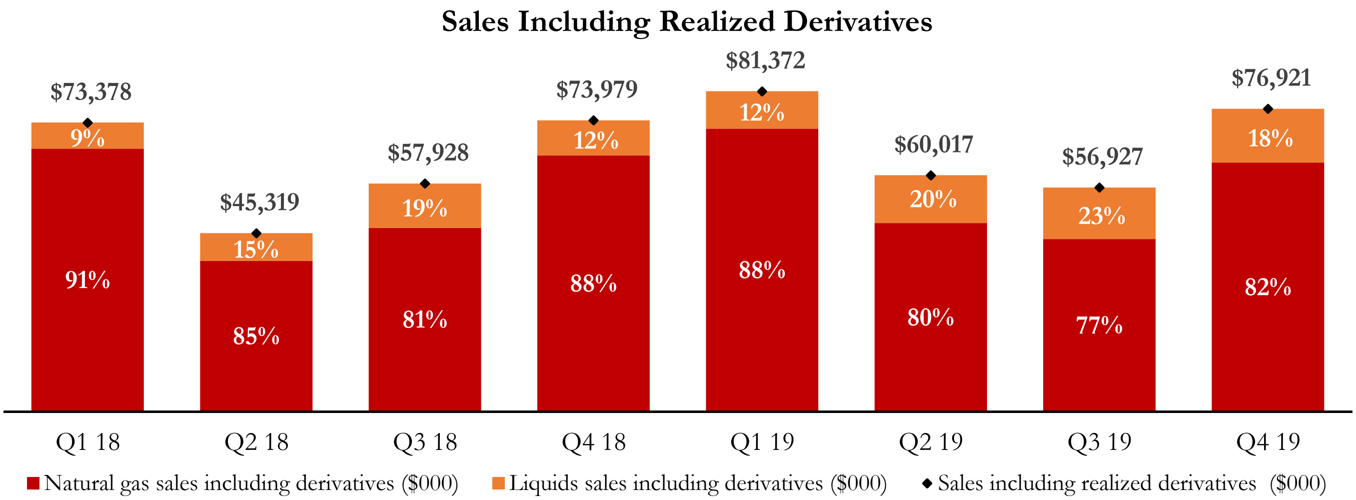
	Three months ended December 31		Year ended December 31	
	2019	**2018**	**2019**	**2018**
Operating				
Daily Production				
Natural gas (mcf/d)	**266,035**	262,269	**249,802**	240,959
Liquids (bbls/d)	**3,031**	1,974	**2,700**	1,491
Total production (mcfe/d)	**284,221**	274,113	**266,002**	249,905
Total production (boe/d)	**47,370**	45,686	**44,334**	41,651
Average realized prices (including realized derivatives)				
Natural gas ($/mcf) (2)	**$ 2.58**	$ 2.70	**$ 2.49**	$ 2.47
Liquids ($/bbl)	**$ 49.09**	$ 49.23	**$ 49.14**	$ 62.12
Operating Netback ($/boe)				
Sales of natural gas and liquids from production	**$ 17.69**	$ 16.86	**$ 15.53**	$ 14.62
Net sales of natural gas purchased from third parties (1)	**0.00**	0.00	**(0.09)**	0.07
Realized gains (losses) on derivatives	**(0.04)**	0.74	**1.48**	1.86
Royalty expense	**(0.51)**	(0.39)	**(0.29)**	(0.17)
Operating expense	**(1.89)**	(1.73)	**(1.98)**	(1.82)
Transportation expense	**(3.46)**	(3.18)	**(3.50)**	(3.33)
Operating netback (1)	**$ 11.79**	$ 12.30	**$ 11.15**	$ 11.23

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

Natural Gas and Liquids Sales

($000)	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Natural gas sales [1]	$ 63,784	$ 61,917	3 %	$ 203,223	$ 188,528	8 %
Realized gains (losses) on derivatives	(552)	3,121	(118) %	23,587	28,269	(17) %
Natural gas sales including derivatives	$ 63,232	$ 65,038	(3) %	$ 226,810	$ 216,797	5 %
Liquids sales	13,318	8,941	49 %	48,056	33,807	42 %
Realized gains on derivatives	371	-	nm	371	-	nm
Liquids sales including derivatives	$ 13,689	$ 8,941	53 %	$ 48,427	$ 33,807	43 %
Sales including realized derivatives	**$ 76,921**	**$ 73,979**	**4 %**	**$ 275,237**	**$ 250,604**	**10 %**

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



Advantage's natural gas and liquids sales including realized gains (losses) on derivatives was $76.9 million for the three months ended December 31, 2019, a 4% increase to the same period of 2018, primarily attributed to the Corporation's increased liquids production. Natural gas and liquids sales including realized gains (losses) on derivatives, for the year ended December 31, 2019, was $275.2 million, a 10% increase as compared to 2018, as a result of the Corporation's continued progression on both gas and liquids production (see "Production").

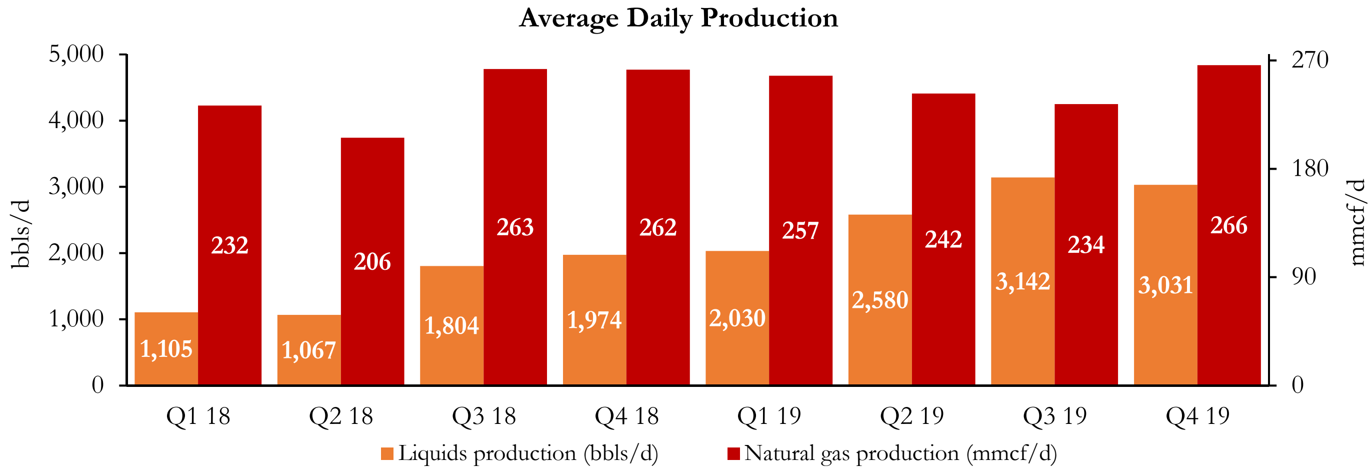
Advantage increased natural gas production during the fourth quarter of 2019 in response to increased AECO pricing (see "Production"), resulting in a 92% increase in natural gas sales, when compared to the third quarter of 2019. For the year ended December 31, 2019, natural gas sales increased $14.7 million or 8% as a result of higher natural gas production. Advantage continues to focus on market diversification and hedging which has strengthened and enhanced our natural gas sales.

