(Formerly, Advantage Oil & Gas Ltd.)

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

Independent auditor's report

To the Shareholders of Advantage Energy Ltd. (formerly, 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 Energy Ltd. (formerly, Advantage Oil & Gas Ltd.) and its subsidiaries (together, the "Corporation") as at December 31, 2021 and 2020, 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 Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 Corporation 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Key audit matter	How our audit addressed the key audit matter
The impact of proved and probable reserves on net property, plant and equipment ("PP&E") for the Corporation's natural gas and liquids properties *Refer to note 3 – Significant accounting policies, note 4 – Significant accounting judgments, estimates and assumptions and note 10 – Property, plant and equipment to the consolidated financial statements.* The Corporation has $1,826.7 million of net natural gas and liquids properties as at December 31, 2021. Depreciation expense for these properties was $106.2 million for the year then ended. Natural gas and liquids properties are depreciated using the units-of-production 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. At each reporting date, the Corporation assesses the carrying amounts of PP&E to determine whether there is any indication of impairment or impairment reversal. If any such indication exists, the asset's recoverable amount is estimated. PP&E assets are tested for impairment or impairment reversal by comparing the carrying values to their recoverable amounts. For the purpose of impairment and impairment reversal testing of PP&E, assets are grouped into cash generating units ("CGUs") and recoverable amounts are determined based on their fair values less costs of disposition. Management estimated the fair value less costs of disposition using the after-tax discounted future cash flows of proved and probable reserves. The proved and probable reserves are prepared by the Corporation's independent qualified reserve evaluators ("management's experts").	Our approach to addressing the matter included the following procedures, among others: • The work of management's experts was used in performing the procedures to evaluate the reasonableness of the proved and probable reserves used to determine depreciation expense and the recoverable amounts of PP&E for the Corporation's natural gas and liquids properties. As a basis for using this work, the competence, capabilities and objectivity of management's experts were evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. • Tested how management determined the recoverable amount of the Corporation's CGUs and depreciation expense, which included the following: – Evaluated the appropriateness of the methods used by management in making these estimates. – Tested the data used in determining these estimates. – Evaluated the reasonableness of significant assumptions used by management in developing the underlying estimates, including: ○ Future commodity prices, expected production volumes, quantities of reserves, future development costs and operating costs by considering the past performance of the Corporation's CGUs and whether these assumptions were consistent with evidence obtained in other areas of the audit.

Key audit matter	How our audit addressed the key audit matter
As at December 31, 2021, there were indicators of impairment reversal identified in the Corporation's Greater Glacier CGU. As a result of the impairment reversal tests performed, the Corporation recognized an impairment reversal to the Greater Glacier Area CGU of $340.7 million. Significant assumptions developed by management used to determine the recoverable amount of the CGUs include future commodity prices, expected production volumes, quantities of reserves, discount rate, future development costs and operating costs. We determined that this is a key audit matter due to (i) the significant judgments made by management, including the use of management's experts, when developing the after-tax discounted future cash flows of proved and probable reserves; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures relating to the significant assumptions; and (iii) the audit effort that involved the use of professionals with specialized skill and knowledge in the field of valuation.	○ Future commodity prices by comparing forecasts with other reputable third party industry forecasts. ○ The discount rate, through the assistance of professionals with specialized skill and knowledge in the field of valuation. • Recalculated the units-of-production rates used to calculate depreciation expense.

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.

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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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 Corporation 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
February 24, 2022

Advantage Energy Ltd. (Formerly, Advantage Oil & Gas Ltd.)

Consolidated Statements of Financial Position

(Expressed in thousands of Canadian dollars)

	Notes	December 31 2021	December 31 2020
ASSETS			
Current assets			
Cash and cash equivalents	5	25,238	3,279
Trade and other receivables	6	54,769	28,491
Prepaid expenses and deposits		3,483	2,021
Derivative asset	11	282	6,862
Total current assets		**83,772**	**40,653**
Non-current assets			
Derivative asset	11	57,699	4,140
Exploration and evaluation assets	7	20,713	20,580
Right-of-use assets	8	1,879	2,036
Intangible assets	9	2,991	-
Property, plant and equipment	10	1,827,936	1,441,492
Deferred income tax asset	14	-	24,808
Total non-current assets		**1,911,218**	**1,493,056**
Total assets		**1,994,990**	**1,533,709**
LIABILITIES			
Current liabilities			
Trade and other accrued liabilities		81,398	38,083
Derivative liability	11	2,765	13,303
Current portion of provisions and other liabilities	13	11,224	5,632
Total current liabilities		**95,387**	**57,018**
Non-current liabilities			
Derivative liability	11	12,315	23,798
Bank indebtedness	12	167,345	247,105
Provisions and other liabilities	13	163,541	165,628
Deferred income tax liability	14	96,284	-
Total non-current liabilities		**439,485**	**436,531**
Total liabilities		**534,872**	**493,549**
SHAREHOLDERS' EQUITY			
Share capital	15	2,370,716	2,360,647
Contributed surplus		110,315	114,280
Deficit		(1,023,244)	(1,434,767)
Total shareholders' equity attributable to Advantage shareholders		**1,457,787**	**1,040,160**
Non-controlling interest	16	2,331	-
Total shareholders' equity		**1,460,118**	**1,040,160**
Total liabilities and shareholders' equity		**1,994,990**	**1,533,709**

Commitments (note 24)

See accompanying Notes to the Consolidated Financial Statements

On behalf of the Board of Directors of Advantage Energy Ltd.:

Paul G. Haggis, Director: (signed) "*Paul G. Haggis*" Michael Belenkie, Director: (signed) "*Michael Belenkie*"

Advantage Energy Ltd. (Formerly, Advantage Oil & Gas Ltd.)

Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars, except per share amounts)

		Year ended December 31	
	Notes	**2021**	**2020**
Revenues			
Natural gas and liquids sales	19	492,035	245,085
Royalty expense		(27,530)	(10,474)
Natural gas and liquids revenue		464,505	234,611
Gains (losses) on derivatives	11	(5,578)	1,545
Total revenues		**458,927**	**236,156**
Expenses			
Operating expense		44,893	40,005
Transportation expense		70,440	55,817
General and administrative expense	20	19,860	11,315
Share-based compensation expense	17	4,053	5,278
Depreciation expense	8,10	106,786	110,896
Impairment expense (recovery)	10	(340,653)	361,000
Exploration and evaluation expense	7	84	190
Finance expense	21	21,018	18,970
Total expenses (recovery)		**(73,519)**	**603,471**
Income (loss) before taxes and non-controlling interest		**532,446**	**(367,315)**
Income tax (expense) recovery	14	(121,092)	83,270
Net income (loss) and comprehensive income (loss) before non-controlling interest		**411,354**	**(284,045)**
Net income (loss) and comprehensive income (loss) attributable to:			
Advantage shareholders		411,523	(284,045)
Non-controlling interest	16	(169)	-
		411,354	**(284,045)**
Net income (loss) per share attributable to Advantage shareholders			
Basic	18	$ 2.17	$ (1.51)
Diluted	18	$ 2.07	$ (1.51)

See accompanying Notes to the Consolidated Financial Statements

Advantage Energy Ltd. (Formerly, Advantage Oil & Gas Ltd.)

Consolidated Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Deficit	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2020	2,360,647	114,280	(1,434,767)	-	**1,040,160**
Net income and comprehensive income	-	-	411,523	(169)	**411,354**
Share-based compensation (note 17(b))	-	6,786	-	-	**6,786**
Settlement of Performance Share Units	10,069	(10,751)	-	-	**(682)**
Issuance of Entropy common shares to non-controlling interest (note 16)	-	-	-	2,500	**2,500**
Balance, December 31, 2021	**2,370,716**	**110,315**	**(1,023,244)**	**2,331**	**1,460,118**

	Share capital	Contributed surplus	Deficit	Non-controlling interest	Total shareholders' equity
Balance, December 31, 2019	2,349,703	117,116	(1,150,722)	-	**1,316,097**
Net loss and comprehensive loss	-	-	(284,045)	-	**(284,045)**
Share-based compensation (note 17(b))	-	8,108	-	-	**8,108**
Settlement of Performance Share Units	10,944	(10,944)	-	-	**-**
Balance, December 31, 2020	**2,360,647**	**114,280**	**(1,434,767)**	**-**	**1,040,160**

See accompanying Notes to the Consolidated Financial Statements

Advantage Energy Ltd. (Formerly, Advantage Oil & Gas Ltd.)

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

	Notes	Year ended December 31 2021	2020
Operating Activities			
Income (loss) before taxes and non-controlling interest		532,446	(367,315)
Add (deduct) items not requiring cash:			
Unrealized gains on derivatives	11	(69,000)	(6,185)
Share-based compensation expense	17(b)	4,053	5,278
Depreciation expense	8,10	106,786	110,896
Impairment expense (recovery)	10	(340,653)	361,000
Exploration and evaluation expense	7	84	190
Accretion of decommissioning liability	13	1,108	797
Expenditures on decommissioning liability	13	(1,033)	(1,080)
Changes in non-cash working capital	23	(10,639)	(2,867)
Cash provided by operating activities		**223,152**	**100,714**
Financing Activities			
Decrease in bank indebtedness	12	(79,760)	(48,519)
Principal repayment of lease liability	13	(275)	(258)
Principal repayment of financing liability	13	(3,376)	(1,589)
Net proceeds from financing liability transaction	13	-	98,453
Cash provided by (used in) financing activities		**(83,411)**	**48,087**
Investing Activities			
Payments on property, plant and equipment	10,23	(136,671)	(157,638)
Payments on exploration and evaluation assets	7	(677)	(983)
Payments on intangible assets	9	(491)	-
Project funding received	13	20,057	-
Cash used in investing activities		**(117,782)**	**(158,621)**
Increase (decrease) in cash and cash equivalents		21,959	(9,820)
Cash and cash equivalents, beginning of year		3,279	13,099
Cash and cash equivalents, end of year		**25,238**	**3,279**

See accompanying Notes to the Consolidated Financial Statements

1. Business and structure of Advantage Energy Ltd.

On May 18, 2021, Advantage Oil & Gas Ltd. changed its name to Advantage Energy Ltd. as approved by its shareholders. Advantage Energy Ltd. and its subsidiaries (together "Advantage" or the "Corporation") is a low-carbon energy producer with a significant position in the Montney resource play located in Western Canada. Advantage is domiciled and incorporated in Canada under the Business Corporations Act (Alberta). Advantage's head office address is 2200, 440 – 2nd Avenue SW, Calgary, Alberta, Canada. The Corporation's common shares are listed on the Toronto Stock Exchange under the symbol "AAV".

2. Basis of preparation

(a) Statement of compliance

The Corporation prepares its 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 24, 2022, 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 11. The methods used to measure the fair value of the Corporation's natural gas and liquids properties are discussed in note 10.

(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.

These consolidated financial statements include the accounts of the Corporation and all subsidiaries over which it has control, including Entropy Inc. ("Entropy"), a private Canadian corporation of which Advantage owns 90% (note 16). All inter-corporate balances, income and expenses resulting from inter-corporate transactions are eliminated.

(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

Financial instruments are classified as amortized cost, fair value through other comprehensive income (loss) or fair value through profit and loss. The Corporation's classification of each identified financial instrument is provided below:

Financial Instrument	Measurement Category
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Prepaid expenses and deposits	Amortized cost
Derivative assets and liabilities	Fair value through profit and loss
Trade and other accrued liabilities	Amortized cost
Bank indebtedness	Amortized cost
Performance Awards	Amortized cost
Deferred revenue	Amortized cost
Financing liability	Amortized cost

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

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. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics, risks of the host contract and the embedded derivative are not closely related; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value through profit and loss. Gains and losses on derivative instruments are recorded as gains and losses on derivatives in the Consolidated Statement of Comprehensive Income (Loss) 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

The Corporation applies an expected credit loss ("ECL") to financial assets measured at amortized cost and debt investments measured at fair value through other comprehensive income (loss). For the Corporation's financial assets measured at amortized cost, loss allowances are determined based on the ECL 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.

(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 (Loss) 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 by well, field or exploration area and carried forward pending determination of technical feasibility and commercial viability.

3. Significant accounting policies (continued)

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

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.

(ii) Subsequent costs

Costs incurred subsequent to development and production that are significant are recognized as natural gas and liquids properties 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 (loss) 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 (Loss) as incurred.

(iv) Depletion and 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.

Significant natural gas processing plants included in natural gas and liquids properties and furniture & equipment are depreciated using the straight-line method over the expected useful life. The estimated useful lives for depreciable assets are as follows:

Natural gas processing plants	50 years
Furniture & equipment	5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date by management.

3. Significant accounting policies (continued)

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

(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 (Loss).

(v) Impairment and impairment reversal

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 or impairment reversal. If any such indication exists, the asset's recoverable amount is estimated. For the purpose of impairment and impairment reversal 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 CGUs or groups of CGUs 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 CGUs at an after-tax discount rate that reflects the risk of the properties in the CGUs. 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 CGU would be entitled. The carrying value of the CGUs is reduced by the deferred tax liability associated with its property, plant and equipment.

Impairment losses and reversals of previous impairments on property, plant and equipment are recognized in the Consolidated Statement of Comprehensive Income (Loss) as impairment expense (recovery) 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 (Loss).

3. Significant accounting policies (continued)

(e) Intangible assets

Intangible assets acquired separately are initially measured at cost. Following initial recognition, intangible assets are recognized at cost less any accumulated amortization and impairment losses. Intangible assets with finite lives are amortized over the useful life and assessed for impairment when there is an indication that the asset may be impaired. The Corporation may incur costs associated with research and development. Expenditures during the research phase are expensed. Expenditures during the development phase are capitalized only if certain criteria are met, including technical feasibility and the intent to develop and use the technology. If these criteria are not met, the costs are expensed as incurred. The amortization expense on intangible assets is recognized in the Consolidated Statements of Comprehensive Income (Loss).

(f) 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.

(g) Leases

Leases are recognized as a right-of-use ("ROU") asset with a corresponding liability at the date the leased asset is available for use by the Corporation. Each lease payment is allocated between the lease liability and finance expense. The finance expense is charged to the Statement of Comprehensive Income (Loss) over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability for each reporting period. The ROU asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. ROU assets are measured at cost comprising the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date and any initial direct costs and restoration costs. Lease liabilities include the net present value of fixed payments, less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option that is within the control of the Corporation. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Corporation's incremental borrowing rate.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the Statement of Comprehensive Income (Loss). Short-term leases are leases with a lease term of 12 months or less. The Corporation applies a single discount rate to portfolios of leases with similar characteristics.