Liquids sales for the three months and year ended December 31, 2019 increased by $4.4 million or 49% and $14.2 million or 42%, respectively, as a result of significantly increased liquids production, partially offset by weaker realized liquids prices. Liquids contributed 18% of total revenue for the year ended December 31, 2019, including realized gains (losses) on derivatives.

Realized gains (losses) on derivatives during the three months and year ended December 31, 2019 were $(0.2) million and $24.0 million, respectively. Realized gains (losses) on derivatives and changes from prior periods are the result of differences in natural gas and liquids prices, and contracts outstanding during the three months and year ended December 31, 2019 and 2018 (see "Commodity Price Risk Management and Market Diversification").

Production

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
Natural gas (mcf/d)	266,035	262,269	1 %	249,802	240,959	4 %
Liquids (bbls/d)	3,031	1,974	54 %	2,700	1,491	81 %
Total production - mcfe/d	**284,221**	**274,113**	**4 %**	**266,002**	**249,905**	**6 %**
- boe/d	**47,370**	**45,686**	**4 %**	**44,334**	**41,651**	**6 %**
Natural gas (%)	94 %	96 %		94 %	96 %	
Liquids (%)	6 %	4 %		6 %	4 %	



Advantage achieved record total production for the three months and year ended December 31, 2019, increasing 4% and 6% respectively over the comparative periods of 2018. The increase in total production was primarily attributed to liquids production from successful well results at east Glacier and Valhalla, including commencement of our new compressor and liquids handling facility at Valhalla in the first half of 2019, along with initial production from Advantage's first Pipestone/Wembley 12-25 well beginning in the fourth quarter of 2019. Liquids production for the three months and year ended December 31, 2019 increased 54% and 81%, respectively, as compared to the same periods of 2018. Advantage's development plan continues our greater focus on liquids-rich development in our Progress and Pipestone/Wembley light oil assets that is planned to enhance and diversify our production, revenues and cash provided by operating activities.

During the fourth quarter of 2019, the Corporation increased natural gas production and throughput at our 100% owned Glacier Gas Plant following the implementation of operational changes on the NGTL system (Temporary Service Protocol). By shutting-in approximately 10 mmcf/d of production in the second and third quarters of 2019 when AECO prices were low, the Corporation was able to bring these volumes online in the fourth quarter at a higher AECO price.

Commodity Prices and Marketing

Average Realized Prices	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Natural gas						
Excluding derivatives ($/mcf)[1]	$ 2.61	$ 2.57	1 %	$ 2.23	$ 2.14	4 %
Including derivatives ($/mcf)[1]	$ 2.58	$ 2.70	(4) %	$ 2.49	$ 2.47	1 %
Liquids						
Excluding derivatives ($/bbl)	$ 47.76	$ 49.23	(3) %	$ 48.76	$ 62.12	(22) %
Including derivatives ($/bbl)	$ 49.09	$ 49.23	- %	$ 49.14	$ 62.12	(21) %
Average Benchmark Prices						
Natural Gas						
AECO daily ($/mcf)	$ 2.47	$ 1.56	58 %	$ 1.75	$ 1.50	17 %
AECO monthly ($/mcf)	$ 2.33	$ 1.90	23 %	$ 1.62	$ 1.53	6 %
Dawn daily ($US/mmbtu)	$ 2.23	$ 3.78	(41) %	$ 2.40	$ 3.13	(23) %
Chicago Citygate ($US/mmbtu)	$ 2.51	$ 3.62	(31) %	$ 2.53	$ 3.05	(17) %
Henry Hub ($US/mmbtu)	$ 2.34	$ 3.65	(36) %	$ 2.51	$ 3.08	(19) %
Oil						
WTI ($US/bbl)	$ 56.96	$ 59.10	(4) %	$ 56.99	$ 64.96	(12) %
MSW Edmonton ($/bbl)	$ 66.89	$ 48.27	39 %	$ 69.22	$ 69.15	- %
Average Exchange rate (US$/CDN$)	0.7576	0.7569	- %	0.7537	0.7717	(2) %

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

Advantage's realized natural gas price excluding derivatives for the three months and year ended December 31, 2019 increased 1% to $2.61/mcf and 4% to $2.23/mcf, respectively, as compared to the same periods of 2018. This increase was primarily attributed to increased AECO prices and increased Chicago Citygate sales arrangements, offset by decreased prices in the Dawn market. Additionally, the Corporation's strategy of ramping up natural gas production as AECO prices increased in the fourth quarter of 2019 further strengthen our realized natural gas price for the year ended December 31, 2019 (see "Production").

Advantage sells natural gas into the AECO, Dawn and Chicago markets. Both of the Dawn and Chicago markets have generated higher realized prices as compared to AECO for the year ended December 31, 2019. Advantage's firm transportation service to Dawn of 52,700 mcf/d is a ten-year commitment and represents approximately 21% of our current natural gas production. The Dawn market has provided the Corporation with physical market diversification and exposure to higher prices, net of associated transportation expense (see "Transportation Expense"). Starting November 1, 2018, Advantage entered into sales arrangements for 20,000 mcf/d at Chicago Citygate prices, net of a fixed differential, that increased to 40,000 mcf/d in April 2019, which represents approximately 14% of our current natural gas production.

Realized liquids prices excluding derivatives decreased by 3% and 22% for the three months and year ended December 31, 2019, respectively, compared to the same periods of the prior year. The decrease has been primarily a result of lower WTI prices and the underlying price differential on which many of our contracts are based. Advantage's current liquids mix is comprised of 71% pentanes, condensate and light oil, which generally attract higher market prices than our other natural gas liquids.

Commodity Price Risk Management and Market Diversification

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

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

	January 1 to December 31, 2019		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	93.7	$2.11/mcf	38 %
Dawn fixed price swaps	24.6	US$2.96/mcf [2]	10 %
	118.3		48 %
Variable Price			
AECO physical	63.4	AECO	25 %
Dawn physical	28.1	Dawn [2]	11 %
Chicago physical	35.0	Chicago less US$1.19/mcf	14 %
AECO / Henry Hub basis swaps	5.0	Henry Hub less US$0.95/mcf	2 %
	131.5		52 %
Total Natural Gas	249.8		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.

Commodity Price Risk Management and Market Diversification (continued)

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

	January 1 to December 31, 2020		
	Volumes Contracted (mmcf/d)[1]	Average Minimum Price	% of Estimated Production
Fixed Price			
AECO fixed price swaps	42.7	$1.62/mcf	18 %
Dawn fixed price swaps	2.5	US$3.15/mcf [2]	1 %
Midwest fixed price swaps	50.0	Henry Hub less US$1.07/mcf	21 %
	95.2		40 %
Variable Price			
AECO physical	45.4	AECO	18 %
Dawn physical	50.2	Dawn [2]	21 %
Empress physical	4.2	Empress [3]	2 %
Emerson physical	4.5	Emerson [4]	2 %
Midwest physical	40.0	Chicago, Ventura & Henry Hub less differentials [5]	17 %
	144.3		60 %
Total Natural Gas [6]	239.5		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 guidance for 2020 natural gas volumes (see News Release dated January 8, 2020).

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

	Three months ended December 31		Year ended December 31	
($000)	**2019**	**2018**	**2019**	**2018**
Realized gains (losses) on derivatives	$ (181)	$ 3,121	$ 23,958	$ 28,269
Unrealized gains (losses) on derivatives	(16,867)	22,722	(73,904)	(9,139)
Gains (losses) on derivatives	**$ (17,048)**	**$ 25,843**	**$ (49,946)**	**$ 19,130**

For the year ended December 31, 2019, Advantage recognized realized gains on derivatives due to the settlement of contracts with average derivative contract prices that were above average market prices. For the three months and year ended December 31, 2019, Advantage recognized unrealized losses on derivatives of $16.9 million and $73.9 million, respectively, resulting from a decrease in the fair value of our future derivative contracts to a net liability of $32.3 million, compared to a net asset of $41.6 million at December 31, 2018. The decrease in the fair value of our outstanding derivative contracts during 2019 was attributable to the change in valuation of the derivative contracts due to strengthening AECO natural gas prices and weakening of Henry Hub, tightening of the AECO/ Henry Hub basis, and $24.0 million of actual cash received from derivative settlements. The fair value of the net derivative asset or liability is the estimated value to settle the outstanding contracts as at a point in time. As such, unrealized derivative gains and losses do not impact adjusted funds flow and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions. Remaining derivative contracts will settle between January 1, 2020 and December 31, 2024.

Sales of Natural Gas Purchased from Third Parties

	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
Sales of natural gas purchased from third parties ($000)	$ -	$ -	- %	$ 857	$ 5,078	(83) %
Natural gas purchased from third parties ($000)	-	-	- %	(2,362)	(3,967)	(40) %
Net sales of natural gas purchased from third parties ($000)	$ -	$ -	- %	$ (1,505)	$ 1,111	(235) %
per boe	$ -	$ -	- %	$ (0.09)	$ 0.07	(229) %

Advantage infrequently purchases natural gas volumes from third parties to satisfy physical delivery commitments during brief plant outages. During the year ended December 31, 2019, Advantage realized $0.9 million of revenue from the sale of purchased natural gas while the natural gas volumes were purchased for a total of $2.4 million. During year ended December 31, 2018, Advantage had a scheduled plant expansion shutdown and purchased $4.0 million of natural gas volumes from third parties while realizing $5.1 million of revenue from the sale of this purchased natural gas.

Royalty Expense

	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
Royalty expense ($000)	$ 2,231	$ 1,654	35 %	$ 4,690	$ 2,583	82 %
per boe	$ 0.51	$ 0.39	31 %	$ 0.29	$ 0.17	71 %
Royalty rate (percentage of natural gas and liquids sales)	2.9 %	2.3 %	0.6 %	1.9 %	1.2 %	0.7 %

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

Royalty expense for the three months and year ended December 31, 2019 increased due to higher sales attributable to the increase in both natural gas and liquids production when compared to the same periods in 2018. Royalty expense for the year ended December 31, 2019 additionally had a more significant increase as a result of a larger refund received for GCA adjustments in 2018. The slight increase in royalty rates was primarily due to increased liquids production. Advantage's corporate royalty rate has continued to remain low due to GCA received from the Crown.

Operating Expense

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Operating expense ($000)	$ 8,225	$ 7,262	13 %	$ 31,967	$ 27,593	16 %
per boe	$ 1.89	$ 1.73	9 %	$ 1.98	$ 1.82	9 %

Operating expense for the three months and year ended December 31, 2019 increased to $8.2 million and $32.0 million compared to the respective periods of 2018. The increase in total operating expense was attributable to a higher number of producing wells, commissioning of our new Valhalla liquids handling hub, and initial production at Pipestone/Wembley. With our continuing liquid-rich development in our new asset areas, we anticipate operating expense will increase with higher liquids production, additional Advantage owned infrastructure at Pipestone/Wembley and Progress, and processing of Pipestone/Wembley production at third-party facilities.