3. Significant accounting policies (continued)

(h) Long-term compensation

(i) Share-based compensation

The Corporation 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 to service providers. Awards granted under this plan, Performance Share Units, 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". Compensation costs related to Performance Share Units are recognized as share-based compensation expense over the vesting period at fair value.

As compensation expense is recognized, contributed surplus is recorded until the Performance Share Units 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.

(ii) Performance Awards

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

(iii) Deferred Share Units ("DSU")

DSUs are issued to Directors of the Corporation. Each DSU entitles participants to receive cash equal to the price of the Corporation's common shares, multiplied by the number of DSUs held. All DSUs vest immediately upon grant and become payable upon retirement of the Director from the Board. A liability for the expected cash payments is accrued over the life of the DSU using the fair value method based on the Corporation's share market price at the end of each reporting period, with the associated expense charged to general and administrative expense.

3. Significant accounting policies (continued)

(i) Revenue

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 sales as specified in the contract. For fixed basis physical delivery contracts, the Corporation records revenue net of the fixed basis differential. Payments are normally received from customers within 30 days following the end of the production month. 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.

(j) 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.

(k) Net income (loss) per share attributable to Advantage shareholders

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

3. Significant accounting policies (continued)

(l) Non-controlling interest

The Corporation accounts for transactions with non-controlling interests as transactions with equity owners of the Corporation. For purchases of shares from non-controlling interests, the difference between any consideration paid and the relevant ownership acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals of shares to non-controlling interests are also recorded in equity, unless the disposal results in the Corporation's loss of control of the subsidiary, in which case the gain or loss is recognized in net income and comprehensive income.

(m) Government grants and investment tax credits

The Corporation may receive government grants which provide immediate financial assistance as compensation for capital expenditures or expenses to be incurred. Government grants are recognized when there is reasonable assurance that the Corporation will comply with conditions attached to them and the grants will be received. The Corporation recognizes government grants in the Consolidated Statement of Comprehensive Income (Loss) on a systematic basis and in line with recognition of the expenditure that the grants are intended to compensate. 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.

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

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 infrastructure, the existence of common sales points, geography and geologic structure. 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.

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

(c) Indicators of impairment or impairment reversal and calculation of impairment or impairment reversal

At each reporting date, Advantage assesses whether 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. The Corporation also assesses whether there are circumstances that indicate that previously impaired assets are now recoverable and need to be increased to their original carrying values.

When management judges that circumstances indicate potential impairment or impairment reversal, property, plant, and equipment are tested for impairment or impairment reversal by comparing the carrying values to their recoverable amounts. The recoverable amounts of CGUs 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 (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 market prices as compared to the valuation assumptions. For embedded derivatives, Management determines the definition of the host contract and the separate embedded derivative. The judgments made in determining the host contract can influence the fair value of the embedded derivative.

(e) Share-based compensation

The Corporation's share-based compensation expense is subject to measurement uncertainty as a result of estimates and assumptions related to the expected performance multiplier, forfeiture rates, expected life, market based vesting conditions and underlying volatility of the price of the Corporation's common shares.

(f) 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.

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

(g) Leases

Management assesses new contracts at inception to determine whether it contains a lease. This assessment involves the exercise of judgment about whether the asset is specified for the Corporation, whether the Corporation obtains substantially all the economic benefits from use of that asset, and whether the Corporation has the right to direct the use of the asset.

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

Lease liabilities that are recognized have been estimated using a discount rate equal to the Corporation's incremental borrowing rate. This rate represents the rate the Corporation would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

(h) 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. Deferred tax assets that arise from temporary differences between recorded amounts on the statement of financial position and their respective tax bases are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax losses can be utilized. The amount of a deferred tax asset/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 2021	December 31 2020
Cash at financial institutions	25,238	3,279

Cash at financial institutions earn interest at floating rates based on daily deposit rates. As at December 31, 2021 cash at financial institutions included US$6.3 million (December 31, 2020 - US$0.9 million). Included in cash and cash equivalents as at December 31, 2021 is $8.5 million held solely for project expenditures related to reducing carbon emissions, associated with the project funding grant. The Corporation only deposits cash with major financial institutions of high-quality credit ratings.

6. Trade and other receivables

	December 31 2021	December 31 2020
Trade receivables	49,887	27,114
Receivables from joint venture partners	4,882	577
Other	-	800
	54,769	**28,491**

7. Exploration and evaluation assets

Balance at December 31, 2019	**20,703**
Additions	983
Lease expiries	(190)
Transferred to property, plant and equipment (note 10)	(916)
Balance at December 31, 2020	**20,580**
Additions	677
Lease expiries	(84)
Transferred to property, plant and equipment (note 10)	(460)
Balance at December 31, 2021	**20,713**

8. Right-of-use assets

Cost	Buildings	Other	Total
Balance at December 31, 2019 and December 31, 2020	2,318	186	2,504
Additions	-	169	169
Expired leases	-	(35)	(35)
Balance at December 31, 2021	**2,318**	**320**	**2,638**
Accumulated depreciation			
Balance at December 31, 2019	112	38	150
Depreciation	284	34	318
Balance at December 31, 2020	**396**	**72**	**468**
Depreciation	285	41	326
Expired leases	-	(35)	(35)
Balance at December 31, 2021	**681**	**78**	**759**
Net book value			
At December 31, 2020	1,922	114	2,036
At December 31, 2021	**1,637**	**242**	**1,879**

9. Intangible assets

Cost	
Balance at December 31, 2020	-
Intellectual property acquisition (note 16)	2,500
Research and development additions	491
Balance at December 31, 2021	**2,991**
Accumulated amortization	
Balance at December 31, 2020	-
Amortization	-
Balance at December 31, 2021	-
Net book value	
At December 31, 2020	-
At December 31, 2021	**2,991**

The Corporation has not incurred amortization on its intangible assets in 2021 as the assets are not available for use. Amortization will commence upon the project which the cost relates to being placed in-service in 2022.

10. Property, plant and equipment

Cost	Natural gas and liquids Properties	Furniture & Equipment	Total
Balance at December 31, 2019	**2,647,964**	**6,442**	**2,654,406**
Additions	156,702	250	156,952
Capitalized share-based compensation (note 17(b))	2,830	-	2,830
Changes in decommissioning liability (note 13(e))	2,904	-	2,904
Transferred from exploration and evaluation assets (note 7)	916	-	916
Balance at December 31, 2020	**2,811,316**	**6,692**	**2,818,008**
Additions	148,154	81	148,235
Capitalized share-based compensation (note 17(b))	2,051	-	2,051
Changes in decommissioning liability (note 13(e))	1,505	-	1,505
Transferred from exploration and evaluation assets (note 7)	460	-	460
Balance at December 31, 2021	**2,963,486**	**6,773**	**2,970,259**
Accumulated depreciation			
Balance at December 31, 2019	**899,868**	**5,070**	**904,938**
Depreciation	110,370	208	110,578
Impairment expense	361,000	-	361,000
Balance at December 31, 2020	**1,371,238**	**5,278**	**1,376,516**
Depreciation	106,227	233	106,460
Impairment reversal	(340,653)	-	(340,653)
Balance at December 31, 2021	**1,136,812**	**5,511**	**1,142,323**
Net book value			
At December 31, 2020	1,440,078	1,414	1,441,492
At December 31, 2021	**1,826,674**	**1,262**	**1,827,936**

During the year ended December 31, 2021, Advantage capitalized general and administrative expenditures directly related to development activities of $7.8 million, included in additions (year ended December 31, 2020 - $5.4 million).