Operating expense per boe for the three months and year ended December 31, 2019 was $1.89 and $1.98, respectively. The higher operating costs per boe were in-line with Advantage's guidance expectations of cost associated with increased liquids production. Advantage expects to maintain low operating expense per boe while continuing to progress development of our high-return liquids projects which is anticipated to enhance netbacks.

Transportation Expense

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Natural gas ($000)	$ 13,148	$ 11,805	11 %	$ 49,990	$ 45,930	9 %
Liquids ($000)	1,924	1,545	25 %	6,617	4,764	39 %
Total transportation expense ($000)	$ 15,072	$ 13,350	13 %	$ 56,607	$ 50,694	12 %
per boe	$ 3.46	$ 3.18	9 %	$ 3.50	$ 3.33	5 %

Transportation expense represents the cost of transporting our natural gas and liquids to the sales points, including associated fuel costs. Transportation expense for the three months and year ended December 31, 2019 increased by 13% and 12% respectively, compared to the same periods of 2018. The increase in total transportation expense was attributable to increased natural gas and liquids production and associated firm commitments (see "Production" and "Commodity Price Risk Management and Market Diversification").

Operating Netback

	Three months ended December 31			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 77,102	$ 17.69	$ 70,858	$ 16.86
Net sales of natural gas purchased from third parties (1)	-	-	-	-
Realized gains (losses) on derivatives	(181)	(0.04)	3,121	0.74
Royalty expense	(2,231)	(0.51)	(1,654)	(0.39)
Operating expense	(8,225)	(1.89)	(7,262)	(1.73)
Transportation expense	(15,072)	(3.46)	(13,350)	(3.18)
Operating netback (1)	**$ 51,393**	**$ 11.79**	**$ 51,713**	**$ 12.30**

	Year ended December 31			
	2019		2018	
	$000	per boe	$000	per boe
Sales of natural gas and liquids from production	$ 251,279	$ 15.53	$ 222,335	$ 14.62
Net sales of natural gas purchased from third parties (1)	(1,505)	(0.09)	1,111	0.07
Realized gains on derivatives	23,958	1.48	28,269	1.86
Royalty expense	(4,690)	(0.29)	(2,583)	(0.17)
Operating expense	(31,967)	(1.98)	(27,593)	(1.82)
Transportation expense	(56,607)	(3.50)	(50,694)	(3.33)
Operating netback (1)	**$ 180,468**	**$ 11.15**	**$ 170,845**	**$ 11.23**

(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 December 31, 2019 was $51.4 million or $11.79/boe, which was comparable to the same period in 2018.

For the year ended December 31, 2019, Advantage's operating netback was $180.5 million or $11.15/boe, an increase of $9.6 million compared to the same period in 2018. Advantage recognized a significant increase in sales of natural gas and liquids as a result of increased production, particularly the focus on liquids-rich development, and revenue enhancements through market diversification (see "Commodity Price Risk Management and Market Diversification"). The increased operating netback was offset by decreased realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification") and slightly higher cost primarily associated with increased liquids production.

General and Administrative Expense

	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
General and administrative expense ($000)	$ 3,456	$ 2,083	66 %	$ 11,802	$ 8,873	33 %
per boe	$ 0.79	$ 0.50	58 %	$ 0.73	$ 0.58	26 %
Employees at December 31				38	32	19 %

General and administrative ("G&A") expense for the three months and year ended December 31, 2019 increased primarily due to an increase in number of head office and field employees during the year and the implementation of a new cash-based Performance Award Incentive plan. For the year ended December 31, 2019, the Corporation made lease payments in the amount of $0.5 million, which are no longer recorded under G&A as a result of adopting IFRS 16 – Leases on January 1, 2019.

Share-based Compensation

	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
Share-based compensation ($000)	$ 2,434	$ 2,190	11 %	$ 8,556	$ 8,208	4 %
Capitalized ($000)	(898)	(813)	10 %	(3,157)	(3,046)	4 %
Share-based compensation expense ($000)	$ 1,536	$ 1,377	12 %	$ 5,399	$ 5,162	5 %
per boe	$ 0.35	$ 0.33	6 %	$ 0.33	$ 0.34	(3) %

The Corporation's current long-term compensation plan to employees consists of a balanced approach between a cash-based Performance Award Incentive Plan (see "General and Administrative Expense") and a share-based Restricted and Performance Award Incentive Plan. Under the 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 $5.4 million of share-based compensation expense during the year ended December 31, 2019 and capitalized $3.2 million. The slight increase as compared to 2018 was primarily attributed to an increase in staff during the year, partially offset by a reduction due to allocating a portion of annual long-term compensation grants to the new cash-based Performance Award Incentive Plan.

Finance Expense

	Three months ended December 31 2019	Three months ended December 31 2018	% change	Year ended December 31 2019	Year ended December 31 2018	% change
Cash expense ($000)	$ 3,426	$ 3,068	12 %	$ 13,513	$ 10,827	25 %
per boe	$ 0.79	$ 0.73	8 %	$ 0.84	$ 0.71	18 %
Accretion expense ($000)	243	236	3 %	936	1,030	(9) %
Total finance expense ($000)	$ 3,669	$ 3,304	11 %	$ 14,449	$ 11,857	22 %
per boe	$ 0.84	$ 0.79	6 %	$ 0.89	$ 0.78	14 %

Advantage realized higher cash finance expense during the three months and year ended December 31, 2019 due to higher average outstanding bank indebtedness. As anticipated in our development plan, Advantage's average bank debt was higher as compared to 2018 but the Corporation continues to maintain a strong balance sheet. 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.

Depreciation Expense

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Depreciation expense ($000)	$ 25,865	$ 33,065	(22) %	$ 119,474	$ 119,042	- %
per boe	$ 5.93	$ 7.87	(25) %	$ 7.38	$ 7.83	(6) %

Depreciation of natural gas and liquids properties is provided on the units-of–production method based on total proved and probable reserves, including future development costs, on a component basis. The rate of depreciation expense per boe has decreased during 2019 due to the continued efficiency of our reserve additions.

Taxes

	Three months ended December 31 2019	2018	% change	Year ended December 31 2019	2018	% change
Income tax expense (recovery) ($000)	$ 1,863	$ 9,632	(81) %	$ (19,879)	$ 5,841	(440) %

Deferred income taxes arise from differences between the accounting and tax bases of our assets and liabilities. For the year ended December 31, 2019, the Corporation recognized a deferred income tax recovery of $19.9 million as a result of a loss before tax, and the *Job Creation Tax Cut Act* (“Bill 3”). Bill 3 was enacted during the second quarter of 2019 by the Alberta Government and decreased the Corporation’s provincial corporate tax rate to 11% (from 12%) on July 1, 2019, with a further 1% rate reductions every year on January 1 until the provincial corporate tax rate is 8% on January 1, 2022. As at December 31, 2019, the Corporation had a deferred income tax liability of $58.5 million.

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

($ millions)	
Canadian development expenses	$ 212.4
Canadian exploration expenses	67.4
Canadian oil and gas property expenses	14.3
Non-capital losses	746.7
Undepreciated capital cost	283.4
Capital losses	157.9
Scientific research and experimental development expenditures	32.5
Other	7.4
	$ 1,522.0

Net Income (Loss) and Comprehensive Income (Loss)

	Three months ended December 31		%	Year ended December 31		%
	2019	2018	change	2019	2018	change
Net income (loss) and comprehensive income (loss) ($000)	$ (1,844)	$ 25,162	(107) %	$ (24,654)	$ 11,119	(322) %
per share - basic	$ (0.01)	$ 0.14	(107) %	$ (0.13)	$ 0.06	(317) %
per share - diluted	$ (0.01)	$ 0.13	(108) %	$ (0.13)	$ 0.06	(317) %

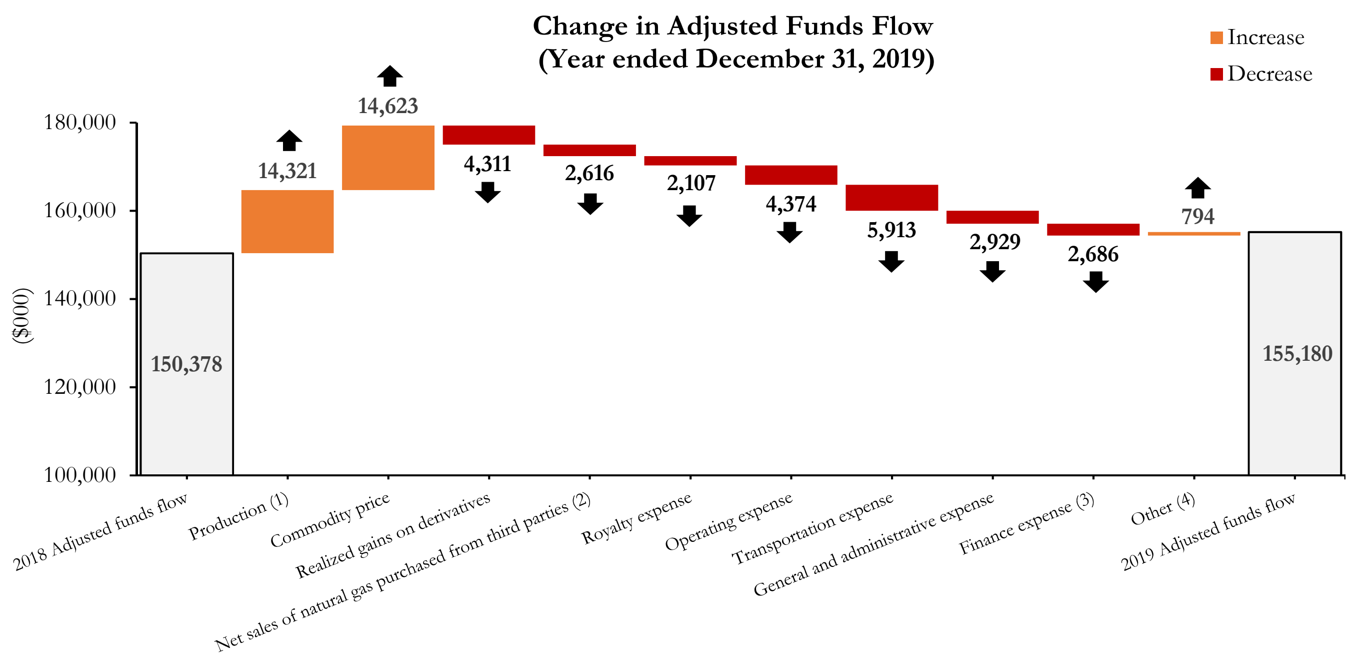
Advantage recognized a net loss of $1.8 million and $24.7 million for the three months and year ended December 31, 2019, respectively. The decreases in net income (loss) and comprehensive income (loss) were primarily due to unrealized losses on derivatives. Advantage recognized unrealized losses on derivatives for the year ended December 31, 2019 of $73.9 million. Unrealized derivative gains and losses do not impact adjusted funds flow and the actual gains or losses realized on eventual cash settlement can vary materially due to subsequent fluctuations in commodity prices as compared to the valuation assumptions (see "Commodity Price Risk Management and Market Diversification"). Excluding unrealized losses on derivatives and deferred income taxes that can create income volatility, Advantage's earnings for the year ended December 31, 2019 would have been $29.4 million, 13% higher than 2018 of $26.1 million. Advantage has continued to deliver strong operating and financial results during periods of significant commodity price volatility as a result of market diversification, commodity price risk management and maintaining low costs.

Cash Provided by Operating Activities and Adjusted Funds Flow

($000, except as otherwise indicated)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Cash provided by operating activities	$ 39,965	$ 41,627	$ 156,063	$ 149,240
Expenditures on decommissioning liability	85	1,045	1,911	1,782
Changes in non-cash working capital	4,402	3,629	(2,794)	(644)
Adjusted funds flow (1)	**$ 44,452**	**$ 46,301**	**$ 155,180**	**$ 150,378**
Adjusted funds flow per share (1)	**$ 0.23**	**$ 0.25**	**$ 0.83**	**$ 0.81**

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

For the three months and year ended December 31, 2019, Advantage realized adjusted funds flow of $44.4 million or $0.23/share and $155.2 million or $0.83/share, respectively. Advantage realized higher adjusted funds flow for the year ended December 31, 2019 as a result of higher production including increased liquids, and stronger realized natural gas prices including revenue enhancements through market diversification. These increases were offset by lower realized gains on derivatives (see "Commodity Price Risk Management and Market Diversification") and higher cost associated with increased liquids production (see "Operating Netback").