Advantage included future development costs of $2.0 billion (December 31, 2020 - $1.9 billion) in property, plant and equipment costs subject to depreciation.

10. Property, plant and equipment (continued)

2021: Impairment recovery assessment

At December 31, 2021, there were indicators of impairment recovery identified in the Corporation's Greater Glacier CGU as a result of improved forward commodity prices for natural gas and crude oil.

The Corporation performed an impairment reversal test using an after-tax discounted future cash flow of proved and probable reserves[1], utilizing an inflation rate of 2% and a discount rate of 10%. The following table summarizes the price forecast used in the Corporation's discounted cash flow estimates as of December 31, 2021:

Year	WTI ($US/bbl)	Henry Hub ($US/MMbtu)	AECO ($Cdn/MMbtu)	Exchange Rate ($US/$Cdn)
2022	72.83	3.85	3.56	0.80
2023	68.78	3.44	3.21	0.80
2024	66.76	3.17	3.05	0.80
2025	68.09	3.24	3.11	0.80
2026	69.45	3.30	3.17	0.80
2027	70.84	3.37	3.23	0.80
2028	72.26	3.44	3.30	0.80
2029	73.70	3.50	3.36	0.80
2030	75.18	3.58	3.43	0.80
2031	76.68	3.65	3.50	0.80
2032	78.21	3.72	3.57	0.80
Thereafter	+2% per year	+2% per year	+2% per year	0.80

(1) Sproule Associates Limited ("Sproule") conducted an Independent Qualified Reserves Evaluation, effective December 31, 2021, which was prepared in accordance with definitions, standards, and procedures in the Canadian Oil and Gas Evaluation Handbook and NI 51-101. The Independent Qualified Reserves Evaluation was computed using the average of the price forecasts by McDaniel & Associates Consultants Ltd., GLJ Petroleum Consultants and Sproule effective January 1, 2022.

As a result of the impairment recovery test performed, the Corporation determined that the recoverable amount of the Greater Glacier CGU exceeded the carrying amount, and a full impairment recovery of $340.7 million (net of depreciation) was recognized. The estimated recoverable amount of the Greater Glacier CGU was $2.5 billion.

As at December 31, 2021, a 1% increase in the assumed discount rate, or a 5% decrease in the future cash flows of proved and probable reserves while holding all other assumptions constant, would have no impact on the impairment recovery recorded at December 31, 2021.

10. Property, plant and equipment (continued)

2020: Impairment assessment

As at December 31, 2020, the Corporation evaluated its natural gas and liquids properties for indicators of any potential impairment or impairment reversal. As a result of this assessment, no indicators were identified, and no impairment or impairment reversal was recorded for the three months ended December 31, 2020.

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

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

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

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

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

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

11. Financial risk management

As at December 31, 2021, there were no significant differences between the carrying amounts reported on the consolidated statement of financial position and the estimated fair values of the Corporation's financial instruments due to the short terms to maturity and the floating interest rate on a portion of the Corporation's bank indebtedness.

Fair value is determined following a three-level hierarchy:

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

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

Level 3: Fair value is determined using inputs that are not observable. The Corporation's natural gas embedded derivative is categorized as level 3 in the fair value hierarchy as the long-term portion of the PJM forward price is an unobservable input. Fair value less costs of disposition used to determine the recoverable amounts of Advantage's Greater Glacier CGU at December 31, 2021 and December 31, 2020 were classified as Level 3 in the fair value hierarchy as certain key assumptions were not based on observable market data, but rather, Management's best estimates.

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;
- commodity price risk;
- interest rate risk; and
- foreign exchange risk.

11. Financial risk management (continued)

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

	Year ended December 31	
	2021	**2020**
Realized gains (losses) on derivatives		
Natural gas	(58,909)	(12,148)
Crude oil	(17,353)	7,121
Foreign exchange	2,368	696
Interest rate	(684)	(309)
Total	**(74,578)**	**(4,640)**
Unrealized gains (losses) on derivatives		
Natural gas	16,480	1,354
Crude oil	2,074	(776)
Natural gas embedded derivative	54,305	3,394
Foreign exchange	(4,525)	3,015
Interest rate	666	(802)
Total	**69,000**	**6,185**
Gains (losses) on derivatives		
Natural gas	(42,429)	(10,794)
Crude oil	(15,279)	6,345
Natural gas embedded derivative	54,305	3,394
Foreign exchange	(2,157)	3,711
Interest rate	(18)	(1,111)
Total	**(5,578)**	**1,545**

11. Financial risk management (continued)

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

	December 31 2021	December 31 2020
Derivative type		
Natural gas derivative liability	(13,172)	(29,652)
Crude oil derivative asset (liability)	20	(2,054)
Natural gas embedded derivative asset	57,699	3,394
Foreign exchange derivative asset (liability)	(1,510)	3,015
Interest rate derivative liability	(136)	(802)
Net derivative asset (liability)	**42,901**	**(26,099)**
Consolidated statement of financial position classification		
Current derivative asset	282	6,862
Non-current derivative asset	57,699	4,140
Current derivative liability	(2,765)	(13,303)
Non-current derivative liability	(12,315)	(23,798)
Net derivative asset (liability)	**42,901**	**(26,099)**

(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 2021	December 31 2020
Trade and other receivables	54,769	28,491
Deposits	1,858	911
Derivative assets	57,981	11,002
	114,608	**40,404**

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 commodity 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. The Corporation only enters into derivative contracts with major banks and international energy firms to further mitigate associated credit risk. In addition, the Corporation has an embedded derivative with a US power company.

11. Financial risk management (continued)

(a) Credit risk (continued)

Substantially all of the Corporation's trade and other receivables are due from customers concentrated in the North American oil and gas industry. As such, trade and other receivables are subject to normal industry credit risks. As at December 31, 2021, $0.2 million of trade and other receivables are outstanding for 90 days or more (December 31, 2020 – $0.3). 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, 2021, the average expected credit loss for trade and other receivables was 0.60% (December 31, 2020 – 0.58%). At December 31, 2021, the Corporation did not record an expected credit loss against trade and other receivables (December 31, 2020 – nil).

The Corporation's most significant customer, a North American oil and natural gas marketer, accounts for $22.3 million of the trade and other receivables at December 31, 2021 (December 31, 2020 – $11.5 million).

(b) Liquidity risk

The Corporation is subject to liquidity risk attributed from trade and other accrued liabilities, derivative liabilities, lease liabilities, financing liabilities, performance awards and bank indebtedness. Trade and other accrued liabilities are all due within one year of the Consolidated Statement of Financial Position date. The Corporation's Performance Awards are all payable within one to three years of the Consolidated Statement of Financial Position date. The Corporation's lease liability and financing liability are settled in a systematic basis over their respective terms and will be settled over the next 6 and 13 years, respectively. Advantage does not anticipate any problems in satisfying these obligations from cash provided by operating activities and the existing credit facilities.

The Corporation's bank indebtedness is subject to $350 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 commodity 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 commodity risk exposures. As such, liquidity risk is mitigated since any losses realized are offset by increased cash flows realized from the higher commodity price environment.

11. Financial risk management (continued)

(b) Liquidity risk (continued)

The timing of cash outflows relating to financial liabilities as at December 31, 2021 and 2020 are as follows:

December 31, 2021	Less than one year	One to three years	Beyond	Total
Trade and other accrued liabilities	81,398	-	-	81,398
Derivative liability	2,765	12,315	-	15,080
Performance Awards	5,107	4,863	-	9,970
Lease liability	364	728	1,081	2,173
Financing liability	3,696	7,742	82,050	93,488
Bank indebtedness - principal	-	168,000	-	168,000
- interest [(1)]	5,038	1,217	-	6,255
	98,368	**194,865**	**83,131**	**376,364**

December 31, 2020	Less than one year	One to three years	Beyond	Total
Trade and other accrued liabilities	38,083	-	-	38,083
Derivative liability	13,303	23,798	-	37,101
Performance Awards	-	4,620	-	4,620
Lease liability	256	884	1,139	2,279
Financing liability	3,376	12,185	81,303	96,864
Bank indebtedness - principal	-	248,000	-	248,000
- interest [(1)]	13,087	3,868	-	16,955
	68,105	**293,355**	**82,442**	**443,902**

(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 12). Under the terms of the agreements, the facilities are reviewed annually, with the next review scheduled in May 2022. 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 term. Management fully expects that the facilities will be extended at each annual review.

11. Financial risk management (continued)

(c) Commodity 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 (loss) for the year ended December 31, 2021 resulting from a 10% change to significant price assumptions is as follows:

	Net Income (Loss) Impact ($ millions)	
Price Assumptions	**+10%**	**(10)%**
Forward AECO natural gas price	(0.1)	0.1
Forward Henry Hub natural gas price	(4.2)	3.1
Forward basis differential between Henry Hub and AECO	(6.2)	6.8
Forward WTI crude oil price	(0.6)	0.7
Forward PJM electricity price	29.0	(31.7)

11. Financial risk management (continued)

(c) Commodity price risk

The Corporation's commodity derivative contracts are classified as Level 2 within the fair value hierarchy. As at December 31, 2021 (other than as indicated), the Corporation had the following commodity derivative contracts in place:

Description of Derivative	Term	Volume	Price
Natural gas - AECO			
Fixed price swap	November 2021 to March 2022	4,739 Mcf/d	Cdn $4.48/Mcf
Natural gas - Henry Hub NYMEX			
Fixed price swap	November 2021 to March 2022	55,000 Mcf/d	US $3.44/Mcf
Fixed price swap	April 2022 to October 2022	55,000 Mcf/d	US $3.62/Mcf
Fixed price swap	April 2022 to October 2022	50,000 Mcf/d	US $4.54/Mcf (1)
Fixed price swap	November 2022 to March 2023	85,000 Mcf/d	US $4.67/Mcf (1)
Fixed price swap	April 2023 to October 2023	25,000 Mcf/d	US $3.35/Mcf (1)
Natural gas - AECO/Henry Hub Basis Differential			
Basis swap	April 2023 to December 2024	40,000 Mcf/d	Henry Hub less US $1.19/Mcf
Crude oil - WTI NYMEX			
Fixed price swap	January 2022 to June 2022	500 bbls/d	US $75.00/bbl

(1) Contract entered into subsequent to December 31, 2021.

Natural Gas - Embedded Derivative

Advantage entered into a long-term natural gas supply agreement under which Advantage will supply 25,000 MMbtu/d of natural gas for a 10-year period, commencing in early 2023. Commercial terms of the agreement are based upon a spark-spread pricing formula, providing Advantage exposure to PJM electricity prices, back-stopped with a natural gas price collar. The contract contains an embedded derivative as a result of the spark-spread pricing formula and the natural gas price collar. The Corporation defined the host contract as a natural gas sales arrangement with a fixed price of US $2.50/MMbtu. The Corporation will realize gains or losses when the price received under the contract deviates from US $2.50/MMbtu. As at December 31, 2021 the fair value of the natural gas embedded derivative resulted in an asset of $57.7 million (December 31, 2020 – $3.4 million asset).

The Corporation's natural gas embedded derivative contract is classified as Level 3 within the fair value hierarchy. The Corporation determines the fair value of the embedded derivative contract by utilizing an observable 5-year PJM electricity forecast. The remaining unobservable period beyond 5-years is estimated using the implied inflation rate in the 5-year PJM electricity forecast. At December 31, 2021, the implied inflation rate in the 5-year PJM power forecast averaged 1% per year. If the implied inflation rate in the 5-year PJM electricity forecast changed by 1%, the fair value of the embedded derivative would increase/decrease by $1.5 million.

11. Financial risk management (continued)

(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 entered into fixed interest rate swaps to mitigate interest rate risk. Had the borrowing rate been different by 100 basis points throughout the year ended December 31, 2021, net income and comprehensive income would have changed by $1.6 million (December 31, 2020 – $2.3 million) based on the average debt balance outstanding during the year.

The Corporation's interest rate derivative contracts are classified as Level 2 within the fair value hierarchy. As at December 31, 2021, the Corporation had the following interest rate derivative contracts in place:

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

As at December 31, 2021 the fair value of the interest rate derivatives outstanding resulted in a liability of $0.1 million (December 31, 2020 – $0.8 million liability). The fair value of the interest rate derivatives has been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements.

(e) Foreign exchange risk

Foreign exchange risk is the risk that future cash flows will fluctuate as a result of changes in the CAD/USD exchange rate. While the majority of the Corporation's natural gas and liquids sales are settled in Canadian dollars, certain natural gas and oil prices where the Corporation markets its natural gas and liquids production are denominated in US dollars. The Corporation has entered into average rate currency swaps to mitigate the Corporation's exposure to foreign exchange risk. Had the CAD/USD foreign exchange rate been different by $0.02 throughout the year ended December 31, 2021, net income and comprehensive income would have changed by $2.6 million (December 31, 2020 – $4.9 million).

The Corporation's foreign exchange derivative contracts are classified as Level 2 within the fair value hierarchy. As at December 31, 2021, the Corporation had the following foreign exchange derivative contracts in place:

Description of Derivative	Term	Notional Amount	Rate
Forward rate - CAD/USD			
Average rate currency swap	June 2020 to May 2022	US $ 2,000,000/month	1.3495
Average rate currency swap	February 2021 to January 2023	US $ 750,000/month	1.2850
Average rate currency swap	June 2021 to May 2023	US $ 2,000,000/month	1.2025
Average rate currency swap	August 2021 to July 2022	US $ 1,000,000/month	1.2499
Average rate currency swap	March 2022 to February 2023	US $ 1,500,000/month	1.2719[1]

[1] Contract entered into subsequent to December 31, 2021.

11. Financial risk management (continued)

(e) Foreign exchange risk (continued)

As at December 31, 2021 the fair value of the foreign exchange derivatives outstanding resulted in an liability of $1.5 million (December 31, 2020 – $3.0 million asset). The fair value of the foreign exchange derivatives has been allocated to current and non-current assets and liabilities based on the expected timing of cash settlements.

(f) 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 (cash and cash equivalents, trade and other receivables, prepaid expenses and deposits and trade and other accrued payables), financing 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.