(1) The change in sales of natural gas and liquids from production related to the change in production is determined by multiplying the prior year realized price by current year 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.
(4) Other includes other income, settlement of performance share units and unrealized gains on foreign exchange.

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**	**2020**	**2021**	**2022**	**2023**	**2024**	**Beyond**
Building operating cost [1]	$ 3.1	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 0.4	$ 1.1
Processing	64.6	1.1	3.9	8.5	8.5	8.5	34.1
Transportation	521.7	47.0	53.9	62.0	57.0	53.2	248.6
Bank indebtedness [2]							
- principal	295.6	-	295.6	-	-	-	-
- interest	17.2	11.6	5.6	-	-	-	-
Total contractual obligations	**$ 902.2**	**$ 60.1**	**$ 359.4**	**$ 70.9**	**$ 65.9**	**$ 62.1**	**$ 283.8**

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

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

Liquidity and Capital Resources

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

($000, except as otherwise indicated)	**December 31 2019**	**December 31 2018**
Bank indebtedness (non-current)	$ 295,624	$ 270,918
Working capital deficit [1]	7,996	1,912
Net debt [1]	**$ 303,620**	**$ 272,830**
Shares outstanding	186,910,848	185,942,141
Shares closing market price ($/share)	$ 2.75	$ 1.98
Market capitalization	**$ 514,005**	**$ 368,165**
Total capitalization	**$ 817,625**	**$ 640,995**
Net debt to adjusted funds flow [1]	**2.0**	**1.8**

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

Advantage has a $400 million Credit Facility of which $94.1 million or 23% was available at December 31, 2019 after deducting letters of credit of US$6 million outstanding (see "Bank Indebtedness, Credit Facilities and Other Obligations"). The Corporation's adjusted funds flow and bank indebtedness was utilized to fund our capital expenditure program of $184.9 million for the year ended December 31, 2019. This resulted in a net debt to adjusted funds flow ratio of 2.0 times as at December 31, 2019, as expected. Advantage continues to be focused on maintaining a strong balance sheet, a disciplined commodity risk management program, a low-cost structure, and substantial available liquidity such that it is well positioned to continue successfully executing 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 December 31, 2019, Advantage had bank indebtedness outstanding of $295.6 million, an increase of $24.7 million since December 31, 2018. Advantage's Credit Facilities have a borrowing base of $400 million that is collateralized by a $1 billion floating charge demand debenture covering all assets of the Corporation and has no financial covenants (the "Credit Facilities"). 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 October 2019, the semi-annual redetermination of the Credit Facilities borrowing base was completed, with no changes to the borrowing base of $400 million, comprised of a $20 million extendible revolving operating loan facility from one financial institution and a $380 million extendible revolving loan facility from a syndicate of financial institutions. The next semi-annual review is scheduled to occur in April 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 $8.0 million as at December 31, 2019, an increase of $6.1 million compared to December 31, 2018 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 December 31, 2019, a total of 0.8 million Stock Options and 3.9 million Performance Share Units were outstanding, which represents 2.5% of Advantage's total outstanding common shares. No Stock Options were exercised during the year ended December 31, 2019. During April 2019, 598,069 Performance Share Units vested and were settled with the issuance of 968,707 common shares. As at February 27, 2020, Advantage had 186.9 million common shares outstanding.

Cash Used in Investing Activities and Net Capital Expenditures

($000)	Three months ended December 31 2019	Three months ended December 31 2018	Year ended December 31 2019	Year ended December 31 2018
Drilling, completion and workovers	$ 27,734	$ 29,330	$ 104,382	$ 95,883
Well equipping and facilities	31,482	20,138	76,506	102,947
Other	167	159	517	159
Expenditures on property, plant and equipment	59,383	49,627	181,405	198,989
Expenditures on exploration and evaluation assets	226	1,560	3,517	2,097
Net capital expenditures [1]	**$ 59,609**	**$ 51,187**	**$ 184,922**	**$ 201,086**
Changes in non-cash working capital	(9,244)	(464)	(11,282)	12,648
Cash used in investing activities	**$ 50,365**	**$ 50,723**	**$ 173,640**	**$ 213,734**

(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 $59.6 million and $184.9 million on property, plant, equipment and exploration and evaluation assets during the three months and year ended December 31, 2019, respectively. During 2019, Advantage drilled 14.7 net wells focusing on liquid-rich Montney opportunities across our acreage position.

Progress

During the year, Advantage announced a Montney light oil pool discovery and appraisal at Progress, Alberta, on our 100% owned 50 net section land block (see News Release dated September 3, 2019). Advantage has drilled and completed four successful Montney wells at Progress over the last two years, with the most recent located at 16-36-76-10W6 being completed in the third quarter of 2019. This discovery including the three previous wells, elevates the Progress asset to be a significant element of the Corporation's liquids development program along with Pipestone/Wembley, Valhalla and east Glacier. The Progress lands were acquired over the last five years and appraisal began in 2017.

The oil wells will be initially tied-in to Advantage's 100% owned Glacier and Valhalla infrastructure for gas processing and liquids extraction, making use of existing facility capacity and an existing section of unused Advantage pipeline. Final tie-in is expected to be completed in the first quarter of 2020. Design and procurement of equipment has begun on a new 5,000 bbl/d oil battery which will be located on the Progress land block. Commissioning is targeted for the fourth quarter of 2020 where the liquids will be extracted at the new battery and the gas will be sent to the Glacier Gas Plant for processing.

The initial Progress wells represent another milestone in demonstrating that each of Advantage's land blocks (Glacier, Pipestone/Wembley, Valhalla and Progress) feature high-quality resource with attractive economics. With these results at Progress, the asset will complement the Corporation's liquids development plan and is viewed by Management as competitive with Pipestone/Wembley.