Working capital

Working capital is a capital management financial measure that provides Management and users with a measure of the Corporation's short-term operating liquidity. By excluding short term derivatives and the current portion of provision and other liabilities, Management and users can determine if the Corporation's energy operations are sufficient to cover the short-term operating requirements. Working capital is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

A summary of working capital as at December 31, 2021 and December 31, 2020 is as follows:

	December 31 2021	December 31 2020
Cash and cash equivalents	25,238	3,279
Trade and other receivables	54,769	28,491
Prepaid expenses and deposits	3,483	2,021
Trade and other accrued liabilities	(81,398)	(38,083)
Working capital surplus (deficit)	**2,092**	**(4,292)**

11. Financial risk management (continued)

(f) Capital management (continued)

Net Debt

Net debt is a capital management financial measure that provides Management and users with a measure to assess the Corporation's liquidity. Net debt is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

A summary of the reconciliation of net debt as at December 31, 2021 and December 31, 2020 is as follows:

	December 31 2021	December 31 2020
Bank indebtedness (non-current) (note 12)	167,345	247,105
Working capital (surplus) deficit	(2,092)	4,292
Net debt	**165,253**	**251,397**

Advantage's capital structure as at December 31, 2021 and December 31, 2020 is as follows:

	December 31 2021	December 31 2020
Net debt	165,253	251,397
Shares outstanding (note 15)	190,828,976	188,112,797
Share closing market price ($/share)	7.41	1.71
Market Capitalization	1,414,043	321,673
Total Capitalization	**1,579,296**	**573,070**

12. Bank indebtedness

	December 31 2021	December 31 2020
Revolving credit facility	168,000	248,000
Discount on bankers' acceptance and other fees	(655)	(895)
Balance, end of year	**167,345**	**247,105**

As at December 31, 2021, the Corporation had credit facilities with a borrowing base of $350 million. The Credit Facilities are comprised of a $30 million extendible revolving operating loan facility from one financial institution and a $320 million extendible revolving credit facility from a syndicate of financial institutions.

12. Bank indebtedness (continued)

In November 2021, 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 2022 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 November and May of each year, with the next annual review scheduled to occur in May 2022. 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 interest at Canadian bank prime plus 2.5% to 4.5% per annum, and Canadian prime or US base rate plus 1.5% to 3.5% 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 0.6250% to 1.1250% 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 and the Corporation's embedded derivative 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, 2021 and 2020. Under the Credit Facilities, the Corporation must ensure at all times that its Liability Management Rating ("LMR") is not less than 2.0. As at December 31, 2021 the Corporation had a 25.6 LMR (December 31, 2020 – 24.7 LMR). All other applicable non-financial covenants were met at December 31, 2021 and 2020. 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, 2021, the average effective interest rate on the outstanding amounts under the facilities was approximately 4.7% (December 31, 2020 – 4.3%). The Corporation had letters of credit of US$9.0 million outstanding at December 31, 2021 (December 31, 2020 – US$15 million).

13. Provisions and other liabilities

	Year ended December 31, 2021	Year ended December 31, 2020
Performance Awards (note 17(c))	9,970	4,620
Deferred revenue (a)	6,603	6,603
Project funding grant (b)	57	-
Lease liability (c)	2,173	2,279
Financing liability (d)	93,488	96,864
Decommissioning liability (e)	62,474	60,894
Balance, end of year	**174,765**	**171,260**
Current provisions and other liabilities	11,224	5,632
Non-Current provisions and other liabilities	163,541	165,628

(a) Deferred revenue

Deferred revenue represents an advance payment received by Advantage in consideration for the future sales of natural gas.

(b) Project funding grant

The Corporation received a $20 million grant under the Government of Alberta's *"Industrial Energy Efficiency and Carbon Capture Utilization and Storage Program"* to be utilized solely for project expenditures related to reducing carbon emissions. Advantage shall not use the funding for more than 75% of the total project expenses, whereby any excess would result in a proportionate repayment of the project funding. The project which the funding relates to is expected to be completed in the second quarter of 2022.

A reconciliation of the project funding is as follows:

	Year ended December 31, 2021
Balance, beginning of the year	-
Project funding received	20,000
Interest earned	57
Project expenditures incurred	(20,000)
Balance, end of year	**57**

(c) Lease liability

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

A reconciliation of the lease liability is provided below:

	Year ended December 31, 2021	Year ended December 31, 2020
Balance, beginning of the year	2,279	2,537
Additions	169	-
Interest expense	96	102
Lease payments	(371)	(360)
Balance, end of year	**2,173**	**2,279**
Current lease liability	364	256
Non-current lease liability	1,809	2,023

13. Provisions and other liabilities (continued)

(d) Financing liability

On July 2, 2020, Advantage closed the sale of a 12.5% interest in the Corporation's 400 MMcf/d Glacier Gas Plant for proceeds of $100 million (before transaction costs) and entered into a 15-year take-or-pay volume commitment agreement with the purchaser for 50 MMcf/d capacity at a fee of $0.66/Mcf. The volume commitment agreement is treated as a financing transaction where Advantage is obligated to pay the purchaser $180.8 million over the course of the 15-year term. The effective interest rate associated with the financing transaction is 9.1%.

A reconciliation of the financing liability is provided below:

	Year ended December 31, 2021	Year ended December 31, 2020
Balance, beginning of the year	96,864	-
Additions, net of transaction cost	-	98,453
Interest expense	8,669	4,483
Financing payments	(12,045)	(6,072)
Balance, end of year	**93,488**	**96,864**
Current financing liability	3,696	3,376
Non-current financing liability	89,792	93,488

(e) Decommissioning liability

The Corporation's decommissioning liability results from net ownership interests in natural gas and liquids assets including well sites, gathering systems and facilities, all of which will require future costs of decommissioning under environmental legislation. These costs are expected to be incurred between 2022 and 2076. A risk-free rate of 1.76% (December 31, 2020 - 1.24%) and an inflation factor of 2.0% (December 31, 2020 – 1.5%) were used to calculate the fair value of the decommissioning liability at December 31, 2021. As at December 31, 2021, the total estimated undiscounted, uninflated cash flows required to settle the Corporation's decommissioning liability was $57.6 million (December 31, 2020 – $55.2 million).

A reconciliation of the decommissioning liability is provided below:

	Year ended December 31, 2021	Year ended December 31, 2020
Balance, beginning of the year	60,894	58,273
Accretion expense	1,108	797
Liabilities incurred	1,737	1,575
Plant disposition (note 13(d))	-	(625)
Change in estimates	(1,800)	(690)
Effect of change in risk-free rate and inflation rate factor	1,568	2,644
Liabilities settled	(1,033)	(1,080)
Balance, end of year	**62,474**	**60,894**
Current decommissioning liability	2,000	2,000
Non-current decommissioning liability	60,474	58,894

13. Provisions and other liabilities (continued)

(f) Contractual maturities

The following table details the undiscounted cash flows and contractual maturities of the Corporation's Performance Awards, lease liability and financing liability, as at December 31, 2021:

	Payments due by period						
($ millions)	**Total**	**2022**	**2023**	**2024**	**2025**	**2026**	**Beyond**
Performance Awards	17.3	5.6	6.0	5.7	-	-	-
Lease liability	2.4	0.4	0.4	0.4	0.4	0.4	0.4
Financing liability	162.5	12.0	12.0	12.1	12.0	12.0	102.4
Total fixed payments	**182.2**	**18.0**	**18.4**	**18.2**	**12.4**	**12.4**	**102.8**

14. Income taxes

The provision for income taxes is as follows:

	Year ended December 31, 2021	**Year ended December 31, 2020**
Current income tax expense	-	-
Deferred income tax expense (recovery)	121,092	(83,270)
Income tax expense (recovery)	**121,092**	**(83,270)**

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, 2021	**Year ended December 31, 2020**
Income (loss) before taxes and non-controlling interest	532,446	(367,316)
Combined federal and provincial income tax rates	23.00 %	24.00 %
Expected income tax expense (recovery)	122,463	(88,156)
Increase (decrease) in income taxes resulting from:		
Non-deductible share-based compensation	937	1,271
Change in unrecognized deferred income tax assets	-	1,367
Change in provincial corporate tax rate	-	(541)
Other	(2,308)	2,789
Income tax expense (recovery)	121,092	(83,270)
Effective tax rate	22.74 %	22.67 %

14. Income taxes (continued)

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

	At December 31, 2020	(Charged) credited to income	At December 31, 2021
Deferred income tax assets:			
Decommissioning liability	14,006	363	14,369
Non-capital losses	187,675	(20,323)	167,352
Financing liability	22,279	(777)	21,502
Derivative asset/liability	6,003	(6,003)	-
Other	19,979	2,043	22,022
	249,942	(24,697)	225,245
Deferred income tax liabilities:			
Property, plant and equipment	(225,074)	(86,165)	(311,239)
Derivative asset/liability	-	(9,867)	(9,867)
Other	(60)	(363)	(423)
	(225,134)	(96,395)	(321,529)
Deferred income tax asset (liability)	**24,808**	**(121,092)**	**(96,284)**

	At December 31, 2019	(Charged) credited to loss	At December 31, 2020
Deferred income tax assets:			
Decommissioning liability	13,462	544	14,006
Non-capital losses	173,247	14,428	187,675
Financing liability	-	22,279	22,279
Derivative asset/liability	7,655	(1,652)	6,003
Other	18,907	1,072	19,979
	213,271	36,671	249,942
Deferred income tax liabilities:			
Property, plant and equipment	(271,708)	46,634	(225,074)
Other	(25)	(35)	(60)
	(271,733)	46,599	(225,134)
Deferred income tax asset (liability)	**(58,462)**	**83,270**	**24,808**

14. Income taxes (continued)

The estimated tax pools available at December 31, 2021 are as follows:

Canadian development expenses	199,934
Canadian exploration expenses	68,038
Canadian oil and gas property expenses	12,848
Non-capital losses	727,607
Undepreciated capital cost	213,416
Capital losses	146,619
Scientific research and experimental development expenditures	32,506
Other	6,421
	1,407,389

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

No deferred tax asset has been recognized for capital losses of $147 million (December 31, 2020 – $158 million). Recognition is dependent on the realization of future taxable capital gains.

15. Share capital

(a) Authorized

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

(b) Issued

	Common Shares (# of shares)	Share capital ($000)
Balance at December 31, 2019	186,910,848	2,349,703
Shares issued on Performance Share Unit settlements	1,201,949	-
Contributed surplus transferred on Performance Share Unit settlements	-	10,944
Balance at December 31, 2020	188,112,797	2,360,647
Shares issued on Performance Share Unit settlements (note 17 (a))	2,716,179	-
Contributed surplus transferred on Performance Share Unit settlements	-	10,069
Balance at December 31, 2021	**190,828,976**	**2,370,716**

16. Non-controlling interest ("NCI")

At December 31, 2020, Advantage owned 100% of Entropy, a private cleantech company focused on commercializing energy-transition technologies.

On May 5, 2021, Entropy issued common shares to Allardyce Bower Holdings Inc. ("ABC") in exchange for intellectual property, resulting in Advantage and ABC owning 90% and 10% of Entropy, respectively. Advantage has recognized a non-controlling interest in shareholders' equity, representing the carrying value of the 10% shareholding of Entropy held by outside interests.

A reconciliation of the non-controlling interest is provided below:

	Year ended December 31, 2021
Balance, beginning of the year	-
Consideration contributed by NCI	2,500
Net loss and comprehensive loss attributable to NCI	(169)
Balance, end of year	**2,331**

17. Long-term compensation plans

(a) Restricted and Performance Award Incentive Plan – Performance Share Units

Under the Restricted and Performance Award Incentive Plan, service providers can be granted two types of equity incentive awards: Restricted Share Units and Performance Share Units. As at December 31, 2021, no Restricted Share Units have been granted. Performance Share Units vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors.

The following table is a continuity of Performance Share Units:

	Performance Share Units
Balance at December 31, 2019	3,947,576
Granted	2,119,061
Settled	(664,496)
Forfeited	(158,543)
Balance at December 31, 2020	**5,243,598**
Granted	1,247,026
Settled	(1,549,658)
Forfeited	(60,282)
Balance at December 31, 2021	**4,880,684**

During April 2021, 1,549,658 Performance Share Units matured and were settled with the issuance of 2,716,179 common shares and $0.7 million of cash consideration.

17. Long-term compensation plans (continued)

(b) Share-based compensation expense

Share-based compensation expense after capitalization for the years ended December 31, 2021 and 2020 are as follows:

	Year ended December 31	
	2021	**2020**
Total share-based compensation	6,786	8,108
Capitalized	(2,051)	(2,830)
Cash settled awards	(682)	-
Share-based compensation expense	**4,053**	**5,278**

(c) Performance Award Incentive Plan - Performance Awards

Under the Performance Award Incentive Plan, service providers can be granted cash Performance Awards. Such grants vest on the third anniversary of the grant date and are subject to a Payout Multiplier that is determined based on the achievement of corporate performance measures during that three-year period, as approved by the Board of Directors. Performance Awards are expensed to general and administrative expense with the recording of a current and non-current liability (note 13) until eventually settled in cash.

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

	Year ended December 31, 2021	**Year ended December 31, 2020**
Balance, beginning of the year	4,620	1,252
Performance Award expense	5,284	3,339
Interest expense	66	29
Balance, end of year	**9,970**	**4,620**
Current	5,107	-
Non-current	4,863	4,620

17. Long-term compensation plans (continued)

(d) Deferred Share Units

Deferred Share Units are issued to Directors of the Corporation. Each Deferred Share Unit entitles participants to receive cash equal to the Corporation's common shares, multiplied by the number of DSUs held. All Deferred Share Units vest immediately upon grant and become payable upon retirement of the Director from the Board.

The following table is a continuity of Deferred Share Units:

	Deferred Share Units
Balance at December 31, 2019	441,863
Granted	187,467
Balance at December 31, 2020	629,330
Granted	105,140
Settled	(90,377)
Balance at December 31, 2021	**644,093**

The expense related to Deferred Share Units is calculated using the fair value method based on the Corporation's share price at the end of each reporting period and is charged to general and administrative expense. The following table is a continuity of the Corporation's liability related to outstanding Deferred Share Units included in trade and other accrued liabilities:

	Year ended December 31, 2021	Year ended December 31, 2020
Balance, beginning of the year	1,076	1,215
Granted	418	364
Revaluation of outstanding Deferred Share Units	3,599	(503)
Settled	(320)	-
Balance, end of year	**4,773**	**1,076**

18. Net income (loss) per share attributable to Advantage shareholders

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

	Year ended December 31	
	2021	2020
Net income (loss) attributable to Advantage shareholders		
Basic and diluted	411,523	(284,045)
Weighted average shares outstanding		
Basic	190,077,376	187,761,408
Performance Share Units[(1)]	8,526,599	-
Diluted	198,603,975	187,761,408
Net income (loss) per share attributable to Advantage shareholders		
Basic ($/share)	$ 2.17	$ (1.51)
Diluted ($/share)	$ 2.07	$ (1.51)

(1) Performance Share Units are non-dilutive when the Corporation is in a loss position.