Pipestone/Wembley

Our Pipestone/Wembley land block is in a condensate fairway where significant industry drilling successes in multiple layers has occurred. Industry drilling adjacent to our lands have targeted multiple Montney layers with results demonstrating liquids-rich gas accumulations in all layers to date.

In 2019 Advantage drilled 7 gross (7.0 net) Montney wells and one water disposal well at Pipestone/Wembley. The wells are in various stages of completion/flowback/production. The property has transitioned from our first well completed in the first quarter of 2018 to construction of a 5,000 bbl/d oil battery starting in the fourth quarter of 2019. The facility is targeted for commissioning in April 2020. This battery will allow the property to move to continuous production following commissioning.

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

Valhalla

During the year 5 gross (4.7 net) wells were drilled, completed and placed on production at Valhalla. The wells produce through our Valhalla compressor station which is connected to our Glacier Gas Plant. These wells, along with our previous Valhalla wells, have filled our 40 mmcf/d compressor station that was commissioned in late 2018 and early 2019.

Glacier

Glacier activity during the year was focused on completing a 10 well Middle Montney pad in the first quarter of 2019 and bringing those wells on production through the second and third quarters of 2019. These wells, along with the Valhalla wells helped increase our corporate liquids production during 2019.

Corporate

Advantage's current standing well inventory consists of nine total wells. Seven are completed and being tied in; and two are in various stages of completion.

Advantage holds a total of 210 net sections (134,400 net acres) of Doig/Montney rights with 122 of those net sections outside of Glacier in the Valhalla, Progress and Pipestone/Wembley areas that have potential for liquids-rich and multi-layer development.

Annual Financial Information

The following is a summary of select financial information of the Corporation for the years indicated.

		Year ended December 31, 2019		Year ended December 31, 2018		Year ended December 31, 2017
Total sales ($000) [(1)]	$	251,279	$	222,335	$	231,764
Net income (loss) ($000)	$	(24,654)	$	11,119	$	95,039
Per share - basic	$	(0.13)	$	0.06	$	0.51
Per share - diluted	$	(0.13)	$	0.06	$	0.50
Total assets ($000)	$	1,818,454	$	1,771,197	$	1,691,182
Long-term financial liabilities ($000) [(2)]	$	295,624	$	270,918	$	208,978

(1) Before royalties and excludes sales of natural gas purchased from third parties.

(2) Long-term financial liabilities is comprised of bank indebtedness.

Quarterly Performance

($000, except as otherwise indicated)	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2	2018 Q1
Financial Statement Highlights								
Sales including realized derivatives (3)	$ 76,921	$ 56,927	$ 60,017	$ 81,372	$ 73,979	$ 57,928	$ 45,319	$ 73,378
Net income (loss) and comprehensive income (loss)	$ (1,844)	$ (26,863)	$ 3,372	$ 681	$ 25,162	$ (8,852)	$ (15,294)	$ 10,103
per basic share (2)	$ (0.01)	$ (0.14)	$ 0.02	$ 0.00	$ 0.14	$ (0.05)	$ (0.08)	$ 0.05
Cash provided by operating activities (4)	$ 39,965	$ 27,323	$ 44,292	$ 44,483	$ 41,627	$ 27,950	$ 21,009	$ 58,654
Cash provided by (used in) financing activities (4)	$ 20,115	$ 5,010	$ (20,309)	$ 19,501	$ 11,739	$ 11,005	$ 12,852	$ 28,341
Cash used in investing activities	$ 50,365	$ 36,258	$ 27,303	$ 59,714	$ 50,723	$ 39,085	$ 38,701	$ 85,225
Basic weighted average shares (000)	186,911	186,911	186,858	185,942	185,942	186,065	186,190	185,963
Other Financial Highlights								
Adjusted funds flow (1)	$ 44,452	$ 27,928	$ 32,777	$ 50,023	$ 46,301	$ 32,035	$ 23,160	$ 48,882
per boe (1)	$ 10.20	$ 7.21	$ 8.38	$ 12.38	$ 11.02	$ 7.63	$ 7.20	$ 13.63
per basic share (1)(2)	$ 0.23	$ 0.15	$ 0.18	$ 0.27	$ 0.25	$ 0.17	$ 0.12	$ 0.26
Net capital expenditures (1)	$ 59,609	$ 48,313	$ 19,578	$ 57,422	$ 51,187	$ 47,502	$ 25,324	$ 77,073
Working capital (surplus) deficit (1)	$ 7,996	$ 13,322	$ (1,891)	$ (9,325)	$ 1,912	$ 8,169	$ 3,206	$ 13,779
Bank indebtedness	$ 295,624	$ 275,594	$ 270,495	$ 290,612	$ 270,918	$ 259,179	$ 250,189	$ 237,319
Net debt (1)	$ 303,620	$ 288,916	$ 268,604	$ 281,287	$ 272,830	$ 267,348	$ 253,395	$ 251,098
Operating Highlights								
Daily Production								
Natural gas (mcf/d)	266,035	233,625	242,409	257,219	262,269	262,841	205,712	232,456
Liquids (bbls/d)	3,031	3,142	2,580	2,030	1,974	1,804	1,067	1,105
Total production (mcfe/d)	284,221	252,477	257,889	269,401	274,113	273,665	212,114	239,086
Total production (boe/d)	47,370	42,080	42,982	44,900	45,686	45,611	35,352	39,848
Average prices (including realized derivatives)								
Natural gas ($/mcf) (3)	$ 2.58	$ 2.04	$ 2.17	$ 3.11	$ 2.70	$ 1.93	$ 2.05	$ 3.19
Liquids($/bbl)	$ 49.09	$ 45.32	$ 51.76	$ 51.93	$ 49.23	$ 67.90	$ 72.32	$ 66.11
Operating Netback ($/boe)								
Sales of natural gas and liquids from production	$ 17.69	$ 11.98	$ 13.14	$ 18.90	$ 16.86	$ 13.33	$ 11.65	$ 16.19
Net sales of natural gas purchased from third parties (1)	$ -	$ (0.03)	$ -	$ (0.35)	$ -	$ -	$ 0.35	$ -
Realized gains (losses) on derivatives	$ (0.04)	$ 2.72	$ 2.20	$ 1.23	$ 0.74	$ 0.47	$ 2.43	$ 4.27
Royalty (expense) recovery	$ (0.51)	$ (0.06)	$ 0.02	$ (0.57)	$ (0.39)	$ (0.19)	$ 0.33	$ (0.34)
Operating expense	$ (1.89)	$ (2.12)	$ (1.89)	$ (2.02)	$ (1.73)	$ (1.61)	$ (2.06)	$ (1.94)
Transportation expense	$ (3.46)	$ (3.58)	$ (3.56)	$ (3.40)	$ (3.18)	$ (3.09)	$ (3.75)	$ (3.44)
Operating netback (1)	$ 11.79	$ 8.91	$ 9.91	$ 13.79	$ 12.30	$ 8.91	$ 8.95	$ 14.74

(1) Non-GAAP measure which may not be comparable to similar non-GAAP measures used by other entities. Please see "Non-GAAP Measures".
(2) Based on basic weighted average shares outstanding.
(3) Excludes net sales of natural gas purchased from third parties.
(4) Cash provided by operating activities and cash provided by (used in) financing activities for each quarter in 2018 has been adjusted to conform to the presentation adopted for each quarter in 2019.

The table above highlights the Corporation's performance for the fourth quarter of 2019 and for the preceding seven quarters. Advantage's production volumes were reduced during the first and second quarters of 2018 as a result of Glacier Gas Plant expansion activities, with production increasing significantly afterwards following the completion of the 400 mmcf/d expansion. Production decreased in the second 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.

Quarterly Performance (continued)

Sales and adjusted funds flow that began to strengthen into the first quarter of 2018 due to improving commodity prices, subsequently deteriorated as natural gas prices weakened in the second and third quarters of 2018 associated with NGTL system maintenance. Both sales and adjusted funds flow improved from the third quarter of 2018 to the first quarter of 2019 largely as a result of higher production, especially increased liquids production, and stronger realized prices. Sales and adjusted funds flow that were weaker in the second 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. From early 2018 to 2019, cash provided by operating activities experienced greater fluctuations than adjusted funds flow due to changes in non-cash working capital, which primarily resulted from the amount and timing of trade payable settlements and accounts receivable collections.

Critical Accounting Estimates

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

Management relies on the estimate of reserves as prepared by the Corporation's independent qualified reserves evaluator. The process of estimating reserves is critical to several accounting estimates. The process of estimating reserves is complex and requires significant judgments and decisions based on available geological, geophysical, engineering and economic data. These estimates may change substantially as additional data from ongoing development and production activities becomes available and as economic conditions impact natural gas and liquids prices, operating expense, royalty burden changes, and future development costs. Reserve estimates impact net income (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).

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.

Critical Accounting Estimates (continued)

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

Changes in Accounting Policies

On January 1, 2019, the Corporation adopted IFRS 16 - Leases. Additional information regarding the adoption of the standard and the impact can be found in the Consolidated Financial Statements for the year ended December 31, 2019.

Accounting Pronouncements not yet Adopted

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

Evaluation of Disclosure Controls and Procedures

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

Management of Advantage, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation's DC&P as at December 31, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the DC&P are effective as of the end of the year, in all material respects.

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, has evaluated the effectiveness of the Corporation's ICFR as at December 31, 2019. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the ICFR are effective as of the end of the year, in all material respects.

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 December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our ICFR.

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

Non-GAAP Measures

The Corporation discloses several financial and performance measures in the MD&A that do not have any standardized meaning prescribed under GAAP. These financial and performance measures include "net capital expenditures", " working capital", "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".

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 natural 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 debt 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 Corporation's focus on market diversification; the Corporation's hedging activities; expectation that greater focus on liquids-rich development in the Corporation's Progress and Pipestone/Wembley assets will enhance and diversify production, revenues and cash provided by operating activities; 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; anticipation that the Corporation's operating expense will increase and the reasons therefor; expectation that the Corporation will maintain low operating expense per boe and the reasons therefor; estimated tax pools and liability; future commitments and contractual obligations; terms of the Corporation's Credit Facilities, including timing of the next review of the Credit Facilities, the Corporation's expectations regarding extension of Advantage's Credit Facilities at each annual review; the Corporation's strategy for managing its capital structure, including the use of equity financing arrangements, share repurchases, obtaining additional financing through bank indebtedness, refinancing current debt, issuing other financial or equity-based instruments, declaring a dividend or adjusting capital spending; the Corporation's ability to satisfy all liabilities and commitments and meet future obligations as they become due; timing for final tie-in and equipping of wells at Progress; anticipated timing of infrastructure commissioning at Pipestone/Wembley and the benefits to be derived therefrom; the statements under "critical accounting estimates" in this MD&A; and other matters.

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

With respect to forward-looking statements contained in this MD&A, in addition to other assumptions identified herein, Advantage has made assumptions regarding, but not limited to: current and future prices of oil and natural gas; that the current commodity price and foreign exchange environment will continue or improve; conditions in general economic and financial markets; effects of regulation by governmental agencies; receipt of required stakeholder and regulatory approvals; royalty regimes; future exchange rates; royalty rates; future operating costs; availability of skilled labour; availability of

Forward-Looking Information and Other Advisories (continued)

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

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

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 or liquids production in the MD&A refer to conventional natural gas and natural gas liquids, respectively, product types as defined in National Instrument 51-101.

Certain information contained herein may be considered "analogous information" as defined in National Instrument 51-101. In particular, this document discloses that the Montney formation are liquids-rich gas accumulations in all layers in adjacent lands to those of the Corporation. Such analogous information has not been prepared in accordance with National Instrument 51-101 and the Canadian Oil and Gas Evaluation Handbook and the Corporation is unable to confirm whether such information has been prepared by a qualified reserves evaluator. Such information is not intended to be a projection of future results. Such information is based on independent public data and public information received from other producers and the Corporation has no way of verifying the accuracy of such information. Such information has been presented to help demonstrate the basis for the Corporation's business plans and strategies. There is no certainty that such results will be achieved by the Corporation and such information should not be construed as an estimate of future reserves or future production levels.

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.

February 27, 2020