19. Natural gas and liquids sales

Advantage's revenue is comprised of natural gas, crude oil & condensate and NGLs sales to multiple customers. For the years ended December 31, 2021 and 2020, natural gas and liquids sales was as follows:

	Year ended December 31	
	2021	**2020**
Crude oil	31,209	23,096
Condensate	25,226	12,085
NGLs	44,423	18,080
Liquids	**100,858**	**53,261**
Natural Gas	391,177	191,824
Natural gas and liquids sales	**492,035**	**245,085**

At December 31, 2021, receivables from contracts with customers, which are included in trade and other receivables, were $49.5 million (December 31, 2020 - $27.1 million).

20. General and administrative expense

	Year ended December 31	
	2021	**2020**
Personnel	19,673	14,488
Revaluation of outstanding Deferred Share Units	3,599	(503)
Professional fees	1,286	431
Information technology cost	1,995	1,580
Office rent and administration cost	1,148	748
Total general and administrative	27,701	16,744
Capitalized	(7,841)	(5,429)
General and administrative expense	**19,860**	**11,315**

21. Finance expense

	Year ended December 31	
	2021	**2020**
Interest on bank indebtedness (note 12)	11,250	13,186
Interest on provisions and other liabilities (note 13, 17(c))	8,831	4,614
Accretion of decommissioning liability (note 13(e))	1,108	797
Other	(171)	373
Total finance expense	**21,018**	**18,970**

22. Related party transactions

(a) Key management compensation

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

	Year ended December 31	
	2021	2020
Salaries, director fees and short-term benefits	4,903	3,664
Share-based compensation and Performance Awards [1]	5,075	5,024
	9,978	**8,688**

[1] Represents the grant date fair value of Performance Share Units and Performance Awards granted.

As at December 31, 2021, there is a commitment of $4.4 million (December 31, 2020 – $4.0 million) related to change of control or termination of employment of officers.

(b) Management Services Agreement

The Corporation entered into a Management Services Agreement with Entropy whereas Advantage provides certain administrative, accounting, financial, strategic, planning and management services to Entropy, which are in the in the normal course of operations. During the year ended December 31, 2021, the Corporation incurred $0.8 million (December 31, 2020 – nil) in G&A recoveries, payable to Advantage in connection with the Management Services Agreement.

23. Supplementary cash flow information

Changes in non-cash working capital is comprised of:

	Year ended December 31	
	2021	2020
Source (use) of cash:		
Trade and other receivables	(26,278)	827
Prepaid expense and deposits	(1,462)	(534)
Trade and other accrued liabilities	43,315	(13,817)
Performance Awards	5,350	3,368
Deferred revenue	-	6,603
Project funding	(20,000)	-
	925	**(3,553)**
Related to operating activities	(10,639)	(2,867)
Related to financing activities	-	-
Related to investing activities	11,564	(686)
	925	**(3,553)**
Cash interest paid	20,150	16,692
Cash income taxes paid	-	-

23. Supplementary cash flow information (continued)

The following table provides a detailed breakdown of the cash and non-cash changes in financing liabilities arising from financing activities:

	Year ended December 31	
	2021	**2020**
Cash flows		
Draws on credit facility	30,000	75,000
Repayment of credit facility	(110,000)	(125,000)
Bankers' acceptance and other fees	(10,288)	(11,075)
Lease payments	(371)	(360)
Financing payments	(12,045)	(6,072)
Net proceeds from financing liability transaction	-	98,453
Total cash flows	**(102,704)**	**30,946**
Non-cash changes		
Amortization of bankers' acceptance and other fees	10,528	12,556
Lease interest expense	96	102
Financing liability Interest expense	8,669	4,483
Total non-cash changes	**19,293**	**17,141**
Cash provided by (used in) financing activities	**(83,411)**	**48,087**

24. Commitments

At December 31, 2021 Advantage had commitments relating to building operating cost of $2.3 million, processing commitments of $59.6 million and transportation commitments of $430.4 million. The estimated remaining payments are as follows:

	Payments due by period						
($ millions)	**Total**	**2022**	**2023**	**2024**	**2025**	**2026**	**Beyond**
Building operating cost [1]	2.3	0.4	0.4	0.4	0.4	0.4	0.3
Processing	59.6	5.9	7.9	10.0	9.5	7.0	19.3
Transportation	455.0	65.5	62.5	59.6	57.8	50.6	159.0
Total commitments	**516.9**	**71.8**	**70.8**	**70.0**	**67.7**	**58.0**	**178.6**

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

ABBREVIATIONS

Crude Oil and Natural Gas Liquids		Natural Gas	
bbl	barrel	Mcf	thousand cubic feet
bbls	barrels	MMcf	million cubic feet
Mbbls	thousand barrels	bcf/d	billion cubic feet per day
NGLs	natural gas liquids	Mcf/d	thousand cubic feet per day
BOE or boe	barrel of oil equivalent	MMcf/d	million cubic feet per day
Mboe	thousand barrels of oil equivalent	Mcfe	thousand cubic feet of natural gas equivalent, using the ratio of 6 Mcf of natural gas being equivalent to one bbl of oil
MMboe	million barrels of oil equivalent	MMcfe/d	million cubic feet of natural gas equivalent per day
boe/d	barrels of oil equivalent per day	MMbtu	million British Thermal Units
bbls/d	barrels of oil per day	MMbtu/d	million British Thermal Units per day
		GJ/d	Gigajoules per day

Other

AECO	a notional market point on the NGTL system, located at the AECO ‘C’ hub in Southeastern Alberta, where the purchase and sale of natural gas is transacted
CCS	means ”Carbon Capture and Storage”
CDOR	means “Canadian Dollar Offered Rate”
Henry Hub	a central delivery location, located near Louisiana’s Gulf Coast connecting several intrastate and interstate pipelines, that serves as the official delivery location for futures contracts on the NYMEX
MSW	means “Mixed Sweet Blend”, the reference price paid for conventionally produced light sweet crude oil at Edmonton, Alberta
PJM	a regional transmission organization that coordinates the movement of wholesale electricity in the Mid Atlantic region of the US
WTI	means “West Texas Intermediate”, the reference price paid in U.S. dollars at Cushing, Oklahoma for the crude oil standard grade
Crude oil	Light Crude Oil and Medium Crude Oil as defined in National Instrument 51-101
Natural gas	Conventional Natural Gas as defined in National Instrument 51-101
“NGLs” & “condensate”	Natural Gas Liquids as defined in National Instrument 51-101
Liquids	Total of crude oil, condensate and NGLs

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[2] Member of Reserve Evaluation Committee
[3] Member of Compensation Committee
[4] Member of Governance Committee

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PricewaterhouseCoopers LLP

Bankers

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National Bank of Canada
Royal Bank of Canada
Canadian Imperial Bank of Commerce
The Bank of Tokyo-Mitsubishi UFJ, Ltd., Canada Branch
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